PAGE	CHAPTER	TITLE
085		**IFRS CONSOLIDATED FINANCIAL STATEMENTS**
086		**Consolidated income statement**
087		**Consolidated statement of comprehensive income**
088		**Consolidated statement of financial position**
090		**Consolidated statement of cash flow**
092		**Consolidated statement of changes in equity**
093		**Notes to the consolidated financial statements**
093	**I**	**BASIS OF PRESENTATION**
093	**1**	**The Company**
093	**2**	**Significant accounting policies**
093	2.1	- Basis of preparation
094	2.2	- Basis of consolidation
095	2.3	- Revenue from contracts with customers
097	2.4	- Intangible assets and goodwill
097	2.5	- Property, plant and equipment
098	2.6	- Inventories
098	2.7	- Leases
099	2.8	- Employee benefits
100	2.9	- Other provisions
100	2.10	- Financial instruments
103	2.11	- Income tax
104	2.12	- Foreign currency
104	2.13	- Statement of cash flow
105	2.14	- Impairment
106	2.15	- Fair value measurement
108	**3**	**Key estimates and judgements**
108	3.1	- Revenue recognition over time
108	3.2	- Capitalization of development cost
108	3.3	- Assets acquired and liabilities assumed as well as goodwill
108	3.4	- Impairment testing
108	3.5	- Provisions
109	3.6	- Employee benefits
110	3.7	- Contingent legal liabilities
110	3.8	- Income tax
110	3.9	- Lease term
110	3.10	- Determination of fair values
111	**4**	**Changes in significant accounting policies**
111	**5**	**Standards issued but not yet effective**

PAGE	CHAPTER	TITLE
112	**II**	**GROUP STRUCTURE**
112	**6**	**Consolidated group**
113	**7**	**Acquisitions**
113	7.1	- Company acquisitions and other changes during the fiscal year
115	7.2	- Determination of fair values
115	**8**	**Investments accounted for using the equity method**
115	**9**	**Transactions with related parties**
115	9.1	- Related persons and entities
117	9.2	- Related party transactions with entities
118	9.3	- Related party transactions with persons
120	**III**	**GROUP PERFORMANCE**
120	**10**	**Operating segments**
120	10.1	- Segmentation
121	10.2	- Segment information
123	10.3	- Geographical information
124	10.4	- Major customers
124	**11**	**Revenue and cost of sales**
124	11.1	- Revenue
125	11.2	- Contract assets and contract liabilities
125	11.3	- Transaction price for remaining performance obligations
126	11.4	- Cost of sales
126	**12**	**Research and development costs**
126	**13**	**Other operating income and expenses**
126	13.1	- Other operating income
126	13.2	- Other operating expenses
127	**14**	**Finance result**
127	**15**	**Income tax**
130	**16**	**Earnings per share**
131	**IV**	**OPERATING ASSETS AND LIABILITIES**
131	**17**	**Intangible assets**
131	17.1	- Development costs
132	17.2	- Goodwill
133	**18**	**Property, plant and equipment**
134	**19**	**Other investments and other non-current financial assets**
134	**20**	**Inventories**
134	**21**	**Trade receivables**
135	**22**	**Trade payables**
135	**23**	**Provisions**
136	**24**	**Legal disputes and damage claims**
136	**25**	**Contingent assets and contingent liabilities**
137	**26**	**Other financial assets and other financial liabilities**
137	26.1	- Other financial assets
137	26.2	- Other financial liabilities
137	**27**	**Other assets and liabilities**
137	27.1	- Other assets
138	27.2	- Other liabilities
138	**28**	**Leases**
138	28.1	- Amounts recognized in the consolidated statement of financial position
138	28.2	- Amounts recognized in the consolidated income statement

PAGE	CHAPTER	TITLE
140	**V**	**EXPENSES AND EMPLOYEE BENEFITS**
140	**29**	**Number of employees**
140	**30**	**Personnel expenses**
140	**31**	**Share-based payment**
140	31.1	- Long-Term Incentive Plan (LTIP)
141	31.2	- Employee share program (Echo)
142	**32**	**Personnel-related provisions**
142	**33**	**Pension benefits**
142	33.1	- Provisions for pension obligations
144	33.2	- Provisions for deferred compensation
145	33.3	- Sensitivity analyses
146	**VI**	**CAPITAL STRUCTURE AND FINANCIAL INSTRUMENTS**
146	**34**	**Equity**
146	34.1	- Equity attributable to owners of the parent company
146	34.2	- Non-controlling interests
148	**35**	**Capital management**
149	**36**	**Net debt**
149	36.1	- Cash and cash equivalents
149	36.2	- Financing liabilities
150	36.3	- The reconciliation of changes in financial liabilities to cash flows from financing activities
151	**37**	**Information on financial instruments**
151	37.1	- Financial risk management
155	37.2	- Carrying amounts and fair values of financial instruments
157	37.3	- Disclosures on hedge accounting
158	37.4	- Net gains or net losses
158	37.5	- Impairment losses
159	**VII**	**ADDITIONAL NOTES**
159	**38**	**Auditor's fees and services**
159	**39**	**Future payment obligations**
160	**40**	**Events after the reporting date**
163		**RESPONSIBILITY STATEMENT**
165		**INDEPENDENT AUDITOR'S REPORT**
176		**REPORT OF THE SUPERVISORY BOARD**
184		**Imprint**

IFRS Consolidated Financial Statements of

HENSOLDT AG

for the year ended December 31, 2021

This English report is for convenience only. In case of discrepancies between the English and the German report, the German report shall prevail. Furthermore the English report is not provided in the European Single Electronic Format (ESEF). The legally required rendering in ESEF-format is filed in German language with the operator of the German Federal Gazette and published in the German Federal Gazette.

CONSOLIDATED INCOME STATEMENT

		Fiscal year	
in € million	Note	2021	2020
Revenue	11	1,474.3	1,206.9
Cost of sales	11	-1,144.5	-936.1
Gross profit		**329.8**	**270.8**
Selling and distribution expenses		-98.7	-90.2
General administrative expenses		-83.1	-87.2
Research and development costs	12	-31.4	-25.1
Other operating income	13	29.3	18.9
Other operating expenses	13	-18.2	-16.1
Share of profit / loss from investment accounted for using the equity method	8	-2.0	-2.6
Earnings before finance result and income taxes (EBIT)		**125.7**	**68.5**
Interest income	14	4.0	4.0
Interest expense	14	-41.8	-137.7
Other finance income / cost	14	-3.0	-10.0
Finance result		**-40.8**	**-143.7**
Earnings before income taxes		**84.9**	**-75.2**
Income taxes	15	-22.2	10.7
Group result		**62.7**	**-64.5**
thereof attributable to the owners of HENSOLDT AG		*62.7*	*-65.2*
thereof attributable to non-controlling interests		*-0.0*	*0.7*
Earnings per share			
Basic and diluted earnings per share (EUR)	16	0.60	-0.75

The below disclosures in these Notes form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Fiscal year	
in € million	Note	2021	2020
Group result		**62.7**	**-64.5**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Measurement of defined benefit plans	33.1	23.0	-40.4
Tax on items that will not be reclassified to profit or loss		-7.8	13.0
Subtotal		**15.2**	**-27.4**
Items that will not be reclassified to profit or loss			
Difference from currency translation of financial statements		1.0	-9.5
Cash flow hedge - unrealized gains/losses	37.3	-0.5	-2.3
Cash flow hedge - reclassification to profit or loss		-0.2	0.9
Tax effect on unrealized gains/losses		0.3	0.4
Subtotal		**0.6**	**-10.5**
Other comprehensive income net of tax		**15.8**	**-37.9**
Total comprehensive income in the fiscal year		**78.5**	**-102.4**
thereof attributable to the owners of HENSOLDT AG		*78.6*	*-101.8*
thereof attributable to non-controlling interests		*-0.1*	*-0.7*

The below disclosures in these Notes form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS		Dec. 31,	Dec. 31,
in € million	Note	2021	2020
Non-current assets		**1,320.2**	**1,313.4**
Goodwill	17	651.3	637.2
Intangible assets	17	385.0	386.2
Property, plant and equipment	18	108.2	103.1
Right-of-use assets	28	140.7	143.5
Investments accounted for using the equity method	8	-	0.0
Other investments and other non-current financial assets	19	20.6	11.3
Non-current other financial assets	26	0.9	1.0
Other non-current assets	27	2.7	4.8
Deferred tax assets	15	10.8	26.3
Current assets		**1,629.5**	**1,634.2**
Other non-current financial assets, due on short-notice	19	0.7	11.2
Inventories	20	444.2	403.7
Contract assets	11	170.0	204.4
Trade receivables	21	309.2	282.0
Other current financial assets	26	7.4	7.1
Other current assets	27	166.7	78.7
Income tax receivables	15	2.0	1.6
Cash and cash equivalents	36.1	529.3	645.5
Total assets		**2,949.7**	**2,947.6**

The below disclosures in these Notes form an integral part of these Consolidated Financial Statements.

EQUITY AND LIABILITIES		Dec. 31,	Dec. 31,
in € million	Note	2021	2020
Share capital	34.1	105.0	105.0
Capital reserve		583.2	596.8
Other reserves		-70.5	-86.3
Retained earnings		-218.4	-281.6
Equity held by shareholders of HENSOLDT AG		**399.3**	**333.9**
Non-controlling interests		11.1	12.9
Equity, total	34	**410.4**	**346.8**
Non-current liabilities		**1,284.5**	**1,257.1**
Non-current provisions	23	496.7	482.6
Non-current financing liabilities	36	622.0	601.3
Non-current contract liabilities	11	12.1	16.0
Non-current lease liabilities	28	139.5	140.3
Other non-current financial liabilities	26	0.0	0.2
Other non-current liabilities	27	10.1	8.9
Deferred tax liabilities	15	4.1	7.7
Current liabilities		**1,254.8**	**1,343.7**
Current provisions	23	188.1	193.6
Current financing liabilities	36	166.3	363.3
Current contract liabilities	11	500.0	416.8
Current lease liabilities	28	16.1	13.7
Trade payables	22	269.1	164.0
Other current financial liabilities	26	10.0	97.8
Other current liabilities	27	94.1	86.9
Tax liabilities	15	11.1	7.6
Total equity and liabilities		**2,949.7**	**2,947.6**

The below disclosures in these Notes form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOW

in € million	Note	Fiscal year 2021	Fiscal year 2020
Group result		**62.7**	**-64.5**
Depreciation and amortization	17/18/28	126.0	120.8
Impairments (+) / reversals of impairments (-) of inventories, trade receivables and contract assets		2.9	-2.4
Profit / loss from disposals of non-current assets		-0.5	-
Share of profit in entities recognized according to the equity method		2.0	2.6
Financial expenses (net)		33.2	128.2
Other non-cash expense / income		-4.5	-5.1
Change in			
Provisions		30.8	46.4
Inventories		-44.2	5.3
Contract balances		111.2	61.4
Trade receivables		-22.1	5.3
Trade payables		107.2	-8.6
Other assets and liabilities		-82.8	-17.8
Interest paid		-35.6	-43.6
Transaction cost paid from refinancing		-	-14.9
Income tax expense (+) / income (-)		22.2	-10.7
Income tax payments (-) / refunds (+)		-9.3	-5.5
Cash flows from operating activities		**299.2**	**196.9**
Acquisition / addition of intangible assets and property, plant and equipment	17/18	-102.0	-97.4
Proceeds from sale of intangible assets and property, plant and equipment	17/18	3.0	0.2
Acquisition of associates, other investments and other non-current financial assets	19	-6.6	-6.6
Disposal of associates, other investments and other non-current financial assets		-	2.3
Acquisition of subsidiaries net of cash acquired	7	-12.1	6.4
Other		0.6	0.1
Cash flows from investing activities		**-117.1**	**-95.0**

in € million	Note	Fiscal year 2021	Fiscal year 2020
Repayment from financing liabilities to banks	36.3	-210.0	-920.0
Proceeds from financing liabilities to banks	36.3	30.3	950.0
Change in other financing liabilities	36.3	-83.7	97.1
Payment of lease liabilities		-16.5	-14.3
Dividend payments	36.3	-13.7	-
Dividends on non-controlling interests	36.3	-0.2	-0.2
Issue of shares		-	300.0
Transaction costs on issue of equity	36.3	-3.4	-1.6
Cash flows from financing activities		**-297.2**	**411.0**
Effects of movements in exchange rates on cash and cash equivalents		-1.1	-2.5
Other adjustments		-	-2.3
Net changes in cash and cash equivalents		**-116.2**	**508.1**
Cash and cash equivalents			
Cash and cash equivalents on January 1st		**645.5**	**137.4**
Cash and cash equivalents on December 31st		**529.3**	**645.5**

The below disclosures in these Notes form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the owners of the HENSOLDT AG								
				Other reserves					
in € million	Share capital	Capital reserve	Retained earnings	Remea-surement of pensions	Cash flow hedge	Currency translation	Subtotal	Non-controlling interests	Equity
As of Jan. 1, 2020	**10.0**	**396.7**	**-215.8**	**-39.3**	**-4.1**	**-6.4**	**141.2**	**13.6**	**154.8**
Group Result	-	-	-65.2	-	-	-	**-65.2**	0.7	**-64.5**
Other comprehensive income	-	-	-	-27.4	-0.5	-8.6	**-36.5**	-1.4	**-37.9**
Total comprehensive income	**-**	**-**	**-65.2**	**-27.4**	**-0.5**	**-8.6**	**-101.8**	**-0.7**	**-102.4**
Issue of share capital from own funds	70.0	-70.0	-	-	-	-	**-**	-	**-**
Issue of share capital from IPO	25.0	275.0	-	-	-	-	**300.0**	-	**300.0**
Transaction costs	-	-4.9	-	-	-	-	**-4.9**	-	**-4.9**
Dividends on non-controlling interests	-	-	-	-	-	-	**-**	-0.2	**-0.2**
Other	-	-	-0.7	-	-	-	**-0.7**	0.2	**-0.4**
As of Dec. 31, 2020	**105.0**	**596.8**	**-281.6**	**-66.7**	**-4.7**	**-15.0**	**333.9**	**12.9**	**346.8**
Group Result	-	-	62.7	-	-	-	**62.7**	-0.0	**62.7**
Other comprehensive income	-	-	-	15.3	-0.4	1.0	**15.9**	-0.1	**15.8**
Total comprehensive income	**-**	**-**	**62.7**	**15.3**	**-0.4**	**1.0**	**78.6**	**-0.1**	**78.5**
Transactions with non-controlling interests and acquisitions through business combinations	-	-	0.5	-	-	-	**0.5**	-1.5	**-1.0**
Employee share program	-	2.7	-	-	-	-	**2.7**	-	**2.7**
Settlement of employee share program	-	-2.7	-	-	-	-	**-2.7**	-	**-2.7**
Dividend payments	-	-13.7	-	-	-	-	**-13.7**	-	**-13.7**
Dividends on non-controlling interests	-	-	-	-	-	-	**-**	-0.2	**-0.2**
Other	-	0.1	-	-	-	-	**0.1**	-	**0.1**
As of Dec. 31, 2021	**105.0**	**583.2**	**-218.4**	**-51.4**	**-5.1**	**-14.0**	**399.3**	**11.1**	**410.4**

The below disclosures in these Notes form an integral part of these Consolidated Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

I Basis of presentation

1 The Company

These IFRS Consolidated Financial Statements comprise HENSOLDT AG (the "Company") with its registered office at Willy-Messerschmitt-Str. 3, 82024 Taufkirchen, Germany, registered at the Munich District Court under HRB 258711, and its subsidiaries (the "Group", "HENSOLDT" or "HENSOLDT Group").

The fiscal year coincides with the calendar year.

HENSOLDT Group is a multinational corporation active in the defence and security electronics market with its headquarters based in Germany. The range of products and services includes the development, manufacturing, operation and distribution of electro-technical systems, optronic devices and software solutions for military and non-military use.

2 Significant accounting policies

2.1 Basis of preparation

These Consolidated Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRSs) and related interpretations of the International Accounting Standards Board (IASB) as adopted by the European Union (EU) and, as a supplement, in accordance with the requirements of section 315e (1) of the German Commercial Code (HGB).

For information on changes in significant accounting policies refer to note 4.

These Consolidated Financial Statements were prepared by the Management Board on March 14, 2022, and passed on to the Supervisory Board for approval.

The Consolidated Financial Statements are presented in Euro ("€"), which is the Group's functional currency. Unless otherwise stated, all financial figures presented herein in € are rounded to the nearest hundred thousand €.

These Consolidated Financial Statements were prepared based on the assumption of the Group's continuation as a going concern.

Unless otherwise stated, the Consolidated Financial Statements have been prepared on a historical cost basis. The Group's significant accounting policies are set out below.

2.2 Basis of consolidation

Business combinations

The Group accounts for business combinations using the acquisition method if the acquired group of activities and assets meets the definition of a business and control is transferred to the Group. The consideration transferred for the acquisition and the identifiable assets acquired are generally recognized at fair value. In determining whether a particular group of activities and assets is a business, HENSOLDT assesses whether the group of acquired assets and activities includes at a minimum, an input of resources and substantive process and whether the acquired group is capable of generating output. Any gain on a bargain purchase is recognized directly in the consolidated income statement. Transaction costs are expensed as incurred unless they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in the consolidated income statement.

Any contingent considerations are measured at fair value at the date when control is obtained. If the contingent consideration is classified as equity, it is not remeasured and any settlement is recognized in equity. Otherwise, other contingent considerations are measured at fair value on the reporting date and subsequent changes in the fair value of the contingent considerations are recognized in the consolidated statement of comprehensive income.

Subsidiaries

Subsidiaries are companies controlled by the Group. The Group controls a company when it is exposed to or has rights to variable returns from its involvement with the company and has the ability to affect those returns through its power over the company. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

Non-controlling interests

Non-controlling interests are valued at the date of acquisition at the relevant share in the acquired company’s identifiable net assets.

Changes in the Group’s interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

If the company is obligated to buy back shares of external shareholders due to written put-options, the potential purchase price liability according to contractual provisions is recognized at fair value as of the reporting date in other liabilities. Changes in the market value are recognized in the consolidated income statement.

Investments accounted for using the equity method

Interests of the Group accounted for using the equity method comprise interests in associates and joint ventures.

Associates are companies in which the Group has a significant influence, but no control or joint control in respect to financial and business policies. A joint venture is a cooperation, over which the Group exercises joint control and in which it has rights to the net assets of the cooperation rather than rights to its assets and obligations for its liabilities.

Investments in associates and joint ventures are accounted for using the equity method. They are initially recognized at cost, which also includes transaction costs. After initial recognition, the Consolidated Financial Statements contain the Group’s share in the total comprehensive income of the equity-accounted investee until the date at which significant influence or joint management ends. If the losses of an associate or joint venture attributable to HENSOLDT equal or exceed the value of its interest in such entity, no further share of losses is recognized unless HENSOLDT has incurred obligations or made payments on behalf of the entity. The interest in an associate or joint venture is the carrying amount of the investment plus any and all financial assets that are, in substance, attributable to HENSOLDT’s net investment in the entity such as, e.g. a loan under certain circumstances.

Consolidation of intra-group transactions

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated. Unrealized gains on transactions with equity-accounted investees are derecognized against the investment according to the Group’s share in the investment. Unrealized losses are eliminated in the same way as unrealized gains, but only if there are no indications of impairment.

2.3 Revenue from contracts with customers

Revenue recognition

The Group recognizes revenue if the control over distinct goods and services transfers to the customer, i.e. when the customer is able to determine the use of the transferred goods or services and to primarily obtain the remaining benefits therefrom. Precondition in this respect is that a contract with enforceable rights and obligations is in place and, inter alia, recovery of the consideration – taking account of the credit rating of the customer – is probable.

Revenue equals the transaction price to which the HENSOLDT Group expects to be entitled to under the relevant contract. Variable considerations such as e.g. price escalations, contractual penalties or revisions following price audits are reflected in the transaction price if it is highly probable that such variable consideration may be achieved or when the uncertainty associated with such variable consideration no longer exists. The amount of the variable consideration is determined either according to the expected value method or using the most likely amount, depending on which method better predicts the variable consideration.

If a contract comprises several distinct goods or services, the transaction price is allocated to the performance obligation based on the relative stand-alone selling price. If stand-alone selling prices are not directly observable, HENSOLDT estimates these in an appropriate amount. If no observable prices exist, particularly as the goods and services offered by HENSOLDT are highly complex and individual, the stand-alone selling price of each separate performance obligation is estimated based on the expected costs plus a margin. This procedure is also regularly utilized in the pricing process during contract negotiations.

When the Group transfers control of goods produced or services rendered to the customer over a certain period of time, revenue is recognized over time, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group (e.g. maintenance contracts, training services);
- The Group’s services create or enhance an asset and the customer gains control over the asset as the asset is created or enhanced; or
- It produces an asset with no alternative use for the company and the company has an enforceable right to payment (including a reasonable margin) for the work completed to date.

For each performance obligation to be satisfied over time pursuant to IFRS 15, the HENSOLDT Group recognizes revenue over such period of time by determining the progress towards complete satisfaction of that performance obligation. The HENSOLDT Group applies one single method to determine the progress for each performance obligation to be satisfied over time, with the selected method being consistently applied to similar performance obligations and similar circumstances. The measurement of progress towards complete satisfaction of a performance obligation is based either on inputs or outputs. When progress is measured by inputs, the cost-to-cost method is used, as it best reflects the measure of progress towards the satisfaction of the performance obligation, according to the HENSOLDT group. If costs are incurred that do not contribute to the progress of the service provision, such as e.g. unplanned scrapping costs, or if the costs incurred are disproportionate to the progress due to unexpected additional costs, these costs are excluded from the calculation of the degree of progress or, alternatively, the originally budgeted costs are revised.

If none of the above-mentioned criteria for recognizing revenue over time are met, revenue is recognized at a point in time, i.e. the point in time when HENSOLDT has transferred control of the asset to the customer. Generally, this is the point in time of the delivery of the goods or upon acceptance of the goods or services by the customer.

Performance obligations

The following break-down sets forth the significant performance obligations from contracts with customers and elaborates on the nature and timing of the satisfaction of the performance obligations, including significant payment terms, and the related revenue recognition policies.

Standardized products and systems with limited customer-specific adjustments

When manufacturing and installing standardized products and systems or delivering spare parts, customer-specific adjustments are only made to a limited extent. Customers obtain control of standardized products when the goods have been delivered and accepted at their premises. Invoices are generated at that point in time. Invoices are generally payable within 30 and 60 days. Depending on the contractual terms and conditions, revenue is recognized either once the goods are delivered or once the goods or services are accepted by the customers at their premises.

Customized development, manufacturing and delivery of products and systems

Generally, HENSOLDT does not have an alternative use for products and systems for which the development or manufacturing is highly customized. If a contract is terminated by the customer, HENSOLDT is generally entitled to reimbursement of the costs incurred up to that point, including an appropriate margin. Invoices are issued in accordance with the contractual terms and are generally payable between 30 and 60 days. Revenue and associated costs are recognized over time. Progress is determined based on the cost-to-cost method. Amounts not invoiced are presented as contract assets, and payments received in advance are presented as contract liabilities.

Service and support

HENSOLDT Group provides maintenance and training services. The customer simultaneously receives and consumes the benefits provided by HENSOLDT's performance as HENSOLDT provides the services. Invoices are issued in accordance with the contractual terms and are generally payable between 30 and 60 days. Revenue and associated costs are mainly recognized over time. Progress is determined based on the cost-to-cost method. Amounts not invoiced are presented as contract assets, and payments received in advance are presented as contract liabilities.

Variable considerations

All of the above-mentioned performance obligations of HENSOLDT may include variable consideration components. The following variable consideration components can be in place for HENSOLDT: price adjustments from escalations, price audits and contractual penalties. For contracts with variable consideration components, revenue is recognized to the extent that it is highly probable that a significant cancellation of the amount of cumulatively recognized revenue will not be required. Accordingly, positive variable consideration components (e.g. price escalations) are recognized as an increase of the transaction price if there is an estimated probability of at least 80.0 % that they will be realized. Conversely, negative variable consideration components (e.g. contractual penalties or price audit reimbursements) are recognized as a reduction of the transaction price if they occur with an estimated probability of 20.0 % or more.

Contract assets, contract liabilities and trade receivables

If one of the contract parties has met its contractual obligations, depending on whether or not the HENSOLDT Group has performed its contractual obligations or the customer has paid the agreed consideration at the same time, a contract asset, contract liabilities or a receivable is recognized.

If HENSOLDT satisfies its contractual obligations by transferring goods and services to a customer but before the customer pays a consideration or is required to pay pursuant to the contractual terms, the Group recognizes a contract asset to the amount of the satisfied performance less any amounts recognized as receivable.

A receivable is recognized for a consideration that is unconditionally due from the customer (i.e., only the passage of time is required before payment of the consideration is due).

A contract liability is recognized if a payment is received or a payment is due – whichever is earlier – from a customer before HENSOLDT Group transfers the related goods or services. Contract liabilities are recognized as revenue when the Group fulfils its performance obligation under the contract (i.e., transfers control of the related goods or services to the customer).

2.4 Intangible assets and goodwill

Intangible assets

Intangible assets with limited useful lives are generally amortized on a straight-line basis over their respective expected useful lives to their estimated residual values. In general, the expected useful life for patents, licenses and similar rights is between 3 to 5 years, with the exception of intangible assets with finite useful lives acquired in business combinations. These consist in particular of order backlogs and customer relationships as well as technologies. The useful lives of these intangible assets, in certain transactions, ranged from 2 to 11 years for order backlogs and between 8 to 10 years for customer relationships, as well as from 3 to 12 years for technologies. Brands with indefinite useful lives are not amortized but tested for impairment annually. The Group intends to operate on the market under the name "HENSOLDT" for an unlimited amount of time. There is no indication of a limited useful life or the period for which a time limit of the brand could be granted. Amortization costs for intangible assets are recognized as a part of cost of sales.

Goodwill

Goodwill arising from business combinations is measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually or if an objective indication of impairment exists. For the purpose of impairment testing, goodwill acquired in a business combination is, starting from the acquisition date, allocated to the Group's cash generating units (CGUs) that are expected to benefit from the combination. This applies irrespective of whether other assets or liabilities of the entity acquired are assigned to these CGUs.

Research and development

Research costs are recognized in the consolidated income statement as incurred.

Development costs are capitalized if they can be reliably estimated, the product or process is technically and commercially feasible, future benefit is probable and the Group intends and has sufficient resources to be able to complete development and use or sell the asset.

Development activities are usually carried out in a phased approach. In this phased approach, the Group generally assumes that the criteria for recognition under IAS 38 are satisfied if the Preliminary Design Review ("PDR": for established technologies) or Critical Design Review ("CDR": for new technologies) was successfully completed.

Other development expenditure is recognized in the consolidated income statement as research and development costs as soon as it is incurred. Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses. HENSOLDT reviews capitalized development for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In addition, intangible assets not yet available for use are subject to an annual impairment test. Impairment testing of other intangible assets involves the use of estimates in determining the assets' recoverable amount which can have a material impact on the respective values and ultimately the amount of any impairment. Capitalized development expenditure is generally amortized on a straight-line-basis over the estimated useful life (between 5 and 7 years) of the internally generated intangible asset. Amortization and impairment losses of the capitalized development expenditure is recognized under cost of sales.

2.5 Property, plant and equipment

Property, plant and equipment are measured at cost of acquisition or production (refer to note 2.6), less accumulated depreciation and impairment losses. Property, plant and equipment are depreciated on a straight-line basis. The following useful lives have been assumed:

Fixtures and buildings	5 to 50 years
Technical equipment and machinery	4 to 10 years
Other equipment, operating and office equipment	3 to 13 years

2.6 Inventories

Inventories are measured at the lower of cost (generally the average cost) and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of to sell.

Manufacturing costs include all costs directly attributable to the manufacturing process, such as material costs, wage and production-related overheads (based on normal operating capacity and normal use of materials, labor and other production costs) including write-downs. If any inventory risks exist, e.g. due to reduced usability after longer storage periods or due to lower replacement costs, appropriate write-downs are recognized. Write-downs on inventories are recognized when it is probable that projected contract costs will exceed total contract revenue.

2.7 Leases

In substance, the Group only engages in lease activities as a lessee. The Group leases various assets including property, technical equipment, IT equipment and vehicles.

At inception of a contract, the Group assesses whether a contract is or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At commencement or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its stand-alone price. This policy applies to lease contracts concerning buildings. Due to materiality, the Group has elected not to separate non-lease components for all other classes of lease contracts.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost. Such comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease. Country-specific interest rates are used in South Africa.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or an interest rate, initially measured using the index or interest rate prevailing as of the commencement date;
- Lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the consolidated income statement if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets and lease liabilities as a separate line item in the statement of financial position.

Short-term leases and leases of low-value assets

The Group does not recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets (e.g. office equipment). The Group recognizes the lease payments associated with these leases as an expense in the consolidated income statement on a straight-line basis over the lease term.

2.8 Employee benefits

Short-term employee benefits

Obligations under short-term employee benefits are recognized as an expense once the employee rendered the corresponding service. If the Group has a legal or constructive obligation to make a payment, it recognizes a liability for the expected amount to be paid, when and only when, a reliable estimate of the obligation can be made.

Defined contribution plans

Obligations for contributions to defined contribution plans are recognized as an expense as soon as the related services are provided.

Defined benefit plans

The Group's net obligation for defined benefit plans is calculated separately for each plan by estimating the future benefits that employees have earned in the current and in previous periods. This amount is discounted and reduced by the estimated fair value of any plan assets.

The defined benefit obligations are calculated annually by a certified actuary using the projected unit credit method. If the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Remeasurements of the net defined benefit liability are recognized directly in other comprehensive income. Remeasurements comprise actuarial gains and losses from the determination of the present value of the obligation and the change in value from the fair value measurement of the plan assets. The Group determines the net interest expense (income) on the net defined benefit liability (plan asset) for the reporting year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual reporting year. This discount rate is applied to the net defined benefit liability (asset) on that date. Any changes to the net defined benefit liability (asset) due to payment of contributions or benefits during the reporting year are taken into account. Net interest and other expenses relating to defined benefit plans are recognized in the consolidated income statement.

If a plan amendment or curtailment occurs, any past service cost resulting from a plan amendment or gain or loss on curtailment is recognized directly in the consolidated income statement.

Other long-term employee benefits

The Group's net obligations for other long-term employee benefits obligations is the amount of future benefit that employees have earned in return for their services in the current and previous periods. This benefit are discounted to determine their present value. Remeasurements are recognized in the consolidated income statement in the period in which they occur.

Share-based payment

The Company currently has a Long-Term Incentive bonus (Long-Term Incentive, "LTI bonus" or "LTI") and an employee share program.

The virtual long-term incentive program (LTI) is accounted for as a cash-settled share-based payment transaction according to IFRS 2. The fair value of the services received from employees is measured at the fair value of the granted cash settlement and is recognized as an expense in the consolidated income statement and as a provision. The fair value of the share-based payment is recognized as an expense on a pro-rata basis over the vesting period. The provision is remeasured at each subsequent reporting date, any changes to its fair value are recognized in the consolidated income statement.

The employee share program is accounted for as an equity-settled share-based payment transaction according to IFRS 2. The Group recognizes the grant date fair value of the award as an expense with a corresponding increase of equity. The equity instruments used to settle the share-based payment transaction are acquired on the capital market. Consequently, the capital reserve is relieved accordingly. The fair value of the services received from the beneficiaries cannot be reliably measured, therefore, the fair value of the granted subscription rights is used. The value of an equity-settled share-based payment transaction is determined as at the grant date and corresponds to the increase in equity recognized for this share-based payment transaction.

2.9 Other provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is presented as finance cost.

Provision for onerous contracts

The Group recognizes provisions for onerous contracts if it is probable that total contract costs will exceed the total contract revenue. The costs for fulfilling a contract comprise the costs that relate directly to the contract. They comprise both:

- the additional cost caused by performing the contract – such as direct wage costs and cost of materials; and
- other costs directly attributable to the performance of the contract – such as e.g. the pro-rata depreciation of property, plant or equipment used for performing the contract.

The provision is measured at the lower amount of expected costs for terminating the contract and the expected net costs from performing the contract. Before a provision for onerous contracts is recognized, the associated inventories are written-down.

Onerous contracts are identified by monitoring the progress of the contract and the underlying project and by updating the estimate of contract costs, which involves significant and complex assumptions, assessments and estimates in connection with obtaining a certain performance standard and estimates relating to other costs (refer to note 3, note 11 and note 23).

Warranties

A provision for warranties is recognized as soon as the underlying products or services were sold or rendered and a contractual or constructive obligation exists to repair damage to sold products within a certain period at the Group’s expense. A warranty case can only occur after the performance obligation has been satisfied. To this extent, such costs have no influence on the measurement of progress in the fulfilment of the performance obligation. The provision is based on the individual assessment of expected future costs. The provision is recognized on a pro-rata basis according to certain criteria such as the number of delivered products or project progression.

If the warranty is classified as a separate service, a separate performance obligation is identified for the warranty.

2.10 Financial instruments

Recognition and initial measurement

The Group recognizes trade receivables from the date that they arise. All other financial assets and liabilities are recognized for the first time when the entity becomes a party according to the contractual provisions of the instrument.

A financial asset (except for a trade receivable without financing component) or a financial liability is initially measured at fair value on initial recognition plus or minus, for an item not measured at FVtPL, transaction costs that are directly attributable to its acquisition or issue. Trade receivables without a significant financing component are initially measured at their transaction price.

Classification and subsequent measurement

Financial assets

For initial recognition, financial assets are classified and measured based on the business model (under which the assets are held) and the characteristics of their cash flows.

Financial assets are not reclassified after initial recognition unless the Group changes its business model to manage financial assets.

The Group classifies its financial assets into the following measurement categories:

- “measured at amortized cost” (AC);
- “at fair value through profit or loss” (FVtPL); and
- “at fair value through other comprehensive income” (FVtOCI).

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVtPL:

- The financial asset is held within a business model whose objective is to hold the financial asset to collect the contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is designated at FVtOCI if both of the following conditions are met and it is not designated at FVtPL:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Trade receivables are generally allocated to the “held to collect” business model and measured at amortized cost, i.e. in subsequent periods receivables are recognized net of principal repayments, installments and impairment losses, plus any reversals of impairment losses. Receivables that are meant to be sold to a factoring party, are held in a business model “held to collect and sale”. These receivables are measured at fair value. At initial recognition of an equity instrument that is not held for trading, the Group can irrevocably elect to present subsequent value changes of the investment in other comprehensive income. This option is generally exercised within the group. All financial assets that are not measured at amortized cost or at FVtOCI are measured at FVtPL. This includes, in particular, all derivative financial assets (refer to note 37).

At initial recognition the Group can irrevocably elect to designate financial assets, which meet the conditions for measurements at amortized cost or at FVtOCI, at FVtPL if measurement and recognition inconsistencies (“accounting mismatch”) that arise are being eliminated or significantly reduced.

Financial assets at FVtPL are subsequently measured at fair value. Net gains and losses, including any interest and dividend income, are recognized in the consolidated income statement. Derivatives designated as hedging instruments in an effective hedge are measured at FVtOCI, refer to note 37.

Financial assets at amortized cost are measured at amortized cost using the effective interest method. Amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses as well as impairment losses are recognized in the consolidated income statement. Similarly, gains or losses from derecognition are also recognized in the consolidated income statement. For detailed information on the impairment requirements applicable to financial assets refer to note 2.14.

Certain equity investments, especially immaterial other investments or interests in joint ventures or associates that are not consolidated using the at-equity method due to materiality, are measured at amortized cost.

Debt instruments at FVtOCI are subsequently measured at their fair value. Interest income, which is calculated using the effective interest method, foreign exchange gains and losses as well as impairment losses are recognized in the consolidated income statement. Other net gains or losses are recognized in other comprehensive income. For derecognition, the accumulated other comprehensive income is reclassified to consolidated income statement.

Equity investments at FVtOCI are subsequently measured at their fair value. Dividends are recognized as income in the consolidated income statement unless the dividends clearly represent cover of a part of costs of the investment. Other net gains or losses are recognized in other comprehensive income and are never reclassified to the consolidated income statement.

Financial liabilities

Financial liabilities are classified and measured at amortized cost or at FVtPL. A financial liability is classified at FVtPL if it is classified as “held for trading”, is a derivative or is designated as such on initial recognition.

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expenses and foreign currency translation differences as well as gains or losses arising from derecognition are recognized in the consolidated income statement.

Derecognition

The Group derecognizes a financial asset when the contractual rights to receive the cash flows of an asset expire or it transfers the rights to receive the cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Derecognition also occurs when the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group sells a part of the trade accounts receivable on a case-by-case basis, applying multiple criteria, to external factoring companies. In this process, the HENSOLDT Group determines whether any and all risks and rewards of ownership of the financial asset are fully transferred. Subsequently, the financial asset is derecognized and the Group assesses whether a continuing involvement exists and if so, a separate item must be recognized.

Financial liabilities are derecognized when the contractual obligations are discharged, cancelled or expire. The Group also derecognizes a financial liability if its contractual terms are changed and the cash flows of the adjusted liability differ significantly. In this case a new financial liability based on the adjusted terms is recognized at fair value.

On derecognition of a financial liability, the difference between the carrying amount of the settled liability and the consideration paid (including transferred non-cash assets or assumed liabilities) is recognized in the consolidated income statement.

Netting

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when the Group has a current, legally enforceable right to offset the amounts and intends either to settle them on a net basis, or to realize the asset and settle the related liability simultaneously.

Derivative financial instruments and hedge accounting

Derivative financial instruments

The Group carries out some of its transactions in foreign currency, such as e.g. customer or supplier contracts. HENSOLDT enters into forward exchange transactions and commits to purchases and sales in corresponding foreign currencies to limit the risks to income and costs from currency fluctuations.

Derivatives are measured at fair value on initial recognition; attributable transaction costs are recognized in the consolidated income statement when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognized in the consolidated income statement.

Embedded derivatives, if subject to separation, are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Hedge accounting ensures that derivative gains or losses are recorded through profit or loss (primarily as a part of revenue) in the same period in which the hedged items or transactions are recognized through profit or loss. In contrast, changes in the value of derivative contracts are recognized in total comprehensive income if the hedged items or transactions have not yet been recognized in the consolidated income statement.

At the inception of the designated hedge, the Group documents the risk management objectives and strategies that it is pursuing in respect of hedging. The Group also documents the financial relationship between the hedged item and the hedging instrument and whether there is an expectation that the changes in cash flows of the hedged item and the hedging instrument will offset each other.

For the purpose of assessing whether there is an economic relationship between the hedged items and the hedging instruments, the Group assumes that the reference interest rate will not change as a result of the reform of the interest rate benchmark.

The Group continues to apply the existing accounting policies of IAS 39 for hedging transactions.

For information on the fair value of derivative financial instruments, that are accounted for in a hedge accounting relationship as well as the development of the hedging reserve refer to note 37.3.

Cash flow hedges

If a derivative is designated as a cash flow hedge, the effective portion of changes in the fair value is recognized in other comprehensive income and the cumulative change is transferred to the hedging reserve. Any ineffective portion of changes in fair value of the derivative is recognized in the consolidated income statement. For all other hedged forecast transactions, the accumulated amount, which was transferred to the hedging reserve, is reclassified in the consolidated income statement in the period or periods in which the hedged forecast future cash flows affect the consolidated income statement.

If the hedge no longer meets the criteria for hedge accounting or the hedging instrument is sold, expires, terminated or exercised, then hedge accounting is discontinued prospectively. If the hedged future cash flows are no longer forecast, the amounts that were transferred to the hedging reserve are directly reclassified in the consolidated income statement.

Changes in the fair value of derivatives used as cash flow hedges that were not designated in a hedging relationship are directly recognized in the consolidated income statement.

2.11 Income tax

Income tax expense comprises current and deferred taxes.

Current income tax asset/liability

The current tax asset or liability comprises the expected tax receivable or payable on the taxable income or loss for the year and any adjustment to the tax receivable or payable in respect of previous years. The amount of current tax receivable or payable is the best estimate of the tax amount expected to be received or paid that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted on the balance sheet date. Current tax also includes any tax arising from the assessment of dividends.

Current tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities and the current taxes relate to the same taxable entity and the same tax authority.

Deferred taxes

Applying the liability method of IAS 12 *Income taxes*, deferred taxes are calculated on the basis of temporary differences between the tax and financial reporting valuation approaches including differences from consolidation, loss and interest carryforwards as well as tax credits. The calculation uses the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. The amount is calculated on the basis of the tax rates and tax laws applicable as of the reporting date or will be applicable in the near future.

Deferred tax liabilities are recognized for all taxable temporary differences, with the exception of

- deferred tax liabilities from the initial recognition of goodwill; or
- deferred tax liabilities of an asset or liability from a transaction which is not a business combination and at the date of the transaction affects neither the income (loss) for the period nor taxable profit (taxable loss); or

- deferred tax liabilities from all taxable temporary differences associated with investments in subsidiaries, associates, interests in joint ventures, where HENSOLDT is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer likely that sufficient taxable earnings will be available against which the deferred tax asset could be offset. Deferred tax assets that are not recognized are reviewed at each reporting date and recognized to the extent to which it has become likely that future taxable earnings will permit the realization of the deferred tax asset. Each uncertain tax treatment is considered individually or together as a group, depending on which approach better predicted the resolution of the uncertainty. The Group uses either the most likely amount or the expected value method to measure such uncertainty. The decision is based on which method better predicts the resolution of the uncertainty.

Deferred taxes relating to items recognized directly in equity are also posted directly in equity. Deferred taxes are recognized either in other comprehensive income or directly in equity, depending on the underlying business transaction involved.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current taxes assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.12 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of Group companies at the exchange rates on the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate on the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rates at the date of the transaction. Foreign currency differences are generally recognized in the consolidated income statement of the period.

However, foreign currency differences arising from the translation of the following items are recognized in other comprehensive income:

- An investment in equity securities designated at FVtOCI (except on impairment, in which case foreign currency differences that have been recognized in OCI are reclassified to the consolidated income statement);
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- Qualifying cash flow hedges to the extent that the hedges are effective.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition are translated into € at the exchange rates on the reporting date. Income and expenses of foreign operations are translated into Euros at yearly average exchange rates. Foreign currency differences are recognized in OCI and presented in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interests.

2.13 Statement of cash flow

Under the indirect determination of the cash flow from operating activities, the changes in items in the statement of financial position related to operating activities are adjusted by currency translation effects and by changes in the scope of consolidation. For this reason, they cannot be directly reconciled with the relevant changes on the basis of the published consolidated statement of financial position.

2.14 Impairment

Non-derivative financial assets

The Group recognizes allowances for expected credit losses (“ECL“) for:

- financial assets measured at amortized cost; and
- contract assets.

HENSOLDT measures its impairment allowances on trade receivables and contract assets using the simplified approach. In accordance with the simplified approach, HENSOLDT measures the loss allowance at an amount equal to lifetime expected credit losses. Consequently, no review is required as to whether a significant increase in credit risk occurred requiring a transfer from Level 1 to Level 2.

For all other financial assets within the scope of IFRS 9 impairment requirements, no allowance for impairment losses is recognized for reasons of materiality. This assumption is reviewed on a regular basis.

To assess whether the credit risk of a financial asset since initial recognition has significantly increased and for the assessment of expected credit losses, the Group considers reasonable and supportable information which is relevant and available without undue cost or effort. This covers both quantitative and qualitative information and analysis, which is based on past experience of the Group and in-depth assessments, inclusive of forward-looking information. If there are objective indications of impairment, interest income must also be recognized on the basis of the net carrying amount (carrying amount less allowance for losses on loans and advances) (Level 3).

Presentation of impairment for expected credit losses in the statement of financial position

Impairment losses on financial assets measured at amortized cost are deducted from the gross carrying amount of the assets.

Financial assets with impaired creditworthiness

At each reporting date, the Group assesses whether financial assets measured at amortized cost are credit-impaired. A financial asset is credit-impaired if one or more events occur which have adverse effects on the expected future cash flows of the financial asset.

Indicators that a financial asset is credit-impaired include the following observable data:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past-due situation of more than 90 days; or
- it is probable that the borrower will become insolvent or enter into other bankruptcy proceedings.

Impairment

The gross carrying amount of a financial asset is impaired when according to an appropriate assessment the Group has no reasonable expectations that the financial asset can be realized in full or in part.

Non-financial assets

At the end of each reporting year, the Group assesses whether there is an indication of impairment of a non-financial asset or a CGU to which the asset belongs (e.g. changes in the legal framework, introduction of new technology, etc.). In addition, intangible assets with indefinite useful lives, intangible assets not yet available for use as well as goodwill are tested for impairment in the fourth quarter of each fiscal year, regardless of whether there are any indications of impairment. For impairment testing, goodwill is allocated to a CGU or group of CGUs in order to reflect the manner in which goodwill is monitored for internal management purposes.

To determine if an impairment has occurred, assets are combined into the smallest group of assets that generate cash inflows from continuing use and are largely independent from the cash inflows of other assets or CGUs. Goodwill acquired from a business combination is allocated to the CGUs or group of CGUs which are expected to benefit from the synergies of the combination. This applies irrespective of whether other assets or liabilities of the entity acquired are assigned to these CGUs.

Impairment exists when the carrying amount of an asset or CGU exceeds its recoverable amount. The recoverable amount of an asset or CGU is the higher of its value in use and its fair value less costs of disposal.

To assess the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the present market assessment of the time value of money and the specific risks relating to an asset or a CGU.

The calculation of fair value less costs of disposal is based on available data from binding sale transactions for similar assets or observable market prices less directly attributable costs of disposal to sell the asset. If insufficient information is available to determine the fair value less costs of disposal of an asset or CGU, the value in use of the asset or CGU is used instead.

Impairment losses are recognized in the consolidated income statement. Impairment losses recognized on CGUs are initially allocated to any goodwill allocated to the CGU, and subsequently to the carrying amounts of the other assets of the CGU or group of CGUs on a pro rata basis.

An impairment loss on goodwill cannot be reversed. Impairment losses on other assets can only be reversed to the extent that the carrying amount of the asset does not exceed the carrying amount that, less depreciation or amortization, would have been determined if no impairment had been recognized.

2.15 Fair value measurement

A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The fair value is the price at which an asset would be sold or a liability transferred under current market conditions on the measurement date in an orderly transaction on the primary market. If such a market is not available, the most advantageous market to which the Group has access at this point in time is used. The fair value of a liability reflects the non-performance risk.

The Group uses the following hierarchy to determine and present fair value of the financial instruments for each valuation method:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: Methods by which input parameters that substantially impact the fair value determination are not based on observable market data

If an asset or liability measured at fair value has a bid or ask price, then the Group measures assets or long positions at the bid price and liabilities and short positions at the ask price.

The best indication of the fair value at initial recognition of a financial instrument is generally the transaction price, i.e. the fair value of the consideration paid or received. If the Group determines that at initial recognition the fair value is different to the transaction price and the fair value is evidenced neither (i) by a quoted price in an active market for an identical asset or liability nor (ii) based on a measurement technique for which all unobservable inputs can be considered insignificant in relation to the measurement, then this financial instrument is initially measured at fair value. This amount is adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, this difference is recognized in the consolidated income statement on an appropriate basis over the life of the instrument, however no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The significant, non-observable input factors and the measurement adjustments are regularly reviewed. If information from third parties, such as price quotations from brokers or price information services, is used to determine the fair values, the evidence obtained from third parties is examined to determine whether such measurements fulfil the requirements of IFRS, including the classification in the fair value hierarchy.

The Group uses the following methods to determine the fair value:

Equity instruments

The fair value of unlisted equity instruments cannot be reliably determined without considerable additional efforts, as the area of reasonable approximation of the fair value is decisive and the probabilities of the various estimates within the area cannot be appropriately assessed. With due consideration of materiality, these instruments are measured at cost and their carrying amounts are used in the place of fair value.

Assets from customer financing and other loans

The carrying amounts shown in the financial statements are used as rough estimates of the fair value.

Trade receivables, contract assets and other receivables

The carrying amounts shown in the financial statements are used as reasonable approximation of the fair value due to the relatively short period between the receivable arising and it falling due or the Group expects to realize them during its normal business cycle.

Cash and cash equivalents

These comprise cash on hand and cast at banks. The carrying amounts shown in the financial statements are used as reasonable approximation of the fair value due to the relatively short period between the instrument arising and its term or maturity.

Plan assets

Other assets include shares in limited partnerships (HENSOLDT Real Estate GmbH & Co. KG, Taufkirchen, and HENSOLDT Real Estate Oberkochen GmbH & Co. KG, Taufkirchen, (since the fiscal year 2021)) that are considered plan assets according to IAS 19. The limited partnerships essentially hold real estate assets, which are evaluated based on current market prices. The fair value of the real estate assets represents a material part of the net assets of the limited partnerships.

Pooled investment instruments include shares of investment funds, for which market prices are available.

Derivatives

The fair values of derivative instruments are, where available, based on quoted market prices but in most cases are determined using accepted measurement methods such as option pricing models and discounted cash flow models. Measurement is based on observable market data such as exchange rates, rates for forward exchange transactions, interest rates and yield curves.

The fair values of derivatives are measured on the basis of input parameters from level 2.

The fair value for forward exchange transactions is determined by using the quoted forward rate as of the reporting date and net present value calculations based on yield curves with high credit ratings in the relevant currencies.

The fair value of interest rate forwards is calculated as the present value of estimated future cash flows. Estimates of future cash flows from variable interest payments are based on quoted rates for interest rate futures, future prices and interbank interest rates. The estimated cash flows are discounted using a yield curve that was constructed from similar sources and reflects the relevant comparable interbank interest rate used by market participants for pricing the interest rate futures. The fair value estimate is adjusted for the credit risk which reflects the credit risk of the Group and the contracting party. This is calculated using credit spreads derived from credit default swap and bond prices.

Financing liabilities

The fair values recognized for financing liabilities, which are not issued bond or debt securities, are determined on the basis of input parameters from level 2 in which planned or expected cash flows are discounted with corresponding market interest rates. The fair value of the written put option granted to minority shareholders is based on a discounted cash flow model using a 3-year business plan.

Trade accounts payables, contract liabilities and other current financial liabilities

The carrying amounts of trade accounts payable, contract liabilities and other current financial liabilities are used as reasonable approximations of the fair value due to the relatively short period between the instrument arising and its maturity or since it is expected that such will be settled within the normal business cycle.

3 Key estimates and judgements

The preparation of the Group's Consolidated Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, as well as the related disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Estimates, judgements and underlying assumptions are constantly verified, changes of estimates are recognized prospectively.

3.1 Revenue recognition over time

Revenue from the rendering of performance obligations over a certain period of time is usually recognized using the percentage-of-completion method (cost-to-cost method). Under this method, exact estimates of contract results at the stage of completion and level of progress are necessary. To determine the progress of the contract the key estimates include total contract costs, the remaining costs until completion, the overall contract revenue and the contract risks.

Management regularly reviews all estimates used for these contracts and adjusts them as required (for more information refer to note 2.3).

3.2 Capitalization of development cost

When capitalizing development costs, the Group makes estimates regarding the development costs as well as estimates as to whether the product or the process is technically and commercially viable.

3.3 Assets acquired and liabilities assumed as well as goodwill

Measurement of the fair value of assets acquired and liabilities assumed in the course of business combinations, which form the basis of the measurement of goodwill, requires significant estimates. Land, buildings and machinery are usually measured independently while marketable securities are measured at market prices. If intangible assets are identified, based on the type of intangible asset and the complexity of determining its fair value, the Group consults either an independent external valuation expert or develops the fair value internally using suitable valuation techniques that are based in general on the forecast of total expected future net cash flows.

These measurements are closely related to management's assumptions regarding the future development of related assets and the discount rate to be applied.

3.4 Impairment testing

Please refer to note 2.14 and note 17.2 for further information on the significant estimates and judgments in regard to impairment testing.

3.5 Provisions

The measurement of provisions, e.g. for onerous contracts, warranties and arbitration or court proceedings, is based on best available estimates. Onerous contracts are determined by monitoring the progress of projects and updating estimates of contract costs or contract income, which also requires judgment in relation to reaching certain performance standards and estimates e.g. of warranties. The extent of the assumptions, assessments and estimates in these monitoring processes depends on the size and type of the Group's contracts and the associated projects.

3.6 Employee benefits

The Group recognizes pension and other retirement benefits in accordance with actuarial valuations. These valuations are based on statistical and other factors for anticipating future events. The assumptions can deviate significantly from actual developments due to changing market and economic conditions and thus lead to a significant change in employee benefits obligations and the related future costs (refer to note 33).

In addition to uncertainties arising from the assumptions of employees' future behavior when exercising the payout option, the Group is exposed to other actuarial uncertainties relating to defined benefits obligations, including the following:

Market price risk

The market values of plan assets are subject to fluctuations which can impact the net defined benefit obligation.

Interest rate risk

The value of the defined benefit obligation and the plan assets is significantly affected by the discount rate used. In general, the defined benefit obligation is sensitive to movements in interest rates which leads to volatile results of the valuation.

Inflation risk

Defined benefit obligations can be sensitive to movements in the inflation rate, whereby a higher inflation rate could lead to an increase in the obligation. As some pension plans are directly tied to salary, salary growth can lead to an increase in pension obligations.

Longevity risk

Pension obligations are sensitive to the life expectancy of their beneficiaries. Increased life expectancy leads to an increase in the valuation of the pension obligation.

The weighted average assumptions for the most important pension plans in Germany used to calculate the actuarial value of the obligation as of December 31 are as follows:

	Pension plans in Germany	
	Dec. 31,	Dec. 31,
Assumptions in %	2021	2020
Discount rate	1.5%	1.1%
Wage increase rate (until age 35)	3.0%	3.0%
Wage increase rate (from age 36)	2.0%	2.0%
Pension increase rate	1.0%	1.0%

For Germany, the Group derives the discount rate used to determine defined benefits obligations from the yields for high quality corporate bonds. The discount rate for the estimated term of the respective pension plan is then extrapolated along the yield curve.

The salary growth rates are based on long-term expectations of the respective employer that are derived from the inflation rate assumed. Payments for pension growth rates are derived from the respective inflation rate for the plan. For the most important pension plans in Germany the pension increase rate underlies a guaranteed adjustment of 1.0% p.a., which is reflected in the actuarial measurement.

An adjustment guarantee of 1.0 % p.a. is assured for the most important pension plans in Germany and used as basis of assessment due to the inflation rate.

Moreover, an assumption is made as to what extent the employees choose a one-off payment, installment payment or pension when the benefit falls due. In light of the continuing declines in interest rates in conjunction with no expected change to this trend in the foreseeable future and the exercise of the payout options upon retirement that has actually been observed since the foundation of HENSOLDT, management once again revised its demographic assumptions related to the behavior of beneficiaries regarding the payout options in the fiscal year 2021. This resulted in an increase in pension liability.

The calculation of pension obligations is based on the current 2018 G biometric reference tables provided by Heubeck.

3.7 Contingent legal liabilities

Group companies can be parties to legal disputes in a variety of ways (refer to note 24). The outcome of these issues can have a material impact on the Group's financial position, operating profit and cash flows. Management regularly analyzes current information on these issues and recognizes provisions in the amount of likely cash outflows, including estimated legal costs. In deciding on the need for provisions, management takes into account the degree of probability of an unfavorable outcome and the possibility of reliably estimating the amount of damage. Filing an action or formally exercising damage claims against Group companies or the announcement of such an action or exercising of damage claims does not automatically mean that a provision is appropriate.

3.8 Income tax

In terms of income taxes, material estimates and assessments arise in respect of deferred tax assets. The assessment of impairment of deferred tax assets depends on the management's estimate of the utilization of the deferred tax assets. This is dependent on taxable profits in the periods when the tax measurement differences are reversed and the tax loss carryforwards can be utilized. On the basis of individual company planning and taking into account tax adjustment effects, the Group assumes that the benefits of deferred tax assets can be realized within the next four years on the basis of sufficient, future taxable income. The factors for the origination of loss carryforwards were mainly one-off transformation-related effects, as well as IPO-related legal restructuring and refinancing costs.

3.9 Lease term

Determining the lease term of a contract with renewal and termination options – Group as lessee

HENSOLDT Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

HENSOLDT Group has several lease contracts that include extension and termination options and applies discretional decisions in evaluating whether it is reasonably certain whether or not to exercise the option to extend or terminate the lease. HENSOLDT considers all relevant factors that create economic incentives to exercise either the renewal or termination. After the commencement date, HENSOLDT Group reassesses the lease if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

HENSOLDT includes the extension period as part of the lease term for certain property leases when HENSOLDT is reasonably certain it will exercise the option. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Please refer to note 28 for information on potential future lease payments relating to periods following the commencement date of an extension and termination option that are not included in the lease term.

3.10 Determination of fair values

Several accounting policies (inter alia IFRS 3) and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, HENSOLDT Group uses observable market data as far as possible. Using unobservable market parameters, key estimates and assessments need to be determined. HENSOLDT Group regularly reviews significant unobservable inputs and valuation adjustments. Please refer to note 2.15.

4 Changes in significant accounting policies

Standard and changes	Date of effectiveness from IASB for the annual reporting period beginning on or after	EU Endorsement status	Material impact on the consolidated financial statements
Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 16 and IFRS 7)	January 1, 2022	Confirmed	No
Amendments to IFRS 16: COVID-19-related rent concessions beyond June 30, 2021	April 1, 2021	Confirmed	No

5 Standards issued but not yet effective

A range of new or revised standards, changes and improvements to standards and interpretations are not yet applicable to the fiscal year ending December 31, 2021, and were not applied when preparing these Consolidated Financial Statements. Amendments to standards not separately listed are not expected to have an impact on the Group.

Standard and changes	Date of effectiveness from IASB for the annual reporting period beginning on or after	EU Endorsement status	Expected material impact on the consolidated financial statements
Amendments to IAS 37: Onerous contracts	January 1, 2022	Confirmed	No
Amendments to IFRS 3: Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2022	Confirmed	No
Amendments to IAS 16: Property, Plant and Equipment, Proceeds before intended use	January 1, 2022	Confirmed	No
Amendment to IAS 1 and IFRS Practice Statement: Disclosure of accounting policies	January 1, 2023	Not yet confirmed	No
Amendments to IAS 1: Classification of Liabilities as current or non-current	January 1, 2023	Not yet confirmed	No
Amendments to IAS 8: Definition of accounting estimates	January 1, 2023	Not yet confirmed	No
Amendments to IAS 12: Deferred tax related to assets and liabilities arising from a single transaction	January 1, 2023	Not yet confirmed	No

6 Consolidated group

The shareholdings as of December 31, 2021, are listed in the following table:

Company	Registered Office	Share of capital	Consolidation method
HENSOLDT AG	Taufkirchen / Germany	-	PC
HENSOLDT Holding GmbH	Taufkirchen / Germany	<100.0%*	FC
HENSOLDT Holding Germany GmbH	Taufkirchen / Germany	<100.0%*	FC
HENSOLDT Sensors GmbH	Taufkirchen / Germany	<100.0%*	FC
HENSOLDT Optronics GmbH	Oberkochen / Germany	<100.0%*	FC
HENSOLDT Avionics Holding GmbH	Pforzheim / Germany	100.0%	FC
HENSOLDT Avionics GmbH	Pforzheim / Germany	100.0%	FC
HENSOLDT Cyber GmbH	Taufkirchen / Germany	51.0%	FC
EuroAvionics UK Ltd.	Slinfold / United Kingdom	100.0%	FC
EuroAvionics Schweiz AG	Sissach / Switzerland	100.0%	FC
HENSOLDT Avionics US HoldCo. Inc. (former: EuroAvionics US HoldCo. Inc.)	Sarasota / USA	100.0%	FC
HENSOLDT Avionics USA LLC (former: EuroAvionics USA LLC)	Sarasota / USA	100.0%	FC
GEW Integrated Systems (Pty) Ltd.	Brummeria / South Africa	75.0%	FC
GEW Technologies (Pty) Ltd.	Brummeria / South Africa	75.0%	FC
HENSOLDT South Africa (Pty) Ltd. (former: HENSOLDT Optronics (Pty) Ltd.)	Irene / South Africa	70.0%	FC
HENSOLDT UK Limited	Enfield / United Kingdom	100.0%	FC
KH Finance No.2	Enfield / United Kingdom	100.0%	FC
KH Finance Ltd.	Enfield / United Kingdom	100.0%	FC
Kelvin Hughes Ltd.	Enfield / United Kingdom	100.0%	FC
Kelvin Hughes BV	Rotterdam / The Netherlands	100.0%	FC
A/S Kelvin Hughes	Ballerup / Denmark	100.0%	FC
Kelvin Hughes LLC	Alexandria / USA	100.0%	FC
HENSOLDT Singapore Pte. Ltd.	Singapore / Singapore	100.0%	FC
HENSOLDT Holding France S.A.S.	Paris / France	100.0%	FC
HENSOLDT France S.A.S.	Paris / France	100.0%	FC
Kite Holding France S.A.S.	Paris / France	100.0%	FC
HENSOLDT Nexeya France S.A.S. (former: Nexeya France S.A.S.)	Toulouse / France	100.0%	FC
HENSOLDT Space Consulting S.A.S.	Toulouse / France	100.0%	FC
Midi Ingénierie S.A.S.	Toulouse / France	85.0%	FC
Nexeya Canada Inc.	Markham / Canada	100.0%	FC
Antycip Technologies S.A.S.	Massy / France	100.0%	FC
Penser Maitriser Technicité Logistique - P.M.T.L S.A.S.	Cologne / France	100.0%	FC
HENSOLDT Australia Pty Ltd.	Fyshwick / Australia	100.0%	FC

PC = parent company
FC = fully consolidated affiliated company
*Interest of Federal Republic of Germany with a nominal value of 1 € each

The Consolidated Financial Statements include the financial statements of HENSOLDT AG and the financial statements of all material subsidiaries that are directly and indirectly controlled by HENSOLDT AG. The group companies prepare their financial statements as of the same reporting date for which the Group prepares its Consolidated Financial Statements. 33 companies (previous year: 32) were fully consolidated. With effect as of June 2021, HENSOLDT switched the consolidation method of HENSOLDT Cyber GmbH from at-equity to full consolidation. The 16 (previous year: 13) companies listed below were not consolidated due to materiality.

Company	Registered Office	Equity in € million	Profit/ loss in € million	Share of capital	Consoli-dation method
Atlas Optronics LLC	Abu Dhabi / UAE	N/A	N/A	49.0%	AC
EURO-ART Advanced Radar Technology GmbH[2]	Munich / Germany	0.2	-0.0	25.0%	AC
EURO-ART International EWIV[1]	Munich / Germany	1.1	0.0	50.0%	AC
EUROMIDS S.A.S.[1]	Paris / France	3.4	0.1	25.0%	AC
LnZ Optronics Co. Ltd.[1]	Seoul / South-Korea	1.5	0.2	50.0%	AC
PMTL-Peinture Composite S.A.S.[3]	L'Isle-Jourdain / France	0.1	-0.1	49.8%	AC
Deutsche Elektronik Gesellschaft für Algerien mbH[1]	Ulm / Germany	11.0	0.7	66.7%	JV
J.A.M.E.S. GmbH[5]	Taufkirchen / Germany	N/A	N/A	50.0%	JV
Société Commune Algérienne de Fabrication de Systèmes Electroniques SPA[1]	Sidi Bel Abbès / Algeria	22.9	0.3	49.0%	JV
Antycip Iberica SL[1]	Barcelona / Spain	0.0	0.0	100.0%	NC
HENSOLDT Analytics GmbH[1]	Vienna / Austria	-2.4	-2.6	100.0%	NC
HENSOLDT do Brasil Segurança e Defesa Electrónica e Optica Ltda[1]	São Paulo / Brazil	-0.1	-0.1	99.9%	NC
HENSOLDT Inc.[1]	Wilmington / USA	-6.0	-1.7	100.0%	NC
HENSOLDT Private Ltd.[4]	Bangalore / India	0.2	0.1	100.0%	NC
MaHyTec S.A.S.[1]	Dole / France	0.5	-0.1	100.0%	NC
Nexeya USA Inc.[3]	Beaufort / USA	0.0	0.0	100.0%	NC

NC: non-consolidated affiliated company valued at cost for reasons of immateriality
AC: associated company valued at cost for reasons of immateriality
JV: joint venture pursuant to IFRS 11 valued at cost for reasons of immateriality
[1] Equity and profit / loss December 31, 2020
[2] Equity and profit / loss September 30, 2020
[3] Equity and profit / loss June 30, 2021
[4] Equity and profit / loss March 31, 2021
[5] Entity founded in fiscal year 2021, financial statements not yet available
N/A: No financial data available

7 Acquisitions

7.1 Company acquisitions and other changes during the fiscal year

HENSOLDT Cyber GmbH

HENSOLDT Cyber GmbH, Taufkirchen, District of Munich, ("HENSOLDT Cyber") is a joint venture founded in 2017 by HENSOLDT Holding Germany GmbH and Secure Elements GmbH, Munich. The company's purpose is the development, production, integration and distribution of solutions in the areas of IT hardware, software and services. This investment strengthens HENSOLDT Group's technology portfolio.

With effect from June 2021, HENSOLDT gained control over HENSOLDT Cyber which had been accounted for using the equity method and is now included in the Consolidated Financial Statements as a fully consolidated company.

HENSOLDT obtained control due to agreements made with the joint venture partner in the fiscal year 2021. These resulted in potential voting rights associated with conversion rights that are related to the loans granted to HENSOLDT Cyber. Under consideration of the potential voting rights, HENSOLDT holds 70.0 % of the voting rights in HENSOLDT Cyber.

The preliminary consideration, taking into account the conversion rights on the existing loans amounted to € 11.5 million.

The carrying amounts and fair values respectively of the identifiable assets of HENSOLDT Cyber at the date of acquisition were as follows:

in € million	Carrying amount	Fair value
Assets	2.5	10.1
Deferred taxes	-	-2.3
Liabilities	-11.4	-11.4
Total identifiable net assets including non-controlling interests	**-8.9**	**-3.6**
Identifiable net assets of non-controlling interests		-1.1
Total identifiable net assets		**-2.5**
Goodwill		14.0
Total consideration transferred		**11.5**

The preliminary purchase price allocation resulted mainly in the capitalization of other intangible assets of € 7.6 million and of deferred tax liabilities of € 2.3 million.

The remainder corresponds to a goodwill of € 14.0 million that mainly constitutes the expected future prospects arising from the market position of the acquired company and the expected synergies to be achieved by the integration of the company in the existing business of HENSOLDT.

At the time of transfer of control, the acquired company had liquid funds of € 0.1 million and a gross amount of trade receivables of € 0.1 million which were estimated to be recoverable in full.

In the seven months ending on December 31, 2021, HENSOLDT Cyber contributed a revenue of € 0.2 million and a loss of € 5.0 million to HENSOLDT Group's result.

If the transaction had been made on January 1, 2021, the management estimates that it would have resulted in an increase of the Group's revenue by € 0.1 million and a lower income of € -1.9 million. The share in the loss of investments accounted for using the at equity method until May 2021 of € 2.0 million has already been taken into account in the determination of this result.

The shares in HENSOLDT Cyber were fully impaired at the time of acquisition. Other operating income of € 10.2 million arose from adjusting the existing shares in HENSOLDT Cyber to their fair value.

HENSOLDT Analytics GmbH and Tellumat (Pty) Ltd.

In the first half year of 2021, two business units (ATM and Defence Division) of Tellumat (Pty) Ltd., South Africa, as well as 100.0 % of the shares in HENSOLDT Analytics GmbH (formerly known as: SAIL LABS Technology GmbH), Vienna, were acquired. The total preliminary purchase price amounted to € 8.4 million.

The two business units of Tellumat (Pty) Ltd. were integrated in HENSOLDT South Africa after their acquisition. These transactions resulted in a goodwill of € 0.1 million.

HENSOLDT Analytics GmbH will not be consolidated due to materiality.

7.2 Determination of fair values

The valuation methods used to determine the fair value of the acquired essential assets were as follows:

Acquired assets	Market approach and cost approach
Property, plant and equipment	The measurement model takes into account market prices for similar items, if available, and depreciated replacement cost, if applicable. Depreciated replacement costs reflect adjustments for physical deterioration as well as functional reconditioning and economic obsolescence.
Intangible assets	The relief from royalty method and multi-period excess earnings method: the relief from royalty method takes into account the discounted estimated royalty payments that are expected to be saved by patents and trademarks being kept in the Company's ownership. The multi-period excess earnings method takes into account the present value of the expected net cash flows generated by customer relationships, with the exception of all cash flows relating to the underlying assets.
Inventories	Market approach: the fair value is determined on the basis of the estimated sales price in the ordinary course of business less estimated production and selling costs as well as an appropriate profit margin based on the time and effort expended on producing and selling inventories.

If new information on facts and circumstances that existed on the date of acquisition becomes known within one year after the date of acquisition and that would have resulted in a change in the valuation of the assets and liabilities recognized in connection with the acquisition, the accounting of such company acquisition will be adjusted. No significant adjustments occurred in the fiscal year 2021 with regard to the company acquisitions made in the previous year.

8 Investments accounted for using the equity method

With effect from June 2021, the share attributable to HENSOLDT Holding Germany GmbH in HENSOLDT Cyber increased from 51.0 % to 70.0 %. Accordingly, HENSOLDT Cyber's accounting method was switched from the equity method to full consolidation starting June 2021 (refer to note 7).

The reported net income of the fiscal year comprises the period from January 1, 2021, till May 30, 2021.

9 Transactions with related parties

9.1 Related persons and entities

In accordance with IAS 24, transactions with individuals or entities that control or are controlled by the HENSOLDT Group must be disclosed unless they have already been included as consolidated entities in the Consolidated Financial Statements. In addition, there is an obligation to disclose transactions with associates and persons who have significant influence over the operating and financial policies of the HENSOLDT Group. Significant influence in this context can be based on a shareholding in HENSOLDT AG of 20.0 % or more or a key management position.

Related persons

The key management personnel of the HENSOLDT Group are the Management Board and the Supervisory Board of HENSOLDT AG, who are therefore considered as related parties of HENSOLDT AG.[1]

Members of the Management Board

- Thomas Müller, CEO
- Axel Albert Hans Salzmann, CFO
- Peter Fieser, CHRO
- Celia Pelaz, CStO (as of July 1, 2021)

Members of the Supervisory Board

- Johannes P. Huth, Chairman of the Supervisory Board
- Armin Maier-Junker, Chairman of the Works Council and the General Works Council of HENSOLDT Sensors GmbH, Deputy Chairman of the Supervisory Board
- Dr. Jürgen Bestle, Deputy Chairman of the Company Spokesperson Committee of senior management (from May 19, 2021)
- Jürgen Bühl, Trade Union Secretary of the IGM Management Board
- Dr. Frank Döngi, Chairman of the Company Spokesperson Committee of senior management (until May 18, 2021)
- Achim Gruber, Chairman of the Works Council of HENSOLDT Optronics GmbH (from May 19, 2021)
- Prof. Wolfgang Ischinger
- Ingrid Jägering
- Marion Koch, Member of the Works Council of HENSOLDT Sensors GmbH
- Christian Ollig
- Prof. Dr. Burkhard Schwenker
- Julia Wahl, Union Secretary of IGM
- Claire Wellby
- Ingo Zeeh, Member of the Works Council of HENSOLDT Optronics GmbH (from January 12 until May 18, 2021)

Related entities

Square Lux Holding II S.à r.l., Luxembourg, ("Square Lux") holds a direct majority interest as controlling company in HENSOLDT AG since November 29, 2019. On December 31, 2021, Square Lux held approximately 42.9 % (previous year: 68.3 %) of the shares. Based on an attendance during the annual general meeting of 84.28 % and a shareholding of 42.94 %, Square Lux has a de facto majority in the annual general meeting and is thus still considered a controlling company in the entire fiscal year.

Through other parent companies of Square Lux, HENSOLDT AG is also indirectly majority-owned by KKR Square Aggregator L.P., Canada ("KKR") and its subsidiaries. KKR is a holding company of investment funds indirectly held by Kohlberg Kravis Roberts & Co L.P. and its affiliates.

Furthermore, HENSOLDT AG is indirectly majority-owned by Square Lux Midco 1 & Co S.C.A., Luxembourg, which is owned by KKR.

Companies affiliated with the controlling companies are in particular the following companies held by Kohlberg Kravis Roberts & Co L.P.: KKR Capital Markets Partners LLP, KKR Capital Markets (Ireland) Limited, KKR Capstone Americas LLP, KKR Capital Markets Ltd, KKR Capstone EMEA (International) LLP, and Square Lux Finco S.à r.l., Luxembourg, as an affiliate of Square Lux.

On May 26, 2021, Kreditanstalt für Wiederaufbau ("KfW"), executing the acquisition rights of the Federal Republic of Germany ("Federal Government"), acquired 25.1 % of HENSOLDT AG's shares from Square Lux. Therefore, the Federal Government is considered one of HENSOLDT AG's related parties with significant influence. HENSOLDT Group maintains diverse relationships with the Federal Government and with other companies controlled by the latter. The Federal Government, related government agencies and offices as well as other companies controlled by the Federal Government are each independent from each other, customers of HENSOLDT and purchase and use many of HENSOLDT's products and services.

Additional related parties are HENSOLDT Pension Trust e.V. (including its subsidiaries) as pension fund of HENSOLDT Sensors GmbH and HENSOLDT Optronics GmbH as well as the non-consolidated subsidiaries, associated and joint venture companies of the Group.

The Consolidated Financial Statements of HENSOLDT AG are included in the financial statements of Square Lux TopCo S.à r.l., Luxemburg. Square Lux TopCo S.à r.l., Luxemburg prepares the Consolidated Financial Statements for the smallest and largest group of companies. The registered office of Square Lux TopCo S.à r.l., Luxemburg is located at 2, Rue Edward Steichen, 2450 Luxemburg, and is registered at the Registre de Commerce et des Sociétés under number B204231.

9.2 Related party transactions with entities

In the course of its operating activities, the HENSOLDT Group exchanges goods and services with numerous related entities.

	Fiscal year	
in € million	2021	2020
Revenues		
Entities with significant influence	283.5	-
Joint ventures	30.3	13.8
Associated companies	19.9	51.3
Non-consolidated companies	34.2	22.4
Other income and cost reimbursements		
Parent company	0.1	5.2
Joint ventures	0.4	1.1
Non-consolidated companies	0.3	-
Other related parties	12.1	10.1

	Fiscal year	
in € million	2021	2020
Goods and services received		
Entities with significant influence	4.0	-
Joint ventures	0.3	0.6
Associated companies	2.6	3.9
Non-consolidated companies	1.9	1.1
Other related parties	15.5	24.8

[1] In the previous year, these were the members of the Management Board of HENSOLDT GmbH and the members of the Supervisory Board of HENSOLDT Holding GmbH until August 17, 2020.

in € million	Dec. 31, 2021	Dec., 31 2020
Receivables		
Entities with significant influence	53.8	-
Joint ventures	91.6	74.0
Associated companies	9.8	20.9
Non-consolidated companies	11.6	4.3
Other related parties	0.2	0.1
Liabilities		
Entities with significant influence	4.3	-
Joint ventures	0.3	0.9
Associated companies	7.5	3.2
Non-consolidated companies	6.3	0.2
Other related parties	3.5	4.1

In course of HENSOLDT AG's IPO, HENSOLDT AG has charged expenses to the net amount of € 53 thousand (previous year: € 5.2 million) on a pro-rata basis to Square Lux – after set off of counter-claims – under the cost-sharing and compensation agreement concluded with Square Lux.

Goods and services received from other related parties include reimbursements related to the IPO and the associated refinancing of the Group for charges from KKR Capital Markets Partners LLP of € 27 thousand (previous year: expenses of € 4.2 million) as well as expenses associated with building rents of € 15.5 million (previous year: € 15.1 million). In the previous year additional expenses were incurred for KKR Capstone Americas LLP in the amount of € 30 thousand and for KKR Capital Markets (Ireland) Ltd. in the amount of € 5.5 million.

On June 29, 2021, the Federal Government, represented by the Federal Ministry of Defence, which in turn is represented by the Federal Office of Bundeswehr Equipment, Information Technology and In-Service Support ("Bundesamt für Ausrüstung, Informationstechnik und Nutzung der Bundeswehr" or "BAAINBw"), has awarded a contract for the development, delivery and integration of the airborne electronic signals intelligence system "PEGASUS" including the procurement of three aircraft and the associated control stations for a contract value of approximately € 1.25 billion to HENSOLDT. The contract was concluded after the budget approval by the German lower house of the parliament, Bundestag.

Receivables from and liabilities to related companies in the fiscal year 2021 mainly relate to trade receivables and trade liabilities. Receivables from joint ventures include a loan of € 7.8 million to HENSOLDT Cyber in the previous year.

For further information regarding the financing of pension plans of the Group, which are considered related parties, refer to note 33.

9.3 Related party transactions with persons

Remuneration of the Management Board

The members of the Management Board received salaries and other short-term benefits (including bonuses) totaling € 4.5 million for the fiscal year (previous year: € 3.2 million). Expenses associated with share-based remunerations recognized in the consolidated income statement during the reporting year amounted to € 0.3 million (previous year: € 0 million). During the reporting year, service costs for post-employment benefits for the active members of the Management Board amounted to € 0.3 million (previous year: € 0.4 million) and were recognized in the consolidated income statement. Therefore, the compensation and benefits granted to the members of the Management Board (according IAS 24.17) amounted to € 5.1 million (previous year: € 3.6 million).

The total remuneration of the Management Board pursuant to section 314 (1) no. 6a sentences 1 to 3 of the German Commercial Code (HGB) amounted to € 6.5 million in the fiscal year 2021 (previous year: € 3.2 million). This includes the fair value at grant date for share-based remunerations of € 2.0 million for the award of 142,754 virtual shares. For the performance targets linked to these awards, we refer to the remuneration report included in the combined management report under section VI. No share-based payments were granted in the previous year.

Remuneration of the Supervisory Board

The compensation of the members of the Supervisory Board comprised a general compensation and an additional remuneration for committee activities amounting in total to € 0.7 million (previous year: € 0.6 million).

Information on the remuneration of individual Management Board and Supervisory Board members is presented in the remuneration report, which is part of the combined management report of HENSOLDT Group.

Management participation

The Management Board members of HENSOLDT AG as well as other executives and executive board members of HENSOLDT Group hold indirect shares that were issued by Square Lux Midco 1 & Co S.C.A. and are thus indirectly invested in HENSOLDT AG. In the absence of a monetary benefit granted by companies of the Group at the time of the entry or exit of the participants, no expense is recognized in the Consolidated Financial Statements at any time – neither in the event of an exit nor in the event of the resignation of the manager.

10 Operating segments

10.1 Segmentation

The HENSOLDT Group's segmentation corresponds to its internal steering, controlling and reporting structures. In accordance with IFRS 8, HENSOLDT has identified the reportable operating segments Sensors and Optronics.

Sensors segment

The Sensors segment provides system solutions and comprises the three divisions Radar & Naval Solutions, Spectrum Dominance & Airborne Solutions, and Customer Services & Space Solutions as well as Elimination/Transversal/Others

The products of the Radar & Naval Solutions and the Spectrum Dominance & Airborne Solutions divisions are complementary in the value chain, resulting in interdependencies between the two such as shared engineering and operations. As an aftersales division, the Customer Services & Space Solutions division is mainly positioned further down the value chain and is largely dependent on the primary business of the other two divisions of the Sensors segment.

Radar & Naval Solutions

In "Radar & Naval Solutions" which was renamed in the first quarter of 2021 (formerly: "Radar, IFF & COMMS"), the Group develops and manufactures mobile and stationary radar and IFF systems (Identification Friend or Foe) used for surveillance, reconnaissance, air traffic control (ATC) and air defence. These systems are deployed on various platforms, including the Eurofighter, the German Navy's Frigate 125 and the US Navy's Littoral Combat Ship. The Radar & Naval Solutions division also includes systems for establishing secure data connections for air, sea and land platforms.

Spectrum Dominance & Airborne Solutions

The Spectrum Dominance & Airborne Solutions division includes electronic systems for the acquisition and evaluation of radar and radio signals and jammers, which are used, for example, to protect convoys or individual vehicles against improvised explosive devices. In addition to applications on the electromagnetic spectrum for land, sea and air applications, the product range is being extended to include defensive cyber-solutions. Furthermore, the Group offers electronic self-protection systems integrating missile, laser and radar warning sensors with countermeasures for air, sea and ground platforms and provides military and civil avionics systems such as situational awareness systems, mission computers and flight data recorders. Systems from the Spectrum Dominance & Airborne Solutions division are used in fighter aircraft such as the Eurofighter and Tornado, the Airbus A400M transport aircraft and various helicopter models.

Customer Services & Space Solutions

The division Customer Services & Space Solutions which was renamed in the first quarter of 2021 (formerly: "Customer Services") encompasses a range of customer support and service activities, as well as maintenance over the entire lifecycle of the platforms and systems developed in the other two divisions of the Sensors segment. Simulation solutions, training courses and special services are also offered within this division. It also functions as sponsor for HENSOLDT Space Solutions. HENSOLDT Space Solutions develops and manufactures components and solutions for space-based sensors that are used, inter alia, in the fields of earth observation, weather and environmental monitoring, scientific research of space and for laser communication in space.

Elimination/Transversal/Others comprises the Others section which contains mainly components for anti-aircraft missile defence systems, funded military studies and funding projects, and the elimination/transversal of intra-segment revenue between the three divisions of the Sensors segment.

Optronics segment

The Optronics segment comprises optronics and optical and precision instruments for military, security and civil applications that can be used on land, in water and in the air. On land, the product range includes rifle scopes, sights, laser rangefinders, night vision devices, and thermal imaging cameras that assist snipers and infantry soldiers with observation and target acquisition. In addition, devices for surveillance and target acquisition are offered for armored vehicles. For use at sea, submarine periscopes, optronic mast systems and other electro-optical systems are offered. In the air, the product portfolio includes stabilized sensor platforms with image stabilizers for helicopters, manned fixed-wing aircraft and drones, which support their surveillance and target acquisition. HENSOLDT also offers mobile and stationary surveillance solutions for security applications, as well as special equipment for industrial and space applications within this segment. Furthermore, support and services for Optronics products forms part of the Optronics segment.

10.2 Segment information

The operating segments of the HENSOLDT Group are internally steered and controlled by the means of its most important KPIs, revenue, order intake, book-to-bill ratio and adjusted EBITDA. In addition, HENSOLDT uses adjusted EBIT as a further key performance indicator as well as order backlog as an additional key operating metric.

The following table shows the KPIs that the Management Board uses to evaluate the performance of each operating segment as well as additional information.

The Elimination/Transversal/Others item comprises predominantly non-recurring effects of non-operational group entities as well as consolidation measures. Transactions between the Sensors and Optronics segments are only of minor importance.

				2021
in € million	Sensors	Optronics	Elimination/ Transversal/ Others	Group
Order Intake	2,774.4	405.4	-8.3	3,171.5
Order Backlog as per December 31	4,420.2	676.1	-4.1	5,092.2
Book-to-bill-ratio	2.4	1.2	-	2.2
Revenues from external customers	1,145.5	328.8	-	1,474.3
Intersegment revenues	2.2	3.1	-5.3	-
Segment revenues	**1,147.7**	**331.9**	**-5.3**	**1,474.3**

				2021
in € million	Sensors	Optronics	Elimination/ Transversal/ Others	Group
Material non-cash items other than depreciation and amortisation:				
Additions to other provisions	-78.9	-57.3	-0.8	-137.0
Reversals of other provisions	10.8	21.7	0.1	32.6
Adjustments to the fair value of existing shares in entities now subject to consolidation	10.2	-	-	10.2
Interest in the profit or loss of associated entities and joint ventures accounted for using the equity method	-	-	-2.0	-2.0

in € million	Sensors	Optronics	Elimination/ Transveral/ Others	Group 2021
EBITDA	**194.0**	**68.0**	**-10.3**	**251.7**
Transaction cost	0.2	-	0.2	0.4
IPO related cost	-	-	0.7	0.7
Other non-recurring effects	0.2	0.2	7.5	7.9
Adjusted EBITDA	**194.4**	**68.2**	**-1.9**	**260.7**
Adjusted EBITDA margin [1]	*16.9%*	*20.5%*		*17.7%*
Depreciation and Amortization	-97.4	-28.6	-	-126.0
EBIT	**96.6**	**39.4**	**-10.3**	**125.7**
Effects on earnings from purchase price allocations	53.8	10.1	-	63.9
Transaction cost	0.2	-	0.2	0.4
IPO related cost	-	-	0.7	0.7
Other non-recurring effects[2]	0.2	0.2	7.5	7.9
Adjusted EBIT	**150.8**	**49.7**	**-1.9**	**198.6**
Adjusted EBIT margin [1]	*13.1%*	*15.0%*		*13.5%*

[1] Based on segment revenues
[2] Other non-recurring effects in 2021 include expenses in conection with efficiency programs (HENSOLDT GO!), post-merger-integration and structural development of the HENSOLDT Group

in € million	Sensors	Optronics	Elimination/ Transveral/ Others	Group 2021
EBIT	**96.6**	**39.4**	**-10.3**	**125.7**
Finance income/costs	-	-	-	-40.8
EBT	**-**	**-**	**-**	**84.9**

in € million	Sensors	Optronics	Elimination/ Transveral/ Others	Group 2020
Order Intake	2,238.1	308.3	-5.1	2,541.3
Order Backlog as per December 31	2,825.5	600.0	-1.5	3,424.0
Book-to-bill-ratio	2.4	1.1	-	2.1
Revenues from external customers	922.5	284.4	0.0	1,206.9
Intersegment revenues	1.1	3.7	-4.8	-
Segment revenues	**923.6**	**288.1**	**-4.8**	**1,206.9**

in € million	Sensors	Optronics	Elimination/ Transveral/ Others	Group 2020
Material non-cash items other than depreciation and amortisation:				
Additions to other provisions	-85.3	-45.6	-	-130.9
Reversals of other provisions	13.1	4.9	-	18.0
Interest in the profit or loss of associated entities and joint ventures accounted for using the equity method	-	-	-2.6	-2.6

in € million	Sensors	Optronics	Elimination/ Transveral/ Others	Group 2020
EBITDA	**155.3**	**64.9**	**-30.9**	**189.3**
Transaction cost	-	-	0.9	0.9
IPO related cost	-	-	15.8	15.8
Other non-recurring effects	0.9	0.7	11.7	13.3
Adjusted EBITDA	**156.2**	**65.6**	**-2.5**	**219.3**
Adjusted EBITDA [1] margin	*16.9%*	*22.8%*		*18.2%*
Depreciation and Amortization	-90.5	-30.2	-0.1	-120.8
EBIT	**64.8**	**34.7**	**-31.0**	**68.5**
Effect on earnings from purchase price allocations	54.0	14.7	-	68.6
Transaction cost	-	-	0.9	0.9
IPO related cost	-	-	15.8	15.8
Other non-recurring effects[2]	0.9	0.7	11.7	13.4
Adjusted EBIT	**119.7**	**50.1**	**-2.6**	**167.2**
Adjusted EBIT [1] margin	*13.0%*	*17.4%*		*13.9%*

[1] Based on segment revenues
[2] Other non-recurring effects in 2020 include expenses in connection with efficiency programs (HENSOLDT GO!), post-merger-integration and structural development of the HENSOLDT Group

in € million	Sensors	Optronics	Elimination/ Transveral/ Others	Group 2020
EBIT	**64.8**	**34.7**	**-31.0**	**68.5**
Finance result	-	-	-	-143.7
EBT	**-**	**-**	**-**	**-75.2**

10.3 Geographical information

in € million	Fiscal year 2021	2020
Revenue		
Europe	1,191.4	920.2
thereof Germany	*861.5*	*622.8*
Middle East	135.6	155.8
APAC	58.4	44.2
North America	44.9	53.1
Africa	57.3	48.0
LATAM	15.7	13.3
Other regions/consolidation	-29.0	-27.6
Total	**1,474.3**	**1,206.9**

in € million	Dec. 31, 2021	Dec. 31, 2020
Non-current assets[1]		
Germany	1,153.0	1,136.3
Other regions	132.2	133.6
Total	**1,285.2**	**1,269.9**

[1] Non-current assets other than financial instruments, deferred tax assets, post-employment benefits and rights arising under insurance contracts

10.4 Major customers

Within its two segments, the HENSOLDT Group has two (previous year: three) customers that each generate more than 10.0 % of total revenue. The first customer generated a revenue of € 318.8 million (previous year: € 250.7 million), the revenue with the second customer amounted to € 314.3 million (previous year: € 149.2 million).

11 Revenue and cost of sales

11.1 Revenue

For reporting purposes, HENSOLDT Group distinguishes between two categories for revenue recognition: sales and aftersales. The aftersales category includes mainly revenue related to the sale of goods and/or the provision of services in connection with a previous sale of goods (e.g. sale of spare parts, maintenance). Revenue from the sale of goods and the provision of services that does not fall into the aftersales category is reported as sales.

The following table provides a breakdown of revenue from contracts with customers by revenue recognition category (sales and aftersales) and the point of time of revenue recognition (at a point in time and over time).

in € million	Sensors	Optronics	Fiscal year 2021
Revenue from contracts with customers			
Sales	865.2	292.1	1,157.3
Aftersales	283.3	36.1	319.4
Exchange rate differences	-3.0	0.6	-2.4
Total	**1,145.5**	**328.8**	**1,474.3**

in € million	Sensors	Optronics	Fiscal year 2021
Timing of revenue recognition			
Revenue recognition at a point in time	529.6	300.9	830.5
Revenue recognition over time	618.9	27.4	646.3
Exchange rate differences	-3.0	0.5	-2.5
Total	**1,145.5**	**328.8**	**1,474.3**

in € million	Sensors	Optronics	Fiscal year 2020
Revenue from contracts with customers			
Sales	655.5	246.9	902.3
Aftersales	267.8	35.2	303.0
Exchange rate changes	-0.7	2.3	1.6
Total	**922.5**	**284.4**	**1,206.9**

in € million	Sensors	Optronics	Fiscal year 2020
Timing of revenue recognition			
Revenue recognition at a point in time	480.5	276.1	756.6
Revenue recognition over time	442.7	6.0	448.7
Exchange rate changes	-0.7	2.3	1.6
Total	**922.5**	**284.4**	**1,206.9**

11.2 Contract assets and contract liabilities

in € million	Contract assets	Contract liabilities
As of Jan. 1, 2020	**165.9**	**333.5**
Revenue recognized in the reporting period included in the contract liability balance at the beginning of the period	-	-82.8
Increases due to cash received, except amounts recognized as revenue during the reporting period	-	193.7
Reclassifications from contract assets, recognized at the beginning of the period, to receivables	-33.9	-
Increases due to changes in the determination of stage of completion	79.2	-
Other	-6.8	-11.5
As of Dec. 31, 2020	**204.4**	**432.8**
Revenue recognized in the reporting period included in the contract liability balance at the beginning of the period	-	-233.4
Increases due to cash received, except amounts recognized as revenue during the reporting period	-	311.1
Reclassifications from contract assets, recognized at the beginning of the period, to receivables	-64.7	-
Increases due to changes in the determination of stage of completion	30.0	-
Changes in the estimate of the transaction price or contract modification	-	1.2
Other	0.3	0.4
As of Dec. 31, 2021	**170.0**	**512.1**

An allowance for impairment of € 0.3 million (previous year: € 0.3 million) is included in the carrying amount of the contract assets.

Proceeds from performance obligations which had been (partly) fulfilled in previous periods of € 1.1 million (previous year: € 0.9 million) were recognized in the fiscal year.

11.3 Transaction price for remaining performance obligations

As of December 31, 2021, the total amount of the transaction price allocated to remaining performance obligations amounted to € 5,092 million (previous year: € 3,424 million). Management expects that 24.7 % of this transaction price will be recognized as revenue in the next fiscal year and a further 33.2 % in the period between 2023 and 2024. The remaining 42.2 % will be recognized in fiscal year 2025 and following years.

11.4 Cost of sales

Cost of sales includes amortization from adjustments to the fair values of assets as part of the purchase price allocations of € 63.9 million (previous year: € 68.6 million).

Inventories recognized as an expense in the reporting period amounted to € 971.6 million (previous year: € 774.4 million).

12 Research and development costs

Research and development costs amount to € 31.4 million (previous year: € 25.1 million). Regarding the capitalization of development costs, refer to note 17.

13 Other operating income and expenses

13.1 Other operating income

	Fiscal year	
in € million	2021	2020
Recharged services	17.1	16.5
Adjustments to the fair value of existing shares in entities now subject to consolidation	10.2	-
Others	2.0	2.4
Other operating income	**29.3**	**18.9**

Other operating income relates to income from the adjustment to the fair value of already existing shares in HENSOLDT Cyber of € 10.2 million, in addition to recharged investment costs and maintenance of buildings, building and administration services and IT services.

13.2 Other operating expenses

	Fiscal year	
in € million	2021	2020
Recharged costs	15.7	15.0
Other	2.5	1.1
Other operating expenses	**18.2**	**16.1**

Other operating expenses mainly relate to facility and administrative services.

14 Finance result

	Fiscal year	
in € million	2021	2020
Interest income from plan assets	2.5	2.6
Other interest income	0.3	0.6
Other	1.2	0.9
Interest income	**4.0**	**4.0**
Loan (Term Loan)	-15.3	-108.2
thereof changes in fair value of embedded derivatives	*-*	*-50.9*
thereof catch-up effect from preliminary contract termination	*-*	*-27.9*
Revolving Credit Facility	-4.6	-5.2
Interest expense from swap	-4.4	-4.3
Interest expense on provisions for employee benefits	-7.1	-8.1
Interest expense on lease liabilities	-9.6	-9.7
Other	-0.8	-2.3
Interest expense	**-41.8**	**-137.7**
Bank fees	-3.8	-7.6
Foreign currency translation of monetary items	1.8	-2.0
Other	-1.0	-0.4
Other finance income / costs	**-3.0**	**-10.0**
Finance result	**-40.8**	**-143.7**

15 Income tax

Income taxes are broken down as follows:

	Fiscal year	
in € million	2021	2020
Current tax expense	-20.2	-9.4
thereof income tax attributable to the previous year	*-0.6*	*-0.3*
Deferred taxes	-2.0	20.1
thereof changes in temporary differences	*6.0*	*12.4*
Recognized tax	**-22.2**	**10.7**
Deferred tax recognized directly in equity	-7.5	13.3

For German companies, a corporation tax rate of 15.0 % was used for the calculation of deferred taxes. In addition, a solidarity surcharge of 5.5 % on the corporation tax and a trade tax rate of 12.5 % were taken into account. This resulted in an overall tax rate of 28.3 % for German companies. For international group companies, the respective country-specific tax rates were used for the calculation of current and deferred taxes.

The following table presents the reconciliation of expected tax expense and reported tax expense. Expected tax expense is determined by multiplying the total tax rate of 28.3 % applicable in 2021 by the consolidated profit before tax:

in € million	Fiscal year 2021	2020
Earnings before income tax	84.9	-75.2
Income tax rate	*28.3%*	*28.3%*
Expected income taxes	-24.0	21.3
Effects deriving from differences to the expected tax rate	1.9	-0.3
Change in the tax rate and tax laws	-0.2	-0.1
Taxes for previous years	0.5	1.8
Non-deductible interest expenses	-0.6	-1.2
Other non-deductible expenses and taxes as well as effects from change from permanent balance sheet differences	2.3	-2.3
Tax-exempt income	1.6	0.6
Changes in the realization of deferred tax assets	-2.6	-8.5
Other	-1.1	-0.6
Income tax according to the consolidated income statement	**-22.2**	**10.7**
Effective tax rate in %	*26.2%*	*14.3%*

Deferred tax assets and deferred tax liabilities are recognized in accordance with IAS 12 "Income Taxes" if future tax effects, either due to temporary differences between the carrying amounts of existing assets and liabilities and their tax bases or due to loss carryforwards, are expected. Deferred tax assets and deferred tax liabilities resulting from valuation differences in the balance sheet items are composed as follows:

in € million	Dec. 31, 2021	Dec. 31, 2020
Deferred tax assets		
Assets		
Property, plant and equipment	0.9	0.7
Financial assets	1.1	0.2
Inventories and contract assets	2.2	3.5
Receivables and other assets	2.0	1.7
Liabilities		
Provisions	95.9	96.6
Liabilities	166.6	146.8
Loss carryforwards	**20.6**	**31.8**
Tax credits and interest carry-forwards	**13.8**	**10.2**
Deferred tax assets (gross)	**303.1**	**291.5**
Netting	-292.3	-265.3
Deferred tax assets (net)	**10.8**	**26.3**

in € million	Dec. 31, 2021	Dec. 31, 2020
Deferred tax liabilities		
Assets		
Intangible assets	136.7	131.1
Property, plant and equipment	3.3	3.8
Financial assets	3.9	0.9
Inventories and contract assets	77.3	74.6
Receivables and other assets	0.4	3.0
Liabilities		
Provisions	38.7	23.9
Liabilities	36.1	35.3
Other	**-**	**0.3**
Deferred tax liabilities (gross)	**296.4**	**273.0**
Netting	-292.3	-265.3
Deferred tax liabilities (net)	**4.1**	**7.7**
Excess of deferred tax assets	**6.7**	**18.5**

The assessment whether deferred tax assets are recoverable depends on the management's estimate of the utilization of the deferred tax assets. This is dependent on the availability of future taxable profits in the periods when the tax measurement differences are reversed and the tax loss carryforwards can be utilized.

As of December 31, 2021, the Group did not recognize any deferred tax liabilities for profits of subsidiaries that were not distributed to the parent company. The Group assumes that the profits of its subsidiaries will not be distributed in the foreseeable future. Temporary differences relating to investments in subsidiaries for which no deferred tax liabilities were recognized amounted to € 2.5 million (previous year: € 2.4 million).

As of December 31, 2021, the following loss and interest carryforwards were recognized (gross):

in € million	Dec. 31, 2021	Dec. 31, 2020
Corporation tax loss carry-forwards	143.1	155.6
Trade tax loss carry-forwards	132.7	155.1
Interest carry-forwards	180.3	180.8
Tax credits	0.7	-0.0

No deferred tax assets were recognized for the following loss and interest carryforwards, as the Group deems it unlikely that there will be taxable profits available which the Group can use to recover the tax losses (gross amounts):

in € million	Dec. 31, 2021	Dec. 31, 2020
Corporation tax loss carry-forwards	72.2	44.9
Trade tax loss carry-forwards	61.8	44.9
Interest carry-forwards	125.6	140.1

The tax loss carryforwards for which no deferred tax assets were recognized are indefinitely usable.

16 Earnings per share

Earnings per share are calculated by dividing the earnings attributable to the holders of the parent company's ordinary shares by the weighted average number[2] of ordinary shares outstanding during the year. There were no conversion or option rights outstanding during the current and previous reporting period. Therefore, diluted earnings per share are identical with basic earnings per share.

	Fiscal year	
in € million	2021	2020
Group result attributable to the owners of HENSOLDT AG	62.7	-65.2
Weighted average number of ordinary shares (in million)	105.0	86.6
Basic and diluted earnings per share (in €)	**0.60**	**-0.75**

[2] The earnings per share were, due to the issue of equity to the amount of € 70.0 million from own funds, determined under the assumption that HENSOLDT AG had already issued 80.0 million shares before January 1, 2020.

IV Operating assets and liabilities

17 Intangible assets

Intangible assets (excluding goodwill) consist of the following:

in € million	Licenses, patents and other rights	Other intangible assets	Capitalized development cost	Customer relationship, technology, order backlog, brand	Advance payments and construction in progress	Total
Aquisition Cost						
As of Jan. 1, 2020	**10.2**	**0.3**	**117.3**	**540.8**	**4.0**	**672.7**
Additions	2.8	0.1	62.1	-	1.2	**66.1**
Disposals	-	-	-12.6	-	-	**-12.6**
Reclassifications	-	-	-	-	-2.6	**-2.6**
Currency translation	-	-	-1.5	-	-	**-1.5**
As of Dec. 31, 2020	**13.0**	**0.4**	**165.3**	**540.8**	**2.6**	**722.1**
Acquisition through business combinations	0.0	-	-	9.1	-	**9.1**
Additions	2.0	0.2	66.1	-	2.7	**71.0**
Disposals	-0.0	-	-	-	-0.0	**-0.0**
Reclassifications	0.2	-	-	-	-0.1	**0.1**
Currency translation	0.0	-	0.8	-	-	**0.8**
As of Dec. 31, 2021	**15.2**	**0.6**	**232.2**	**549.9**	**5.2**	**803.1**
Accumulated amortization						
As of Jan. 1, 2020	**-7.1**	**-0.3**	**-24.6**	**-237.3**	**-**	**-269.4**
Additions	-2.5	-0.1	-9.0	-67.9	-	**-79.5**
Disposals	0.0	-	12.6	-	-	**12.6**
Currency translation	-	-	0.3	-	-	**0.3**
As of Dec. 31, 2020	**-9.6**	**-0.4**	**-20.7**	**-305.3**	**-**	**-336.0**
Additions	-2.6	-0.2	-15.7	-63.4	-	**-81.9**
Disposals	0.0	-	-	-	-	**0.0**
Currency translation	-	-	-0.2	-	-	**-0.2**
As of Dec. 31, 2021	**-12.2**	**-0.6**	**-36.6**	**-368.7**	**-**	**-418.1**
Carrying amount						
As of Dec. 31, 2020	**3.4**	**0.0**	**144.6**	**235.5**	**2.6**	**386.1**
As of Dec. 31, 2021	**3.0**	**0.0**	**195.6**	**181.2**	**5.2**	**385.0**

The category "customer relationship, technology, order backlog, brand" includes the HENSOLDT brand with an indefinite useful life. The carrying amount of the HENSOLDT brand amounted to € 55.4 million as of December 31, 2021 (previous year: € 55.4 million).

In fiscal year 2021, no impairment losses were recognized.

17.1 Development costs

In 2021, the Group capitalized development costs of € 66.1 million (previous year: € 62.1 million) as internally generated intangible assets, primarily in the field of air traffic control, navy and ground radar programs in the Sensors segment and sea programs in the Optronics system.

In the fiscal year 2021, two development projects started in previous years were fully impaired amounting to an impairment of € 1.8 million due to changed requirements. The Sensors segment accounted for € 0.8 million and the Optronics segment for € 1.0 million of the impairment expense. The impairment loss was recognized in the cost of sales.

17.2 Goodwill

For impairment testing, goodwill is allocated to the CGUs Sensors and Optronics, which are also operating and reportable segments.

in € million	Sensors	Optronics	Total
As of Jan. 1, 2020	**553.4**	**83.8**	**637.2**
As of Dec. 31, 2020	**553.4**	**83.8**	**637.2**
Additions HENSOLDT Cyber GmbH	14.0	-	14.0
Additions Tellumat (Pty) Ltd.	0.1	-	0.1
As of Dec. 31, 2021	**567.5**	**83.8**	**651.3**

The recoverable amount of both CGUs is based on their value in use, determined by discounting the future cash flows to be generated from continuing use of the CGU. The carrying amount of both CGUs was determined to be lower than their value in use. As the carrying amount of the CGUs did not exceed the value in use of the CGUs, no impairment on goodwill was required.

The calculation of the value in use, which is performed in the fourth quarter of each year as of September 30, is based on a DCF model. The cash flows are derived from the budget for the next three years and do not include restructuring activities, which HENSOLDT Group is not yet obligated to do, nor significant future investments that would improve the performance of the assets of the CGU tested. The recoverable amount depends on the discount rate used for the DCF model, the expected future cash flows and the growth rate used for extrapolation purposes. These estimates are mainly relevant for goodwill and other intangible assets with indefinite useful lives recognized by HENSOLDT.

The following key assumptions were used in the estimation of the value in use:

	Dec. 31, 2021		Dec. 31, 2020	
Assumptions in %	Sensors	Optronics	Sensors	Optronics
Discount rate (post-tax)	5.5%	5.5%	6.0%	6.0%
Sustainable growth rate	1.0%	1.0%	1.0%	1.0%
Projected sustainable EBIT margin	11.9%	15.1%	13.0%	13.0%

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The calculation of the discount rate is based on the specific circumstances of HENSOLDT Group and its operating segments and is derived from its weighted average cost of capital ("WACC"). The WACC takes into account both debt and equity as well as an industry-specific debt ratio. The cost of equity is derived from the market based return on investment expected by the Group's equity investors depending on their risk expectation. The cost of debt is the market based interest rate on borrowings that is applicable on the Group. The industry-specific risk is accounted for by applying a beta factor that is evaluated annually based on publicly available market data. The corresponding pre-tax discount rate amounts to 7.6 % (previous year: 8.0 %) for the CGU Sensors and 7.5 % (previous year: 8.3 %) for the CGU Optronics.

The forecasted cash flows used by HENSOLDT Group in its DCF model are based on the operational business plan. This business plan includes a detailed planning horizon for three years and is, taking into account the long-term nature of the Company's projects, converged into a steady-state on which a terminal value is calculated. The terminal value underlies a sustainable growth rate of 1.0 %.

Based on the market position, HENSOLDT assumes a further significant revenue growth in both operating segments for the detailed planning horizon.

When performing the impairment test for both CGUs, HENSOLDT conducted sensitivity analyses for the sustainable EBIT margin, the discount rate and the sustainable growth rate. These analyses which included varying the essential valuation parameters within an appropriate range did not reveal any risk of impairment to goodwill.

18 Property, plant and equipment

Property, plant and equipment are comprised as follows:

in € million	Land, fixtures and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Construction in progress	Total
Acquisition cost					
As of Jan. 1, 2020	**13.1**	**84.4**	**35.6**	**17.7**	**150.9**
Additions	0.2	16.7	7.6	6.6	**31.0**
Disposals	-0.0	-2.1	-0.4	-0.1	**-2.6**
Reclassifications	1.1	9.5	0.4	-8.5	**2.5**
Currency translation	-0.3	-1.2	-0.4	-0.1	**-2.0**
As of Dec. 31, 2020	**14.1**	**107.3**	**42.8**	**15.6**	**179.8**
Acquisition through business combinations	-	0.0	0.5	-	**0.5**
Additions	1.3	7.9	8.5	12.6	**30.3**
Disposals	-0.0	-2.9	-1.5	-0.0	**-4.4**
Reclassifications	0.6	10.0	1.5	-10.0	**2.1**
Currency translation	0.1	-0.1	0.2	-0.0	**0.2**
As of Dec. 31, 2021	**16.1**	**122.2**	**52.0**	**18.2**	**208.5**
Accumulated depreciation					
As of Jan. 1, 2020	**-1.1**	**-39.7**	**-17.2**	**-**	**-58.0**
Additions	-0.5	-14.6	-6.8	-	**-21.9**
Disposals	-	2.1	0.3	-	**2.4**
Reclassifications	-	0.0	0.1	-	**0.1**
Currency translation	0.0	0.5	0.2	-	**0.7**
As of Dec. 31, 2020	**-1.6**	**-51.7**	**-23.4**	**-**	**-76.7**
Additions	-0.7	-14.6	-8.0	-	**-23.3**
Disposals	0.0	1.2	0.7	-	**1.9**
Reclassifications	-	-2.0	-0.1	-	**-2.1**
Currency translation	-0.1	0.1	-0.1	-	**-0.1**
As of Dec. 31, 2021	**-2.4**	**-67.0**	**-30.9**	**-**	**-100.3**
Carrying amount					
As of Dec. 31, 2020	**12.5**	**55.7**	**19.3**	**15.6**	**103.1**
As of Dec. 31, 2021	**13.7**	**55.2**	**21.1**	**18.2**	**108.2**

In the fiscal year 2021 and in 2020, no impairment losses were recognized.

19 Other investments and other non-current financial assets

in € million	Dec. 31, 2021	Dec. 31, 2020
Other investments	20.5	11.2
Other non-current financial assets	0.1	0.1
Other investments and other non-current financial assets	**20.6**	**11.3**
Other non-current financial assets, due at short-notice	**0.7**	**11.2**
Total	**21.3**	**22.5**

Other investments relate mainly to the investment in Deutsche Elektronik Gesellschaft für Algerien mbH of € 9.3 million (previous year: € 9.3 million) and HENSOLDT Analytics GmbH of € 5.5 million (previous year: € 0 million).

20 Inventories

in € million	Gross amount	Impairment	Net carrying amount Dec. 31, 2021	Net carrying amount Dec. 31, 2020
Raw materials and supplies	232.6	-45.5	187.1	166.5
Work in process	268.6	-37.1	231.5	213.4
Finished goods and parts for resale	38.5	-12.9	25.6	23.7
Total	**539.7**	**-95.5**	**444.2**	**403.7**

Expenses associated with impairments recognized in the consolidated income statement during the fiscal year 2021 amount to € 13.0 million (previous year: € 7.7 million). No significant reversal of impairment losses was recognized as reduction of material cost in the fiscal year.

21 Trade receivables

in € million	Dec. 31, 2021	Dec. 31, 2020
Receivables from sale of goods and services	318.9	294.2
Impairment	-9.7	-12.2
Total	**309.2**	**282.0**

Trade receivables totaling € 99.8 million (previous year: € 129.5 million) were transferred to a factor on the reporting date and were derecognized (so-called “non-recourse factoring”). Other trade receivables of € 3.1 million (previous year: € 3.8 million) do not quality for derecognition since the credit risk is not transferred (so-called “recourse factoring”). For the cash received from the factoring party, a corresponding other financial liability is recognized.

The impairment for doubtful accounts related to trade receivables developed as follows:

in € million	2021	2020
As of Jan. 1	12.2	14.2
Addition	4.5	3.8
Utilization	-3.2	-4.2
Reversal	-3.8	-1.6
Currency translation	-0.0	-0.0
As of Dec. 31	**9.7**	**12.2**

For information on the credit and market risks as well as impairment losses, refer to note 37.

For information on contract assets and liabilities, refer to note 11.

22 Trade payables

As in the previous year, all trade payables as of December 31, 2021, are due within one year.

23 Provisions

The measurement of provisions, e.g. for contract losses, warranties and court proceedings, is based on best available estimates.

in € million	Dec. 31, 2021	Dec. 31, 2020
Pension provisions (note 33)	444.4	429.8
Other provisions	240.4	246.4
Total	**684.8**	**676.2**
thereof non-current	*496.7*	*482.6*
thereof current	*188.1*	*193.6*

Other provisions developed as follows:

in € million	Warranties	Personnel-related provisions	Contract losses	Outstanding costs	Other risks and costs	Total
As of Jan. 1, 2021	**80.4**	**53.1**	**4.0**	**24.7**	**84.2**	**246.4**
Utilization	-25.7	-34.4	-2.6	-14.6	-32.3	**-109.6**
Reversal	-18.3	-1.4	-0.7	-1.1	-11.1	**-32.6**
Additions	44.8	40.6	1.8	16.6	33.2	**137.0**
Assumption through business combinations	-	0.3	-	-	0.1	**0.4**
Exchange rate differences	0.0	-0.0	-	0.0	0.2	**0.2**
Unwinding of discount	-0.0	-	-	-	0.0	**-0.0**
Reclassifications	-	-1.4	-	-	-	**-1.4**
As of Dec. 31, 2021	**81.2**	**56.8**	**2.5**	**25.6**	**74.3**	**240.4**
thereof current	*47.6*	*35.8*	*2.5*	*25.6*	*56.7*	***168.2***
thereof non-current	*33.6*	*21.0*	-	-	*17.6*	***72.2***

Provisions for warranties cover contractual or factual obligations to repair or reimburse for damages or functional defects in products sold within a certain period at the Group's own expense.

Provisions for outstanding costs relate mainly to accruals for supplies not yet invoiced and outstanding own services under long-term construction contracts.

The provisions for other risks and costs relate, among other things, to contract-related provisions for subsequent work on performance obligations already fulfilled.

For the non-current other provisions of the Group, it is generally assumed that they will lead to a cash outflow in the next 2 to 5 years.

24 Legal disputes and damage claims

Legal disputes and damage claims include various proceedings, official investigations and proceedings as well as damage claims that are pending or will be initiated or claimed against the Group in the future. These proceedings are subject to much uncertainty, the result of individual issues cannot be reliably predicted. The Group believes that it has recognized adequate provisions to cover current or potential litigation risks. It is quite possible that the final ruling in some cases could lead to expenses beyond those accounted for in the recognized provisions. The term “quite possible” used here means that the chance of a future occurrence of an event is more than unlikely, however less than likely.

HENSOLDT Group is involved, from time to time, in different court and arbitration proceedings in the course of its normal business operation. In January 2020, a major customer filed an arbitration claim with the contractually agreed arbitration board regarding a partially fulfilled contract and demanded refund of payments already made (at this point of time approximately € 30.2 million plus interest plus incurred expenses of approx. € 2.7 million). HENSOLDT considers the asserted claims to be without merit and filed an arbitration counterclaim in May 2020, asserting a claim for performance of the contract, i.e. for payment in accordance with the underlying contract (at this point of time approx. € 11.5 million plus interest and plus incurred expenses of approx. € 4.0 million). A sufficiently certain statement about the outcome of the arbitration proceedings is still not possible.

Beyond that, the HENSOLDT Group is not currently aware of any official, judicial or arbitration proceedings (including pending and threatened proceedings) during the previous twelve months or longer that could significantly impact or significantly impacted on the Group’s assets, liabilities, financial position and financial performance. As of the reporting date, provisions for legal disputes and damage claims of a negligible amount were recognized under other provisions for other risks and costs.

25 Contingent assets and contingent liabilities

Due to the type of its transactions, the Group is exposed to the risk of contingent liabilities. The following table shows the undiscounted maximum amounts for which HENSOLDT Group is liable as of the reporting date due to major types of guarantees (including sureties):

in € million	Dec. 31, 2021	Dec. 31, 2020
Loan guarantees / sureties	33.0	25.4
Contractual guarantees / sureties	483.9	420.9
Other guarantees and sureties	40.7	50.0
Total	**557.6**	**496.3**

The line item loan guarantees/sureties shows to what extent the HENSOLDT Group is liable for financial obligations to third parties. For loan guarantees/sureties the Group generally guarantees that if the principal debtor does not pay the debt or is not able to pay the debt then the Group will fulfill such financial obligations. The maximum liability coverage corresponds to the utilization of the outstanding liability of the credit or – in the event of credit facilities that can be utilized in variable amounts – the maximum amount that can be claimed. The table includes the maximum liability coverage. The term of these credit guarantees/sureties is usually up to one year. In some cases, there are unlimited credit guaranties/sureties.

In addition, the HENSOLDT Group guarantees the fulfillment of its own contractual obligations, mainly due to advance payments and performance guarantees/sureties. If the HENSOLDT Group does not meet its contractual obligations, the HENSOLDT Group or one of its subsidiaries can be held liable up to an agreed maximum amount. Generally, the terms of these contingent liabilities run up to 10 years. In some cases, they run up to 20 years or there are indefinite contractual guarantees/securities.

The other guarantees and sureties relate to bid bonds and performance -, custom - and rental guarantees.

26 Other financial assets and other financial liabilities

26.1 Other financial assets

in € million	Dec. 31, 2021	Dec. 31, 2020
Positive fair values of derivative financial instruments[1]	0.2	0.3
Miscellaneous other non-current financial assets	0.7	0.7
Total other non-current financial assets	**0.9**	**1.0**
Positive fair values of derivative financial instruments[1]	2.4	5.1
Receivables from employees	1.0	0.8
Miscellaneous other current financial assets	4.0	1.1
Total other current financial assets	**7.4**	**7.1**
Total	**8.3**	**8.0**

[1] refer to note 37

26.2 Other financial liabilities

in € million	Dec. 31, 2021	Dec. 31, 2020
Miscellaneous other non-current financial liabilities	0.0	0.2
Total other non-current financial liabilities	**0.0**	**0.2**
Liabilities for derivative financial instruments[1]	4.2	6.4
Liabilities from factoring contracts[2]	5.8	91.3
Miscellaneous other current financial liabilities	-	0.1
Total other current financial liabilities	**10.0**	**97.8**
Total	**10.0**	**98.0**

[1] refer to note 37
[2] The liabilities from factoring agreements result from the fact that the collection of payments was not yet due as of the balance sheet date.

27 Other assets and liabilities

27.1 Other assets

in € million	Dec. 31, 2021	Dec. 31, 2020
Other	2.7	4.8
Total other non-current assets	**2.7**	**4.8**
Advance payments	146.7	57.9
VAT	16.8	12.5
Miscellaneous other current assets	3.2	8.2
Total other current assets	**166.7**	**78.7**
Total	**169.4**	**83.5**

27.2 Other liabilities

in € million	Dec. 31, 2021	Dec. 31, 2020
Liabilities to employees	10.1	8.9
Total other non-current liabilities	**10.1**	**8.9**
Tax liabilities (not incl. income tax)	47.1	37.2
Liabilities to employees	31.7	30.2
Liabilities to social security agencies	6.6	5.8
Other	8.7	13.7
Total other current liabilities	**94.1**	**86.9**
Total	**104.2**	**95.8**

28 Leases

28.1 Amounts recognized in the consolidated statement of financial position

The following table discloses the carrying amounts of the lease contracts accounted for as rights of use.

in € million	Dec. 31, 2021	Dec. 31, 2020
Land and buildings	134.7	137.9
Technical equipment and machinery	2.9	2.4
Other equipment, operating and office equipment	3.1	3.2
Total	**140.7**	**143.5**

Additions to right-of-use assets in the fiscal year 2021 were € 16.4 million (previous year: € 9.7 million).

The following table discloses the carrying amounts of lease liabilities.

in € million	Dec. 31, 2021	Dec. 31, 2020
Current	16.1	13.7
Non-current	139.5	140.3
Total	**155.6**	**154.0**

For information on the maturity analysis of the lease liability refer to note 37.1.

28.2 Amounts recognized in the consolidated income statement

Depreciation charge for right-of-use assets:

	Fiscal year	
in € million	2021	2020
Land and buildings	17.7	16.2
Technical equipment and machinery	1.0	0.9
Other equipment, operating and office equipment	2.1	2.1
Total depreciation charge	**20.8**	**19.2**

Other amounts recognized in the consolidated income statement:

	Fiscal year	
in € million	2021	2020
Interest on lease liabilities	9.6	9.7
Income from sub-leasing right-of-use assets presented in other revenue	-0.1	-0.1
Expenses related to short-term leases	0.7	0.9
Expenses for leases of an asset of low-value that are not short-term leases	2.8	2.0
Total other amounts recognized in the consolidated income statement	**13.0**	**12.5**

The total cash outflow for lease payments in the fiscal year 2021 amounted to € 26.1 million (previous year: € 24.0 million).

HENSOLDT has several lease contracts that include extension options and termination options. The exercise of such options is decided by the management to provide flexibility in managing the leased-asset portfolio and align with HENSOLDT's business needs. The management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (refer to note 3.9).

V Expenses and employee benefits

29 Number of employees

	Fiscal year	
	2021	2020
Production, research and development, service	4,694	4,354
Sales and distribution	705	661
Administration and general services	217	211
Apprentices, trainees, etc.	577	488
Total[1]	**6,193**	**5,714**

[1]Starting with the current fiscal year the average figures are reported on a per capita basis. The previous year was adjusted accordingly.

30 Personnel expenses

	Fiscal year	
in € million	2021	2020
Wages, salaries	466.4	429.2
Social security contributions	74.1	69.6
Net periodic epension expenses[1]	34.8	27.7
Total	**575.3**	**526.5**

[1]Include past service cost amounting to 3.2 € million

31 Share-based payment

31.1 Long-Term Incentive Plan (LTIP)

In the current fiscal year, a virtual share program for a long-term performance-based remuneration (Long-Term Incentive Plan, “LTIP“) was established for Board members and selected executives. Objective of the LTIP is for beneficiaries to participate in the performance of the Company and to promote the commitment, willingness to perform and loyalty of employees.

The group of beneficiaries is granted a number of virtual shares depending on the employee’s basic remuneration. These virtual shares allow employees to receive the counter-value of the final number of virtual shares as cash settlement at the end of the four-year assessment period. The final number of virtual shares and their value is determined on the basis of the terms and conditions of the plan.

The objectives to be fulfilled for the LTI bonus in the performance period 2021 to 2024 comprise the relative Total Shareholder Return compared to the MDAX, the order intake of HENSOLDT Group and the ESG-based objectives “diversity” and “climate impact“.

The individual components are weighted as follows:

- 40,0 % relative Total Shareholder Return (TSR)
- 30,0 % order intake
- 15,0 % ESG objective “Diversity”
- 15,0 % ESG objective “Climate Impact”

The target achievement of the above criteria can range from 0.0 % to 150.0 %. The value determined on the basis of the weighting and the target achievement of the individual components is multiplied by the number of initially granted virtual shares to determine the payout amount after the end of the assessment period.

The LTI bonus to be paid out as a cash settlement is determined by the number of virtual shares calculated on the basis of the target achievement multiplied with the average closing price of the shares of HENSOLDT AG. The amount to be paid out as LTI bonus is capped at a limit of 200.0 % of the original target amount.

The grant of the virtual shares under the LTIP was classified and measured as a cash-settled share-based payment transaction in accordance with IFRS 2.30. The fair value of the virtual shares is remeasured at each balance sheet date by applying a Monte-Carlo simulation and taking into account the conditions under which such virtual shares were granted.

The development of the virtual shares during the reporting year is as follows:

	Tranche
in € million	2021
Number of virtual shares	319,618
Maximum term (in years)	4
Number of outstanding virtual shares as at January 1, 2021	-
Virtual shares granted during the reporting period	319,618
Number of outstanding virtual shares as at December 31, 2021	**319,618**
Number of exercisable virtual shares as at December 31, 2021	**319,618**

The following parameters were used as basis of the fair value measurement on December 31, 2021.

	Tranche
	2021
Valuation date	31.12.
Remaining term (in years)	3
Volatility	41.34%
Risk-free intererst rate	-0.67%
HENSOLDT share price at the valuation date	12.52

The period from the measurement date to the end of the relevant contract was used as term. The share price was determined via Bloomberg using the closing price of XETRA trading platform on December 31, 2021. The volatility was determined on the basis of the historic volatility of comparable companies over the same residual term. The expected volatility taken into account is based on the assumption that conclusions can be drawn from historic volatility to determine future trends, however, the actual volatility might deviate from these assumptions.

A provision of € 0.8 million (of which € 0.8 million non-current) (previous year: € 0 million) was recognized under other provisions for the LTIP as of December 31, 2021. The expense for the period from January 1, to December 31, 2021, is € 0.8 million (previous year: € 0 million).

31.2 Employee share program (Echo)

In the fiscal year 2021, an employee share program “Echo” was introduced to enable employees of HENSOLDT Group to participate as shareholders in HENSOLDT AG’s economic development and to benefit from a favorable price compared to buying shares of HENSOLDT AG at the stock exchange. This should establish a shareholder culture in the HENSOLDT Group and promote entrepreneurial thinking.

The shares underlying the Echo program are bearer shares without par value (no par value shares).

Each participating person must provide an investment from their net remuneration for acquiring the ordered Echo shares. The maximum amount of the investment was determined upon the selection of the Echo packages. The entity employing the participant grants a surcharge of 50 % of the total value of the relevant echo package. The participant receives Echo shares worth double the amount of their own investment.

In order to determine the number of Echo shares that a participant receives, the relevant total value of the selected Echo package is divided by the reference price. The reference price corresponds to the average price at which shares in HENSOLDT AG were acquired by a fiduciary third party, who holds the shares as trustee for the employees.

Echo shares are subject to a holding period of one year after their acquisition, unless otherwise provided for in the terms and conditions of the program. Echo shares may neither be sold nor transferred during this holding period.

The employee share program "Echo" was classified and measured as an equity-settled share-based payment in accordance with IFRS 2.30. The average price of the shares of HENSOLDT AG during the relevant period can be used directly to determine the fair value and expense under the employee share program and no further valuation models are required.

In the fiscal year 2021, a total of 395,649 shares were acquired by employees at a weighted average price of € 13.60 as part of the employee share program.

The employer's contribution to the employee share program for the period from January 1 to December 31, 2021, is € 2.7 million (previous year: € 0 million).

32 Personnel-related provisions

Several German group entities offer models for lifetime working or retirement accounts, which represent defined benefit plans due to a guaranteed interest on contributions or nominal contributions and are to be classified as post-employment benefits in accordance with IAS 19. Obligations totaling € 20.4 million (previous year: € 17.2 million) are fully offset against the corresponding assets. The regular contributions of employees to their lifetime working accounts lead to a corresponding personnel expense in the reporting period which is recognized in the consolidated income statement.

Other personnel-related provisions developed as follows:

in € million	Long service awards/ bonuses	Partial retirement	Total
As of Jan. 1, 2021	**50.8**	**2.3**	**53.1**
Utilization	-32.1	-2.2	**-34.3**
Reversal	-0.3	-1.1	**-1.4**
Additions	35.0	5.5	**40.5**
Reclassifications	-	-1.4	**-1.4**
Assumption through business combinations	0.3	-	**0.3**
As of Dec. 31, 2021	**53.7**	**3.1**	**56.8**

33 Pension benefits

in € million	Dec. 31, 2021	Dec. 31, 2020
Provisions for employee benefits	258.5	276.5
Provisions for deferred compensation	185.9	153.3
Total	**444.4**	**429.8**

33.1 Provisions for pension obligations

Provisions for German pension obligations (defined benefit obligations, "DBO") are recognized based on defined benefit plans for retirement, invalidity and survivor's pension benefits. The benefits are based on the employee's length of service and remuneration.

Most domestic employees are under the "P3 Plan", which allows a choice between immediate payments of their accumulated benefits, payment in installments or an annuity.

Contractual trust arrangements ("CTA") exist to finance domestic pension obligations. The structure of the CTAs is based on mutual trust agreements. Assets transferred to the CTAs are considered plan assets under IAS 19.

In terms of the significant accounting policies and essential estimates and assessments, e.g. actuarial assumptions, refer to the note 2.8 and note 3.6.

Development of the defined benefit obligations and plan assets

	DBO		Plan assets		Total	
in € million	2021	2020	2021	2020	2021	2020
As of Jan. 1	**488.3**	**428.7**	**211.8**	**203.0**	**276.6**	**225.7**
Expenses for pension benefit entitlements	25.8	22.2	-	-	25.8	22.2
Interest expenses/income	5.3	5.9	2.4	2.7	2.9	3.2
Payments	-5.5	-4.2	-5.3	-3.8	-0.2	-0.4
Actuarial gains/losses deriving from:						
Changes in demographic assumptions	-1.4	-	-	-	-1.4	-
Changes in financial assumptions	-33.2	29.1	-	-	-33.2	29.1
Experience-based adjustments	3.8	9.8	-	-	3.8	9.8
Plan assets	-	-	13.6	9.9	-13.6	-9.9
Other changes in consolidation, transfers	-2.2	-3.2	-	-	-2.2	-3.2
As of Dec. 31	**480.9**	**488.3**	**222.5**	**211.8**	**258.5**	**276.5**

The weighted average term of the DBO for pensions and defined benefit obligations under the pension plan (P3) is 19 years.

As of December 31, reported as:

	Pension plans	
in € million	Dec. 31, 2021	Dec. 31, 2020
Defined benefit obligation	480.9	488.3
Plan assets	-222.5	-211.8
Total	**258.5**	**276.5**

The breakdown of the defined benefit obligation for pension plans between obligations for active, former and retired members for the most important plans is as follows:

in %	Dec. 31, 2021	Dec. 31, 2020
Active employees	75.9%	79.6%
Former employees with vested benefits	5.8%	5.2%
Pensioners	18.3%	15.2%
Total	**100.0%**	**100.0%**

The employer's contributions to state and private pension funds which are mainly made in Germany, is considered as a defined contribution obligation. The contributions made in the fiscal year 2021 amount to € 30.6 million (previous year: € 28.0 million).

The expected employer's contribution to defined benefit plans for the fiscal year 2022 amounts to € 15.2 million (previous year: € 13.9 million).

Changes of the plan terms were made with effect on January 1, 2022. The guaranteed interest rate for the annual interest of German pension obligations was changed, inter alia, to take account of the market circumstances which changed for a longer period of time. The changes in the plan terms resulted in a positive past service cost of € 0.8 million in the fiscal year 2021.

33.2 Provisions for deferred compensation

This amount represents obligations that arise when employees convert a part of their remuneration or bonus into an equivalent entitlement to deferred compensation, which is treated as a defined benefit plan upon termination of employment. The changes of DBO and plan assets are as follows:

Changes in the defined benefit obligations and plan assets

	DBO		Plan assets		Total	
in € million	2021	2020	2021	2020	2021	2020
As of Jan. 1	**167.2**	**147.9**	**13.9**	**15.0**	**153.3**	**132.9**
Expenses for pension benefit entitlements	7.8	3.5	-	-	7.8	3.5
Interest expenses/income	1.8	2.1	0.2	0.2	1.7	1.9
Payments	-1.6	-1.2	0.2	-	-1.8	-1.2
Actuarial gains/losses deriving from						
Changes in demographic assumptions	31.3	-	-	-	31.3	-
Changes in financial assumptions	-14.1	7.5	-	-	-14.1	7.5
Experience-based adjustments	4.4	2.6	-	-	4.4	2.6
Plan assets	-	-	1.0	-1.3	-1.0	1.3
Other changes in consolidation, transfers	-1.3	-0.7	-	-	-1.3	-0.7
Contributions of participants	5.6	5.5	-	-	5.6	5.5
As of Dec. 31	**201.1**	**167.2**	**15.2**	**13.9**	**185.9**	**153.3**

As of December 31, reported as:

	Dec. 31,	Dec. 31,
in Mio. €	2021	2020
Defined benefit obligation	201.1	167.2
Plan assets	-15.2	-13.9
Total	**185.9**	**153.3**

The weighted average term of the DBOs for defined benefit obligations under the deferred compensation is 19 years.

The breakdown of the defined benefit obligations for deferred compensation between obligations for active, former and retired members for the most important plans is as follows:

	Dec. 31,	Dec. 31,
in %	2021	2020
Active employees	76.7%	77.3%
Former employees with vested benefits	8.4%	7.8%
Pensioners	14.9%	14.9%
Total	**100.0%**	**100.0%**

Changes of the plan terms were made with effect on January 1, 2022. The guaranteed interest rate for the annual interest of German pension obligations was changed, inter alia, to take account of the market circumstances which changed for a longer period of time. The changes in the plan terms resulted in a past service cost of € 4.0 million in the fiscal year 2021.

33.3 Sensitivity analyses

The following table shows how the present value of defined benefit obligations of pension plans and deferred compensation would have been affected by changes in actuarial assumptions as prepared as of December 31, 2021:

		Dec. 31, 2021		Dec. 31, 2020	
in € million	Change	Increase	Decrease	Increase	Decrease
Discount rate	by 0.5 percentage points	-61.7	71.8	-52.3	72.8
Wage increase rate	by 0.25 percentage points	0.6	-0.6	0.9	-0.9
Pension increase rate	by 0.25 percentage points	10.2	-0.0	10.3	-0.1
Life expectancy	by 1 year	16.7	-16.6	15.3	-15.3
Exercising the pension option	by 10 percentage points	31.7	-31.7	25.8	-25.8

Sensitivities are calculated using the same method (present value of the defined benefit obligation calculated using the projected unit credit method) as used for the calculation of post-employment benefits. The sensitivity analysis is based on a change of one assumption while maintaining all other assumptions unchanged. This is unlikely to occur in practice. Changes to more than one assumption can correlate, which can have differing effects on the DBOs than the effects as described above. If the assumptions change in different levels, the effects on the defined benefit obligation are not necessarily linear.

Asset-liability matching strategy (investment of plan assets)

The HENSOLDT Group identified the deterioration of the financing status due to an unfavorable development of the fair value of plan assets and/or the defined benefits obligations as a result of changing parameters as a risk.

For this reason, the HENSOLDT treasury department implements a security-oriented investment concept specified by HENSOLDT Strategic Investment Committee, which is focused on the DBOs and the steering and optimization of the plan assets.

The fair value of the plan assets for pensions and deferred compensation can be allocated to the following classes:

	Quoted prices		Unquoted prices		Total	
	Dec. 31,		Dec. 31,		Dec. 31,	
in € million	2021	2020	2021	2020	2021	2020
Other investments	-	-	187.9	179.2	187.9	179.2
Pooled investment instruments	49.7	46.4	-	-	49.7	46.4
Total	**49.7**	**46.4**	**187.9**	**179.2**	**237.6**	**225.6**

Other investments relate to limited partnership interests in HENSOLDT Real Estate GmbH & Co. KG., Taufkirchen, and in HENSOLDT Real Estate Oberkochen GmbH & Co. KG, Taufkirchen, founded in the fiscal year 2021.

VI Capital structure and financial instruments

34 Equity

34.1 Equity attributable to owners of the parent company

As of December 31, 2021, the parent company is HENSOLDT AG.

As of December 31, 2021, the subscribed capital of HENSOLDT AG still amounts to € 105.0 million as in the previous year and is divided into 105,000,000 ordinary bearer shares (no-par value shares).

From the capital increase in September 2020, € 275.0 million, less € 4.9 million of non-offsettable transaction costs and fees of the banks accompanying the IPO, have been allocated to the capital reserve.

In accordance with the articles of association, the share capital of the Company may be increased by the Executive Board until August 11, 2025, with the approval of the Supervisory Board, by issuing new ordinary bearer shares against cash and/or non-cash contributions on one or more occasions by up to a total of € 36.0 million (Authorized Capital 2020/I). The Company has not used the Authorized Capital 2020/I until December 31, 2021. Accordingly, the Authorized Capital 2020/I amounts to € 36.0 million on December 31, 2021.

In addition, the share capital of the Company has been conditionally increased by up to € 16.0 million by issuing up to 16,000,000 new no-par value bearer shares on or before August 11, 2025, against contributions in cash or in kind (Conditional Capital 2020/I). The conditional capital increase shall only be implemented to the extent that the holders or creditors of option or conversion rights or those obliged to exercise the conversion/option exercise their option or conversion rights or, to the extent that they are obligated to exercise the conversion/option, fulfill their obligation to exercise the conversion/option or to the extent that the Company exercises an option to grant shares in the Company in whole or in part instead of payment of the cash amount due. The Company has not used the Conditional Capital 2020/I until December 31, 2021. Accordingly, the Authorized Capital 2020/I amounts to € 16.0 million on December 31, 2021.

Other reserves include cumulative other comprehensive income.

Retained earnings contain earnings of the companies included in the Consolidated Financial Statements including earnings in the current fiscal year, provided these have not been distributed.

34.2 Non-controlling interests

The non-controlling interests reflect the share of other shareholders in the net asset value of consolidated subsidiaries.

in € million	HENSOLDT South Africa (Pty) Ltd.	GEW Technologies (Pty) Ltd.	Midi Ingénierie S.A.S.	HENSOLDT Cyber GmbH	Total	Intragroup eliminations/ adjustments	Dec. 31, 2021
Percentage of non-controlling interests	**30.0%**	**6.7%**	**15.0%**	**30.0%**			
Non-current assets	15.2	7.2	0.1	1.2	**23.7**	-	**23.7**
Current assets	71.1	48.1	3.4	0.7	**123.3**	-	**123.3**
Non-current liabilities	-3.0	-0.5	-0.2	-12.9	**-16.6**	-	**-16.6**
Current liabilities	-47.0	-24.0	-1.0	-1.0	**-73.0**	-	**-73.0**
Net assets	**36.3**	**30.8**	**2.3**	**-12.0**	**57.4**	**-**	**57.4**
Net assets of non-controlling interests	**10.9**	**2.1**	**0.3**	**-3.6**	**9.7**	**1.4**	**11.1**
Revenue	63.2	29.6	3.4	4.0	**100.2**	-	**100.2**
Profit/ loss	2.0	-0.2	0.5	-2.5	**-0.2**	-	**-0.2**
Other comprehensive income/loss	-0.1	-0.5	0.0	-	**-0.6**	-	**-0.6**
Total comprehensive income/loss	**1.9**	**-0.7**	**0.5**	**-2.5**	**-0.8**	**-**	**-0.8**
Profit attributable to non-controlling interests	**0.6**	**-0.0**	**0.1**	**-0.8**	**-0.0**	**-**	**-0.0**
Other comprehensive income/loss attributable to non-controlling interests	**-0.1**	**-0.0**	**0.0**	**-**	**-0.1**	**-**	**-0.1**
Cash flows from operating activities	3.9	7.5	1.9	-1.3	**12.0**	-	**12.0**
Cash flows from investing activities	-8.8	-1.6	-0.0	0.1	**-10.3**	-	**-10.3**
Cash flows from financing activities	6.3	-0.5	-1.0	1.2	**6.0**	-	**6.0**
thereof dividends of non-controlling interests	-	*-0.0*	*-0.2*	-	***-0.2***	-	***-0.2***
Effects of movements in exchange rates on cash and cash equivalents	-0.1	-0.2	-	-	**-0.3**	-	**-0.3**
Net increase (decrease) in cash and cash equivalents	**1.3**	**5.2**	**0.9**	**0.0**	**7.4**	**-**	**7.4**

[1] HENSOLDT Cyber GmbH as of June 1, 2021

in € million	HENSOLDT South Africa (Pty) Ltd.	GEW Technologies (Pty) Ltd.	Midi Ingénierie S.A.S.	Gesamt	Intragroup eliminations/ adjustments	Dec. 31, 2020
Percentage of non-controlling interests	**30.0%**	**6.7%**	**15.0%**			
Non-current assets	9.8	6.6	0.1	**16.5**	-	**16.5**
Current assets	51.5	46.1	3.6	**101.2**	-	**101.2**
Non-current liabilities	-2.9	-0.7	-0.3	**-3.9**	-	**-3.9**
Current liabilities	-23.9	-20.0	-0.6	**-44.6**	-	**-44.6**
Net assets	**34.4**	**32.0**	**2.8**	**69.2**	**-**	**69.2**
Net assets of non-controlling interests	**10.3**	**2.1**	**0.4**	**12.9**	**-**	**12.9**
Revenue	39.9	32.9	3.8	**76.6**	-	**76.6**
Profit	1.6	1.7	1.0	**4.3**	-	**4.3**
Other comprehensive income/ loss	-4.6	-5.2	-0.1	**-9.9**	-	**-9.9**
Total comprehensive income/loss	**-3.0**	**-3.5**	**0.9**	**-5.6**	**-**	**-5.6**
Profit attributable to non-controlling interests	**0.5**	**0.1**	**0.1**	**0.7**	**-**	**0.7**
Other comprehensive income/loss attributable to non-controlling interests	**-1.4**	**-0.4**	**-0.0**	**-1.7**	**0.3**	**-1.4**
Cash flows from operating activities	4.4	-5.5	0.1	**-1.0**	-	**-1.0**
Cash flows from investing activities	-1.0	-0.7	-0.0	**-1.7**	-	**-1.7**
Cash flows from financing activities	-1.8	-1.3	-2.7	**-5.8**	-	**-5.8**
thereof dividends of non-controlling interests	*-*	*-0.1*	*-0.2*	***-0.3***	*-*	***-0.3***
Effects of movements in exchange rates on cash and cash equivalents	-0.1	-3.2	-	**-3.3**	-	**-3.3**
Net increase (decrease) in cash and cash equivalents	**1.5**	**-10.7**	**-2.6**	**-11.7**	**-**	**-11.7**

Under corporate law, the non-controlling shareholder of GEW Technologies (Pty) Ltd. has a 25.0 % interest in GEW Technologies (Pty) Ltd. and its subsidiary GEW Integrated Systems (Pty). The non-controlling shareholder was issued with 500 shares, of which 392 shares are treated as treasury shares until full payment of the purchase price. This results in a financial stake of non-controlling interests of 6.7 %. In connection with the shares considered as treasury shares, there is a put option in favor of the non-controlling shareholder which is recognized at market value under other non-current financial liabilities, if the shares exceed the deferred purchase price. Due to a decrease in the pro rata market value of GEW Technologies (Pty) Ltd., the value of the put option has been below the deferred purchase price since December 2019. Therefore, no other non-current financial liabilities were recognized as of this date.

Under corporate law, the non-controlling shareholder of HENSOLDT Cyber holds a 49.0 % interest in HENSOLDT Cyber. Taking into account the potential voting rights arising from conversion rights which are associated with the loans granted to HENSOLDT Cyber, HENSOLDT holds a financial interest of 70.0 % in HENSOLDT Cyber GmbH.

35 Capital management

The capital structure of the HENSOLDT Group is made up of equity capital attributable to the shareholders of the parent company and of debt capital. A capital structure which optimizes capital costs of equity and debt is being targeted. The Group is not subject to any statutory capital requirements.

The non-current syndicated loan agreement (Term Loan) is, like the previous loan, tied to compliance with a financial covenant that refers to the ratio of net liabilities to adjusted earnings before interest, taxes, depreciation and amortization (consolidated EBITDA) as defined in the Senior Facility Agreement. In the fiscal year 2021, the financing conditions were fulfilled at all times. The availability and conditions of the loan are tied to this financial covenant. In the event of a non-compliance, the financing partners are authorized to terminate the syndicated loan. There are no indications that the covenant cannot be fully complied with in the foreseeable future (refer to note 37).

In order to hedge against changes in exchange rates, the Group concludes derivative hedging contracts for loans in foreign currency.

The Group has interest rate swap agreements to hedge the variable-rate term loan until the beginning of 2022.

36 Net debt

in € million	Dec. 31, 2021	Dec. 31, 2020
Cash and cash equivalents	529.3	645.5
Non-current financing liabilities	-622.0	-601.3
Current financing liabilities	-166.3	-363.3
Total	**-259.0**	**-319.2**

36.1 Cash and cash equivalents

Cash and cash equivalents consist of the following items:

in € million	Dec. 31, 2021	Dec. 31, 2020
Cash and cash equivalents	529.3	645.5
Total	**529.3**	**645.5**

36.2 Financing liabilities

Financing liabilities consist of current and non-current loans.

The conditions and repayment schedules of the loans as of December 31, 2021, are as follows:

Loans	Capital amount in € million	Issue date	Coupon or interest rate	Interest	Effective interest rate	Due date
Loan (Term Loan)	620.0	09/30/2020	3M Euribor + 2.25%	variable	2.65%	09/29/2025
Revolving Credit Facility	150.1	09/30/2020	3M Euribor + 2.00%	variable	2.00%	09/29/2025
Loan (CM Nexeya)	3.0	04/30/2021	0.70%	fix	2.09%	04/30/2026
Loan (BNP Nexeya)	7.3	04/30/2021	0.75%	fix	0.91%	04/23/2026
Loan (BPI France)	0.6	12/08/2017	1.31%	fix	1.64%	06/30/2025
Loan (HENSOLDT Avionics)	0.1	07/27/2020	2.78%	fix	4.84%	06/30/2023
Overdraft Facility (HENSOLDT South Africa)	11.1	10/31/2018	7.00%	fix	7.00%	03/31/2022

The conditions and repayment schedules of the loans as of December 31, 2020, are as follows:

Loans	Capital amount in € million	Issue date	Coupon or interest rate	Interest	Effective interest rate	Due date
Loan (Term Loan)	600.0	09/30/2020	3M Euribor + 2.25%	variable	2.64%	09/29/2025
Revolving Credit Facility	350.0	09/30/2020	3M Euribor + 2.00%	variable	2.00%	09/29/2025
Loan (BPI France)	1.7	11/29/2017	zero-floored 3M-Euribor + 0.40%	variable	0.73%	12/31/2021
Loan (PGE)	3.0	04/30/2020	0.00%	fix	0.00%	04/30/2021
Loan (PGE)	7.0	03/23/2020	0.00%	fix	0.00%	03/23/2021
Loan (BPI France)	0.7	12/08/2017	1.31%	fix	1.64%	06/30/2025
Loan (HENSOLDT Avionics)	0.1	07/27/2020	2.78%	fix	4.84%	06/30/2023
Overdraft Facility (HENSOLDT South Africa)	6.4	10/31/2018	7.00%	fix	7.00%	01/21/2021

In connection with the IPO, HENSOLDT AG has restructured its liabilities as of September 30, 2020. For this purpose, a new syndicated loan agreement ("Senior Facility Agreement") consisting of a term loan in the amount of € 600.0 million and a revolving credit facility ("RCF") in the amount of € 350.0 million was concluded. In November 2021, the loan and the revolving credit line of the syndicated loan were increased by € 20.0 million each to a total of € 990.0 million. As of the balance sheet date, the RCF was utilized in the amount of € 150.1 million (previous year: € 350.0 million). It is repayable at short notice.

The post-IPO financing is secured by HENSOLDT AG pledging its shares in the subsidiaries HENSOLDT Holding GmbH, HENSOLDT Holding Germany GmbH, HENSOLDT Sensors GmbH, HENSOLDT Optronics GmbH, HENSOLDT Holding France S.A.S. and HENSOLDT Nexeya France S.A.S.

The transaction costs incurred for obtaining the term loan are allocated to the loan in the application of the effective interest rate method. The transaction costs for the RCF have been capitalized as other assets and are amortized over the term of the agreement.

For the South African subsidiary HENSOLDT South Africa (Pty) Ltd., the existing credit line was prolonged and increased to the amount of ZAR 240.0 million, of which € 11.1 million (ZAR 199.8 million) was drawn as of December 31, 2021.

In addition, the French subsidiary HENSOLDT Nexeya S.A.S. repaid the government-guaranteed loans with a total value of € 10.0 million which it had raised in the course of the COVID-19 pandemic and raised, in return, new loans totaling € 10.3 million. A further loan in the amount of € 0.6 million exists since 2017. The loans are unsecured.

The total amounts of financial liabilities to banks and shareholder as of December 31, 2021, amount to:

in € million	< 1 year	1 to 5 years	> 5 years	Total
Liabilities to banks	166.3	622.0	-	788.3
As of December 31, 2021	**166.3**	**622.0**	**-**	**788.3**

It includes liabilities from recourse factoring amounting to € 3.1 million (previous year: € 3.8 million). Furthermore, as of the reporting date, other current financial liabilities in the amount € 5.8 million (previous year: € 91.3 million) existed from cash receipts from transferred receivables which shall be forwarded to the factor on the due date.

in € million	< 1 year	1 to 5 years	> 5 years	Total
Liabilities to banks	363.3	601.3	-	964.7
As of December 31, 2020	**363.3**	**601.3**	**-**	**964.7**

36.3 The reconciliation of changes in financial liabilities to cash flows from financing activities

The following table shows the cash flows from financing activities in a reconciliation from the opening balances to the closing balances for the liabilities and equity components attributable to financing activities including the accompanying financial assets and liabilities from hedging transactions of these financing activities.

			Non-cash changes			
in € million	Jan. 1, 2021	Net cash changes	Change in Consol. group	Changes in fair value	Other changes	Dec. 31, 2021
Non-current borrowing						
Loan (Term Loan)	591.6	20.0	-	-	1.5	**613.1**
Bank loans (net)	9.7	-0.8	-	-	-	**8.9**
Current borrowing						
Current borrowing	363.3	-197.0	-	-	-	**166.3**
Other financing liabilities	91.7	-89.0	-	-	3.1	**5.8**
Change in financing liabilities due to financing activities	**1,056.3**	**-266.8**	**-**	**-**	**4.6**	**794.1**
Change in lease liabilities	**154.0**	**-16.5**	**0.9**	**-**	**17.2**	**155.6**
Share capital	105.0	-	-	-	-	**105.0**
Capital reserve	596.8	-13.7	-	-	0.1	**583.2**
Other reserves	-86.3	-	-	-	15.8	**-70.5**
Retained earnings	-281.6	-	-	-	63.2	**-218.4**
Non-controlling interests	12.9	-0.2	-	-	-1.6	**11.1**
Change in equity due to financing activities	**346.8**	**-13.9**	**-**	**-**	**77.5**	**410.4**
Change in assets (-) and liabilities (+) to hedge non-current borrowing	5.6	-	-	-4.5	-	**1.1**
Cash flow from financing activities		**-297.2**				

			Non-cash changes			
in € million	Jan. 1, 2020	Net cash changes	Change in Consol. group	Changes in fair value	Other changes	Dec. 31, 2020
Non-current borrowing						
Repayment Term Loan	887.7	-920.0	-	-	32.3	**-**
Proceeds Term Loan	-	600.0	-	-	-8.4	**591.6**
Bank loans (net)	-	10.0	-	-	-0.3	**9.7**
Current borrowing						
Current borrowing	11.3	353.2	-	-	-1.2	**363.3**
Other financing liabilities	7.7	84.0	-	-	-	**91.7**
Change in financing liabilities due to financing activities	**906.7**	**127.2**	**-**	**-**	**22.4**	**1,056.3**
Lease liabilties	**160.5**	**-14.3**	**-**	**-**	**7.8**	**154.0**
Share capital	10.0	25.0	-	-	70.0	**105.0**
Capital reserve	396.7	273.4	-	-	-73.4	**596.8**
Other reserves	-49.8	-	-	-	-36.5	**-86.3**
Retained earnings	-215.8	-	-	-	-65.8	**-281.6**
Non-Controlling interests	13.6	-0.2	-	-	-0.4	**12.9**
Change in equity due to financing activities	**154.8**	**298.1**	**-**	**-**	**-106.1**	**346.8**
Change in assets (-) and liabilities (+) to hedge non-current borrowing	-41.3	-	-	46.9	-	**5.6**
Cash flow from financing activities		**411.0**				

37 Information on financial instruments

37.1 Financial risk management

The Group is exposed to a range of financial risks on account of its activity: (i) market risks, in particular foreign exchange risk and interest rate risk, (ii) liquidity risk and (iii) credit risk.

Overall, the Group's financial risk management system concentrates on minimizing unforeseeable market risks and their potential negative effects on the Group's operating and financial performance.

The Group's financial risk management is carried out in compliance with the guidelines approved by the Chief Financial Officer.

Further information on risks relating to financial instruments can be found in the risk report of the Combined Management Report, which is prepared in addition to the IFRS Consolidated Financial Statements.

The Group uses financial derivatives exclusively to mitigate risks (hedging) and applies hedge accounting for a minor part of its hedging portfolio.

Market risk

Foreign exchange risk

The Group is exposed to foreign exchange risks due to its operations in various countries around the globe that do not use the Euro.

For orders received that are invoiced in foreign currency, the Group concludes forward exchange transactions in order to rule out or minimize foreign exchange risks. The necessary measures and rules related to the hedging of orders not invoiced in € are set out in the Group-wide treasury policy.

The Group's main hedging instruments are forward exchange transactions.

Related to hedging its foreign currency transactions in South Africa, the Group uses the cash flow hedge accounting model.

In the current fiscal year, a gain on foreign currency translation of € 2.1 million (previous year: loss of € 0.5 million) was recognized in the consolidated income statement. Income of € 9.7 million (previous year: € 3.8 million) was offset by expenses of € 7.6 million (previous year: € 4.3 million).

Sensitivity of the foreign exchange risk

The sensitivity analysis approximately quantifies the risk that can occur based on set assumptions if certain parameters are changed to a defined extent. Currency risks pertain in particular to the US dollar (USD), South African rand (ZAR) and pound sterling (GBP).

The following disclosures describe the Group's view of the sensitivity of an increase or decrease in the USD, ZAR and GBP against the Euro. The change is the value used in the internal reporting of exchange rate risk and represents the Group´s assessment regarding a possible change in exchange rates. Currency risks within the meaning of IFRS 7 result from financial instruments that are denominated in a currency other than the functional currency and are of a monetary nature. Translation differences from the translation of financial statements of foreign group entities into the Group's currency remain unconsidered. The sensitivity analysis includes the HENSOLDT Group's main financial instruments outstanding on the reporting date.

If the Euro had appreciated/depreciated by 20.0 % or 50.0 % against the USD, ZAR and GBP as of December 31, 2021, or 2020, the consolidated profit and other income would have changed in the manner shown below:

in € million	Changes in the amount of	Dec. 31, 2021	Changes in the amount of	Dec. 31, 2020
EUR/GBP	+/- 20.0%	-5.4 / 8.1	+/- 20.0%	-5.3 / 8.0
EUR/ZAR	+/- 50.0%	-2.4 / 7.1	+/- 50.0%	-1.3 / 2.0
EUR/USD	+/- 20.0%	-8.1 / 12.2	+/- 20.0%	-5.3 / 7.9

The changes compared to the reported consolidated profit result mainly from financial instruments that are denominated in a foreign currency. Foreign currency exposure is hedged using a macro-hedging approach. In this analysis, it was assumed that all other influencing factors remain equal.

Interest rate risk

The Group is exposed to interest rate risks due to its borrowing at fixed and floating rates. Interest rate risks are a result in particular of variable portions of interest, which depend on current market interest rates; these have an impact on the cash flow from financing activities. The cash flow risk is mainly due to the change in market interest rates. An increase in the market interest rate implies the risk of an increasing negative cash flow from financing activities, and vice versa.

Interest rate swaps were concluded for the variable interest-bearing syndicated loan. The changes in the fair values of interest rate derivatives are recognized in the consolidated income statement.

Sensitivity of the interest rate risk

A change of +/- 50 base points in interest rates as of the reporting date would have decreased/increased equity and the consolidated loss by € 0.0 or € 0.0 (previous year: € 5.5 million or € 0.1 million). The reason is that the Euribor has not exceeded -50 base points during the entire observation period and thus an interest rate floor of 0.0 % was used, also in all shock scenarios. In addition, the swaps will expire in the first quarter of 2022. This analysis assumed that all other variables, in particular exchange rates, remain constant.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents at all times in order to be able to meet current and future obligations when due. The Group manages its liquidity by retaining a sufficient amount of liquid assets.

Adverse developments on the capital markets could increase the Group's borrowing costs and limit its financial flexibility. Management monitors the Group's cash reserves as well as the expected cash flows from operating activities.

The contract terms of the Group's financial liabilities, based on undiscounted cash flows and including interest payments – where applicable – are as follows:

in € million	Carrying amount	Contractual cash flows	< 1 year	1 to 5 years	> 5 years
Non-derivative financial liabilities					
Banks	788.3	835.5	166.5	669.0	-
Other	274.9	274.9	274.9	-	-
Derivative financial liabilities					
Interest rate swaps	1.1	1.1	-	1.1	-
Forward exchange transactions	3.1	3.1	3.1	0.0	-
Lease liabilities	155.6	200.0	26.0	91.4	82.6
As of Dec. 31, 2021	**1,223.0**	**1,314.7**	**470.5**	**761.5**	**82.6**

in € million	Carrying amount	Contractual cash flows	< 1 year	1 to 5 years	> 5 years
Non-derivative financial liabilities					
Banks	964.7	1,036.2	383.7	652.5	-
Other	255.6	255.6	255.6	-	-
Derivative financial liabilities					
Interest rate swaps	5.6	5.6	-	5.6	-
Forward exchange transactions	0.8	0.8	0.8	-	-
Lease liabilities	154.0	205.9	23.5	85.8	96.6
As of Dec. 31, 2020	**1,380.6**	**1,504.1**	**663.6**	**743.9**	**96.6**

HENSOLDT Group's liquidity risks relate primarily to the compliance with the financial covenants agreed upon with the banks in the context of corporate financing, which in the course of the restructuring under company laws and refinancing caused by the IPO, were renegotiated in the previous year.

The Senior Facility Agreement defines certain financial covenants. In case of non-compliance with the covenants, the lenders are entitled to terminate the loan. This could result in a going concern risk for the HENSOLDT Group if no alternative funding would be available at the time when the liabilities to banks fall due. The agreed target values have been set in such a way that the Group only runs the risk of not complying with them in the event of an extreme deterioration of its financial situation. Furthermore, the Group can obtain the banks' approval at an early stage to exceed or fall below the set values. The financial ratios are monitored on an ongoing basis.

The HENSOLDT Group's aim is compliance with the financial covenant at all times and to ensure via monthly simulations of budgets that the financial covenants will be complied with in future quarters.

The probability of occurrence of the risk of non-compliance with financial covenants is considered to be low.

For short-term liquidity management, group-wide rolling liquidity planning, updated bi-weekly, is used and this constitutes the operative instrument for short-term liquidity management of the HENSOLDT Group. Moreover, liquidity is ensured at all times via a revolving credit facility ("RCF") of € 370.0 million.

Credit risk

The Group is exposed to a credit risk from non-fulfillment of financial instruments, either by customers or counterparties to the financial instruments. However, the Group prepared guidelines in order to avoid the concentration of credit risks and to ensure that the credit risk remains limited.

Where activities of the central treasury department of the Group are affected, the credit risk resulting from financial instruments is managed at group level.

The Group monitors the development of individual financial instruments and the impact of market developments on their performance and takes appropriate measures in the event of foreseeable unfavorable developments on the basis of predefined procedures and escalation levels.

Products and services are sold to customers following a proper internal credit check.

The recognized amount of the financial assets, including contract assets, represents the maximum credit risk.

Assessment of the expected credit losses for customers

The estimated expected credit losses on trade receivables were calculated on the basis of actual credit losses in recent years. Credit risks were segmented according to common credit risk attributes. These are the risk assessments on the basis of rating grades of the Standard & Poor's rating agency and taking into account the geographic location.

The following table includes information on the credit risk and the expected credit losses for trade receivables as well as contract assets as of December 31:

in € million	Rating at Standard & Poor's	Loss rate (weighted average)	Gross carrying amount	Loss allowance	Impaired credit-worthiness
Rating 1-6: low risk	BBB- to AAA	0.0%	229.7	-0.1	No
Rating 7-9: moderate risk	BB- to BB+	0.4%	258.4	-0.9	No
Rating 10: below average	B- to CCC-	3.5%	0.8	-0.0	No
Rating 11: doubtful	C to CC	-	-	-	Yes
Rating 12: loss	D	-	-	-	Yes
Total allowance level 1 and 2				-1.0	
Specific allowance level 3				-8.7	Yes
As of Dec. 31, 2021			**488.9**	**-9.7**	

in € million	Rating at Standard & Poor's	Loss rate (weighted average)	Gross carrying amount	Loss allowance	Impaired credit-worthiness
Rating 1-6: low risk	BBB- to AAA	0.1%	249.4	-0.4	No
Rating 7-9: moderate risk	BB- to BB+	0.2%	245.3	-0.5	No
Rating 10: below average	B- to CCC-	1.1%	3.9	-0.0	No
Rating 11: doubtful	C to CC	-	-	-	Yes
Rating 12: loss	D	-	-	-	Yes
Total allowance level 1 and 2				-0.9	
Specific allowance level 3				-11.3	Yes
As of Dec. 31, 2020			**498.6**	**-12.2**	

The changes of the loss rates compared to the previous year are due to an increase or decrease of the default risks in different classifications.

in € million	Dec. 31, 2021	Dec. 31, 2020
Contract assets	170.0	204.4
Trade receivables	309.2	282.0
Total	**479.2**	**486.4**

Expected credit losses for other financial assets in the scope of the IFRS 9 impairment requirements have not been recognized due to materiality.

37.2 Carrying amounts and fair values of financial instruments

The Group's financial assets mainly consist of cash, short and medium-term deposits and trade receivables. The financial liabilities include trade payables and payables to financial institutions. All purchases and sales of financial assets are recorded on the settlement date in line with market convention.

Within the Group, derivates that are not designated as hedging relationship pursuant to IFRS, are classified as "FVtPL".

The HENSOLDT Group classifies its financial instruments based on their accounting category. The following tables include the carrying amounts and fair values of financial instruments according to class and valuation category as of December 31, 2021, and 2020:

in € million	Category	Carrying amount	Fair value	Level
Assets				
Other investments and other non-current financial assets[1]	FVtOCI	20.6	20.6	-
Other non-current financial assets, due on short-notice	AC	0.7	0.7	-
Trade receivables	AC	209.4	209.4	-
Trade receivables (designated for factoring)[1]	FVtOCI	99.8	99.8	-
Other financial assets				
Other derivative instruments	FVtPL	2.6	2.6	2
Non-derivative instruments[1]	AC	5.7	5.7	-
Cash and cash equivalents	AC	529.3	529.3	1
Total financial assets		**868.1**	**868.1**	
Liabilities				
Financing liabilities				
Liabilities to banks	FLAC	788.3	616.4	2
Trade payables	FLAC	269.1	269.1	-
Other financial liabilities				
Derivative instruments for cash flow hedges	FVtOCI	0.3	0.3	2
Other derivative instruments	FVtPL	3.9	3.9	2
Liability from put option	FVtPL	-	-	3
Other miscellanous financial liabilities	FLAC	5.8	5.8	-
Total financial liabilities		**1,067.4**	**895.5**	

[1] Fair value corresponds to amortized cost due to materiality considerations

in € million	Category	Carrying amount	Fair value	Level
Assets				
Other investments and other non-current financial assets[1]	FVtOCI	11.3	11.3	-
Other non-current financial assets, due on short-notice	AC	11.2	11.2	-
Trade receivables	AC	240.1	240.1	-
Trade receivables (intented for factoring)[1]	FVtOCI	41.9	41.9	-
Other financial assets:				
Other derivative instruments	FVtOCI	0.4	0.4	2
Other derivative instruments	FVtPL	5.0	5.0	2
Non-derivative instruments[1]	AC	2.7	2.7	-
Cash and cash equivalents	AC	645.5	645.5	1
Total financial assets		**958.1**	**958.1**	
Liabilities				
Financing liabilities				
Liabilities to banks	FLAC	964.7	971.1	2
Trade payables	FLAC	164.0	164.0	-
Other financial liabilities:				
Other derivative instruments	FVtPL	6.4	6.4	2
Liability from put option	FVtPL	-	-	3
Other miscellanous financial liabilities	FLAC	91.7	91.7	-
Total financial liabilities		**1,226.6**	**1,233.1**	

[1] Fair value corresponds to amortized cost due to materiality considerations

There is a put option (fair value € 0 million) in favor of the non-controlling shareholder of GEW Technologies (Pty) Ltd. (refer to note 34.2).

The nominal values of the derivative financial instruments were as follows:

	Remaining term nominal amounts					
	under 1 year		over 1 year		total	
in € million	2021	2020	2021	2020	2021	2020
Interest rate futures						
Swaps	920.0	-	-	920.0	920.0	920.0
Forward exchange transactions	133.4	84.8	49.7	5.8	183.1	90.6
Average EUR:USD forward rate	*1.18*	*1.22*	*1.14*	*1.23*	-	-
Average EUR:GBP forward rate	*0.86*	*0.90*	-	-	-	-
Average EUR:GBP forward rate	*1.46*	-	-	-	-	-

The fair values of the derivative financial instruments were as follows:

	Assets		Liabilities	
	Dec. 31,		Dec. 31,	
in € million	2021	2020	2021	2020
Foreign exchange contracts				
Cash flow hedges	-	0.4	0.3	-
not designated in a hedging relationship	2.7	5.0	2.8	0.8
Interest rate derivatives				
not designated in a hedging relationship	-	-	1.1	5.6
Total	**2.7**	**5.4**	**4.2**	**6.4**

37.3 Disclosures on hedge accounting

The development of hedging instruments for foreign exchange risks recorded in other comprehensive income as of December 31, 2020, or 2021, is as follows:

in € million	Equity attributable to the owners of the HENSOLDT AG	Non-controlling interests	Total
As of Jan. 1, 2020	**-4.1**	**-0.3**	**-4.4**
Unrealized valuation gains (+) and losses (-)	-1.7	-0.6	**-2.3**
Reclassification to consolidated income/loss	0.9	0.1	**0.9**
Deferred taxes on unrealized valuation gains	0.3	0.1	**0.4**
Change	**-0.6**	**-0.4**	**-1.0**
As of Dec. 31, 2020	**-4.7**	**-0.7**	**-5.5**
Unrealized valuation gains (+) and losses (-)	-0.5	-0.0	**-0.5**
Reclassification to consolidated income/loss	-0.2	-0.0	**-0.2**
Deferred taxes on unrealized valuation gains/losses	0.3	0.0	**0.3**
Change	**-0.4**	**-0.0**	**-0.4**
As of Dec. 31, 2021	**-5.1**	**-0.7**	**-5.8**

The carrying amount of the derivatives used as hedging instruments is € -0.3 million (previous year: € 0.4 million) and is disclosed in other financial assets. An amount of € 0.2 million (previous year: € 0.9 million) under due cashflow hedges was reclassified mainly from equity to revenue. There were no material inefficiencies from hedging relationships in both the fiscal year 2021 and the previous year.

The nominal value of derivative financial instruments used as hedging instruments amounts to € 5.4 million (previous year: € 0.4 million) and has a term of less than one year.

37.4 Net gains or net losses

The following net gains or net losses on measurement of the financial assets and financial liabilities were recognized in profit or loss in the fiscal year 2021 and the previous year:

	From subsequent valuation				Fiscal Year	
in € million	From interest and dividends	Fair value	Impair-ment	Foreign currency translation	2021	2020
Financial assets or liabilities at fair value through profit or loss	-	-0.5	-	-4.5	-5.0	-45.8
Financial assets at amortized costs	-1.0	-	-0.7	-2.3	-4.0	-4.3
Financial liabilities at amortized costs	-22.5	-	-	5.3	-17.2	-63.5
Total	**-23.5**	**-0.5**	**-0.7**	**-1.5**	**-26.2**	**-113.6**

37.5 Impairment losses

The following impairment losses on financial assets were recognized in profit or loss in fiscal year 2021 and in the previous year:

		Fiscal year	
in € million	Category	2021	2020
Impairment losses for other investments and other non-current financial assets	FVtOCI	0.1	-
Impairment losses for:			
Trade receivables and contract assets (level 1 + 2)	AC	0.2	0.9
Trade receivables and contract assets (level 3)	AC	4.3	2.9
Impairment losses (gross) on financial assets and contract assets		**4.5**	**3.8**
Reversals of impairment losses		-3.8	-1.6
Impairment losses (net) on financial assets and contract assets		**0.7**	**2.3**

VII Additional Notes

38 Auditor’s fees and services

The HENSOLDT Group, its subsidiaries and other companies included in the Consolidated Financial Statements recognized the following expenses for the fees and services of KPMG AG for the fiscal year 2021 and the previous year:

	Parent company		Subsidiaries		Total	
	Fiscal year		Fiscal year		Fiscal year	
in € million	2021	2020	2021	2020	2021	2020
Audit services	0.8	0.7	0.5	0.5	**1.3**	**1.2**
Other assurance services	0.1	0.3	-	0.2	**0.1**	**0.5**
Tax advisory services	0.0	0.2	-	0.1	**0.0**	**0.3**
Other services	0.0	0.1	-	0.8	**0.0**	**0.9**
Total	**0.9**	**1.3**	**0.5**	**1.6**	**1.4**	**2.9**

The fees for the audit services provided by KPMG AG were mainly related to the audit of the Consolidated Financial Statements of the Group and the annual financial statements together with the combined management report, the management report of HENSOLDT AG as well as to the review of the interim financial statement and the annual reports of its subsidiaries including statutory extensions of the engagement.

Other assurance services mainly relate to the audit of the Group´s non-financial report.

39 Future payment obligations

There were purchase commitments especially for inventories and services in the amount of € 1,456.7 million as of December 31, 2021 (previous year: € 658.7 million).

40 Events after the reporting date

The share purchase agreement dated April 24, 2021, between Leonardo S.p.A., Italy, and Square Lux Holding II S.à r.l., Luxembourg, regarding a shareholding in HENSOLDT AG of 25.1 % was executed on January 3, 2022, after the conditions precedent had been fulfilled. The corresponding voting rights notifications were published on January 4, 2022.

In addition to global effects on energy prices and foreign trade, Russia's invasion of Ukraine will have a significant impact on the geopolitical situation and thus on the future development of the defence and security industry. How strong the effects will be, especially with regard to the design of possible procurement programs, and how they will be reflected in detail cannot yet be reliably estimated.

The Management Board and the Supervisory Board propose the distribution of a dividend of € 0.25 (previous year: € 0.13) per share to shareholders entitled to dividends. This corresponds to an expected total payment of around € 26.3 million (previous year: € 13.7 million). The payment of the proposed dividend is subject to the approval of the annual general meeting.

HENSOLDT AG

Management Board

Thomas Müller | Axel Salzmann | Peter Fieser | Celia Pelaz Perez

Responsibility statement for the consolidated financial statements and the combined management report of HENSOLDT AG

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group, and the Group management report, which is combined with the management report of HENSOLDT AG, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Taufkirchen, March 8, 2022

HENSOLDT AG

Management Board

Thomas Müller	Axel Salzmann	Peter Fieser	Celia Pelaz Perez

Note: This is a translation of the German original. Solely the original text in German language is authoritative.

Independent Auditor’s Report

To HENSOLDT AG, Taufkirchen, District of Munich

Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report

Opinions

We have audited the consolidated financial statements of HENSOLDT AG, Taufkirchen, District of Munich and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2021, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from January 1 to December 31, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of HENSOLDT AG and the HENSOLDT Group (hereinafter: “combined management report”) including the remuneration report incorporated in section VI. of the combined management report, including the associated information, for the financial year from January 1 to December 31, 2021.

In accordance with German legal requirements we have not audited the content of those components of the combined management report specified in the “Other Information” section of our auditor’s report.

The combined management report includes cross-references that are not provided for by law and are marked as unaudited. We have not audited these cross-references in terms of content or the information to which the cross-references refer in accordance with German statutory provisions.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2021, and of its financial performance for the financial year from January 1 to December 31,2021, and
- the accompanying combined management report as a whole provides an appropriate view of the Group’s position. In all material respects, this combined management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of those components of the combined management report specified in the “Other Information” section of the auditor´s report. The combined management report includes cross-references, marked as

unaudited, that are not provided for by law. Our audit opinion does not cover these cross-references or the information they refer to.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Recoverability of goodwill

With regard to the accounting policies applied, please refer to section "I. Basis of preparation (note 3.3 Assets acquired and liabilities assumed as well as goodwill and 3.4 Impairment testing)" in the notes to the consolidated financial statements.

Further information is provided in section "IV. Operating assets and liabilities (note 17.2. Goodwill)" in the notes to the consolidated financial statements.

RISKS FOR THE FINANCIAL STATEMENTS

Goodwill with a carrying amount of EUR 651,3 million as at December 31, 2021 represents a significant proportion (22,1 %) of total assets.

Goodwill is tested for impairment annually in the fourth quarter of the financial year at the level of the Sensors and Optronics operating segments, irrespective of any indication of impairment. If an indication of an impairment loss on goodwill arises during the year, this also triggers an impairment test to be performed during the year. For the purposes of impairment testing, the carrying amount of goodwill is compared to the recoverable amount of the relevant operating segment. If the carrying amount is higher than the recoverable amount, an impairment loss is required to be recognized. The recoverable amount is determined as the higher of the fair value less costs of disposal and the value in use of the operating segment. The valuation date for the impairment test was September 30, 2021. HENSOLDT engaged the services of an external expert to assist in the performance of the impairment test. As a result of the impairment test, the company did not identify any requirement for impairment.

Testing goodwill for impairment is a complex matter and is based on a number of discretionary assumptions. These include the forecast sustainable growth rate, the forecast level of sustainable EBITDA margins and the discount rate used. Even minor changes in these assumptions can have a material impact and result in an impairment to the recoverable amount.

There is a risk for the financial statements that an impairment loss existing at the end of the reporting period is not identified and therefore not recognized in the appropriate amount. Furthermore, there is a risk that the disclosures in the notes to the consolidated financial statements relating to the impairment test are not appropriate.

OUR AUDIT APPROACH

We tested selected internal controls relating to the forecasting process underlying the impairment test.

With the involvement of our own valuation specialists, we assessed, amount other things, the appropriateness of the key assumptions and the company's calculation methodology and discussed these with the external expert. In parallel, we discussed the expected development of business performance and earnings and assumed growth rates with the persons responsible for drawing up the forecasts. We also reconciled the cash flows used in the valuation models with the budget prepared by the management board and approved by the supervisory board.

In order to assess the methodologically and mathematically appropriate implementation of the valuation method, we reperformed the valuation made by the company using our own calculations and analyzed deviations.

We also assured ourselves of the quality of the company's forecasting procedures to date by comparing the financial performance of previous years with actual outcomes and by analyzing variances arising. We considered the appropriateness of the assumptions and data used to determine the discount rate, in particular the risk free rate, the market risk premium and the beta factor, by comparing them to our own assumptions and publicly available data.

To address forecasting uncertainties and the early valuation date selected for the impairment test, we examined the effects of possible changes in the discount rate, the long-term growth rate, the long-term EBITDA margin and the long-term capital expenditures on the recoverable amount by calculating alternative scenarios and comparing them with the company's values (sensitivity analysis).

Finally, we assessed whether the disclosures on the recoverability of goodwill in the notes to the consolidated financial statements are appropriate.

OUR CONCLUSIONS

The company's assumptions and data underlying the impairment test are appropriate. The disclosures in the notes to the consolidated financial statements relating to impairment testing are appropriate.

Measurement of pension provisions

With regard to the accounting policies applied, please refer to section "I. Basis of preparation (notes 2.8. Employee Benefits and 3.6. Employee Benefits)" in the notes to the consolidated financial statements.

Further information is provided in section "IV. Operating assets and liabilities (note 33. Pension benefits)" in the notes to the consolidated financial statements.

RISKS FOR THE FINANCIAL STATEMENTS

Provisions for retirement benefits amounting to EUR 444,4 million are recognized in the consolidated financial statements as at December 31, 2021, representing the net liability arising by setting off the defined benefit obligation (DBO) relating to pension plans (EUR 480,9 million) and deferred compensation (EUR 201,1 million) against the fair value of plan assets amounting to EUR 222,5 million and EUR 15,2 million respectively. The present value of obligations under these defined benefit plans is measured using the projected unit credit method, the outcome of which depends significantly on the judgement applied when determining various assumptions such as the discount rate, the future salary trend, life expectancy and the exercise of options relating to the disbursement of pensions. The measurement of retirement obligations was based on actuarial reports commissioned by HENSOLDT.

A significant proportion of plan assets relates to an investment in HENSOLDT Real Estate GmbH & Co. KG, which primarily holds investments in real estate. The determination of the fair value of these assets depends on the judgement applied when determining various assumptions such as the amount of future rental income to be generated and the discount rate. HENSOLDT commissioned an external expert to determine the fair values of the main properties.

There is a risk for the financial statements that inappropriate assumptions are used both in the measurement of the retirement obligations and of the plan assets, which could result in the provision for retirement benefits being measured at an incorrect amount.

Furthermore, there is a risk that the disclosures in the notes to the consolidated financial statements relating to the measurement of the provision for retirement benefits are not appropriate.

OUR AUDIT APPROACH

Within the scope of our audit, we evaluated amongst other things the actuarial reports obtained as well as the professional qualifications of the external expert. We were assisted in this evaluation by our own internal actuarial specialists. We tested the appropriateness of the actuarial assumptions and valuation methodology applied. Based on this, we reconciled the amounts recognized in the consolidated financial statements as well as disclosures in the notes with the relevant actuarial reports.

For the purposes of auditing the fair values of plan assets, we assessed the valuation of the main properties as well as the professional qualifications of the external expert. In light of the specific features of real estate valuation, we were assisted in this matter by own internal real estate specialists. We tested the appropriateness of the valuation methodology and of the underlying parameters and premises applied, as well as assessed the key assumptions used in the valuation reports, and agreed them to the underlying records and contracts.

Based on this, we agreed the amounts recognized in the consolidated financial statements and the disclosures made in the notes to the consolidated financial statements.

OUR CONCLUSIONS

The assumptions and data used by the company to measure its retirement benefit obligations and plan assets are, in each case, considered appropriate overall. The notes to the consolidated financial statements contain the necessary information on assumptions underlying the valuation.

Revenue recognition in the project business of the Sensors operating segment

With regard to the accounting policies applied, please refer to section "I. Basis of preparation (note 2.3. Revenue from contracts with customers and 3.1. Revenue recognition over time)" in the notes to the consolidated financial statements.

Further information is provided in section "III. Group performance (note 11. Revenue and cost of sales)" in the notes to the consolidated financial statements.

RISKS FOR THE FINANCIAL STATEMENTS

Group revenue totalled EUR 1.474,3 million in the financial year 2021. The Sensors operating segment accounted for EUR 1.145,5 million of this amount, including EUR 529,6 million recognized on the basis of a point in time and EUR 618,9 million recognized over time.

Customer contracts in the project business of the Sensors operating segment are predominantly complex, in some cases involving high order volumes and long terms. Customer-specific requirements often mean that there is no alternative use for project business output. HENSOLDT has established detailed guidelines, procedures and processes for accounting for revenue from contracts with customers. Application of the guidelines requires considerable judgement, particularly in identifying performance obligations, estimating total costs, determining the time of fulfilment of performance obligations and determining costs incurred up to the reporting date and hence the progress of performance in the case of revenue recognized over time.

Due to complexity of contracts with customers and the judgement required when assessing the criteria for determining the time at which a customer obtains control, there is a risk for the financial statements that revenue is recognized in the wrong period.

OUR AUDIT APPROACH

Based on our understanding of processes gained during our audit, we assessed the design, structure and effectiveness of identified internal controls, in particular with regard to the correct determination of actual costs incurred, expected total costs, the progress of contracts and the revenue clearance by project controlling.

For new contracts entered into during the reporting period, we analyzed contracts and assessed whether the criteria applied for recognizing revenue at a point in time or over time were met. For this purpose, we assessed the appropriate application of the accounting guidelines for a sample of contracts selected on a risk-oriented basis.

We checked the methodology used to determine actual costs incurred in relation to the various types of costs included as well as the use of the applicable hourly rates.

On the basis of projects selected by us using a risk-oriented approach, we also examined the process for determining expected total costs in relation to the various types of costs and risks included and for updating forecasts of expected total costs for the selected projects with the relevant project managers from both the commercial and the technical side. We agreed the total amount of revenue underlying the selected projects to the relevant contracts.

We also checked the computation of the progress of the contracts concerned. In a final step, we assessed whether the timing of revenue recognition was consistent with the progress of the project or with the transfer of control.

OUR CONCLUSIONS

The approach used by the HENSOLDT Group in the cut-off of project business revenue relating to the Sensors operating segment is appropriate. The assumptions underlying the accounting treatment are appropriate.

Other Information

Management respectively supervisory board are responsible for the other information. The other information comprises the following components of the combined management report, whose content was not audited:

- the separate non-financial group report to which reference is made in the combined management report,
- the combined corporate governance statement of the company and the group included in section VIII. of the combined management report, and
- information extraneous to management reports and marked as unaudited.

The other information includes also the remaining parts of the annual report.

The other information does not include the consolidated financial statements, the combined management report information audited for content and our auditor's report thereon.

Our opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the above-mentioned other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the combined management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the combined management report.

Management and supervisory board are also responsible for the preparation of the remuneration report included in a particular section of the combined management report, including the associated information, which conforms to the requirements of Section 162 AktG [Aktiengesetz: Stock Corporation Act]. They are further responsible for such internal control as they have determined necessary to enable the preparation of a remuneration report, including the associated information, that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on the Assurance in accordance with Section 317 (3a) HGB on the Electronic Reproduction of the Consolidated Financial Statements and the Combined Management Report Prepared for Publication Purposes

We have performed assurance work in accordance with Section 317 (3a) HGB to obtain reasonable assurance about whether the reproduction of the consolidated financial statements and the combined management report (hereinafter the "ESEF documents") contained in the file "hensoldtag-2021-12-31-de.zip" (SHA256 hash value: d47429e0112d937fb4090468f68f15c179845bbf070701a565fdd39a1331cea2) and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance only extends to the conversion of the information contained in the consolidated financial statements and the combined management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the combined management report contained in the above-mentioned electronic file and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned file beyond this reasonable assurance opinion and our audit opinion on the accompanying consolidated financial statements and the accompanying combined management report for the financial year from January 1 to December 31, 2021 contained in the “Report on the Audit of the Consolidated Financial Statements and the Combined Management Report” above.

We conducted our assurance work on the reproduction of the consolidated financial statements and the combined management report contained in the above-mentioned electronic file in accordance with Section 317 (3a) HGB and IDW Assurance Standard: Assurance in accordance with Section 317 (3a) HGB on the Electronic Reproduction of Financial Statements and Management Reports Prepared for Publication Purposes (IDW AaS 410 (10.2021)) and the International Standard on Assurance Engagements 3000 (Revised). Accordingly, our responsibilities are further described below. Our audit firm has applied the IDW Standard on Quality Management 1: Requirements for Quality Management in Audit Firms (IDW QS 1).

The company’s management is responsible for the preparation of the ESEF documents including the electronic reproduction of the consolidated financial statements and the combined management report in accordance with Section 328 (1) sentence 4 item 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 (1) sentence 4 item 2 HGB.

In addition, the company’s management is responsible for the internal controls they consider necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The supervisory board is responsible for overseeing the preparation of the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the assurance work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance of the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e. whether the electronic file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815 on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and the audited combined management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with Articles 4 and 6 of Delegated Regulation (EU) 2019/815, as applicable on the reporting date enables an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on May 18, 2021. We were engaged by the supervisory board on November 8, 2021. We have been the group auditor of HENSOLDT AG (in its capacity as a capital-market-oriented entity) without interruption since financial year 2020.

We declare that the opinions expressed in this auditor’s report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

Other Matter – Use of the Auditor’s Report

Our auditor’s report should always be read in connection with the audited consolidated financial statements and the audited combined management report as well as the audited ESEF documents. The consolidated financial statements and combined management report converted to ESEF format – including the versions to be published in the Federal Gazette – are merely electronic reproductions of the audited consolidated financial statements and the audited combined management report and do not replace them. In particular, the Report on the Assurance of the ESEF documents and our opinion included therein can only be used in connection with the audited ESEF documents provided in electronic form.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Martin Leistner.

Munich, March 15, 2022

KPMG AG
Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

Leistner Wirtschaftsprüfer [German Public Auditor]	Schieler Wirtschaftsprüfer [German Public Auditor]

REPORT OF THE SUPERVISORY BOARD

on the Consolidated Financial Statements and the financial statements of HENSOLDT AG for the fiscal year 2021

This English report is for convenience only. In case of discrepancies between the English and the German report, the German report shall prevail.

Dear shareholders,

Following the successful IPO in fiscal year 2020, fiscal year 2021 was also an extremely successful year for HENSOLDT AG in economic terms.

Cooperation with the Management Board

In the fiscal year 2021, the Supervisory Board of HENSOLDT AG performed the duties incumbent upon it according to the law, the Articles of Association and the Rules of Procedure. We regularly advised the Management Board on the management of the company and monitored its activities. The Supervisory Board was directly involved at an early stage in all decisions of fundamental importance for the company. The Management Board informed us regularly, both in writing and verbally, promptly and comprehensively about the corporate plans, the course of business, the strategic development and the current situation of the Group.

The Management Board coordinated the strategic orientation of the company with us. We discussed, in detail, the business transactions that were significant for the company on the basis of the reports of the Management Board.

The Supervisory Board, in particular the chairman of the Supervisory Board, was in regular contact with the Management Board beyond the Supervisory Board meetings and kept itself informed about the current development of the business situation and significant business transactions. In this way, the Supervisory Board was always aware of the intended business policy, corporate planning including financial, investment and personnel planning, the course of business, profitability and the situation of the Group.

Corporate Governance and functioning of the Supervisory Board

Further explanations on corporate governance can be found in the *Corporate Governance Statement*, which is part of the combined management report for HENSOLDT AG and the Group. It contains detailed information on the working methods of the Supervisory Board and its committees. In addition, you will find explanations on the current declaration of the Management Board and the Supervisory Board pursuant to section 161 AktG (German Stock Corporation Act), which the Supervisory Board approved on March 11, 2022. The current declaration of the Management Board and the Supervisory Board pursuant to section 161 AktG is also made permanently available to shareholders on the website of HENSOLDT at https://investors.hensoldt.net in the “Corporate Governance” section.

The members of the Supervisory Board are responsible for their own training and further education. The company supports the Supervisory Board in this effort to an appropriate extent. In the previous fiscal year, the members of the Supervisory Board received further training according to their individual needs on the topics of risk management and accounting as well as the role and function of the Supervisory Board and practical reflection.

Deliberations and resolutions in the plenary session of the Supervisory Board

The Supervisory Board of HENSOLDT AG held a total of five meetings in the last fiscal year.

In the extraordinary meeting on March 5, 2021, the Supervisory Board dealt with the approval of the contract for the development and delivery of the airborne electronic signals intelligence system “PEGASUS” and the issuance of the declaration pursuant to section 161 AktG.

The meeting on March 19, 2021 focused on the preparation of the first annual general meeting of HENSOLDT AG and the adoption of resolutions on the annual financial statements of HENSOLDT AG and the Consolidated Financial Statements as of December 31, 2020, the combined management report, the dependency report as well as the non-financial reporting of the HENSOLDT Group. In addition, after receiving reports from the Executive Committee, the Supervisory Board decided on the determination of the Management Board remuneration for the fiscal year 2020, other Management Board remuneration issues, in particular the remuneration system to be presented at the annual general meeting 2021, and the expansion of the Management Board.

On May 7, 2021, the Supervisory Board informed itself about the current developments regarding the acquisition of a stake in HENSOLDT AG by the Italian defence group Leonardo S.p.A. and the status of the strategic defence programs with a significant share of HENSOLDT.

At the Supervisory Board meeting on September 24, 2021, the Management Board reported comprehensively on the business development, the order situation, the status of major orders, the employee share programme “Echo” and the expansion of Group financing under the existing credit agreement. The Supervisory Board also decided to the conduct of a self-assessment to review the effectiveness of the performance of its duties.

At the meeting on December 14, 2021, the Supervisory Board focused on the results of the stocktaking of this self-assessment and the approval of the budget (including the annual investment, finance and personnel plan). In the context of the self-assessment, the Supervisory Board members determined that the evaluation of the self-assessment carried out by the Supervisory Board members resulted in a balanced distribution of competences. Changes to the competence profile were not considered necessary or appropriate at the present time. In view of the organization of the Supervisory Board meetings, the members of the Supervisory Board expressed their hope that an improvement in the pandemic situation in 2022 would make it possible to hold the meetings again as face-to-face meetings and allow, in this framework, for a more direct communication. It was also noted that the Supervisory Board will continue to keep an eye on the issue of sustainability in particular. Where necessary, the Supervisory Board also adopted resolutions by written procedure. This mainly concerned the approval of the introduction of a revised compliance process planned by the Management Board of HENSOLDT AG and the approval of the issuing of securities in the context of the submission of an offer by HENSOLDT Sensors GmbH.

The members of the Management Board regularly attended Supervisory Board and committee meetings. Consultations of the Audit Committee with the auditor and deliberations on internal matters of the Supervisory Board took place without the Management Board being present.

Measures that require the approval of the Supervisory Board according to the Articles of Association, the Rules of Procedure for the Supervisory Board or the Rules of Procedure for the Management Board were submitted to the Supervisory Board for decision-making with the appropriate lead time. The Supervisory Board approved each of the Management Board’s proposed resolutions after thorough examination and consultation. Apart from the individual measures already explained, there were no other transactions in the last fiscal year requiring approval that needed to be reported about.

Committees of the Supervisory Board

The Supervisory Board has established an Executive Committee and five other committees to efficiently perform its duties. These prepare the resolutions of the Supervisory Board as well as the topics to be dealt with in the plenary session. To the extent permitted by law, decision-making powers of the Supervisory Board have been transferred to the corresponding committees.

Four meetings of the **Executive Committee** took place in the last fiscal year.

In its meeting on March 19, 2021, the Executive Committee dealt with an expert opinion on the remuneration of the Management Board and the remuneration system for the members of the Management Board of HENSOLDT AG that had been developed on this basis. The Executive Committee evaluated the achieved target values for the fiscal year 2020 and prepared a proposal to the Supervisory Board for the bonus of the Management Board. In addition, the Executive Committee prepared the Supervisory Board’s decision on the remuneration system for the Management Board as well as other topics related to remuneration of the Management Board. The Executive Committee discussed the expansion of the Management Board to four members and submitted a corresponding proposal to the Supervisory Board for the appointment of Mrs. Celia Pelaz as the fourth member of the Management Board.

In the other meetings on May 7, 2021, September 24, 2021 and December 7, 2021, the Executive Committee dealt in particular with the terms of the Management Board service contract of Mrs. Celia Pelaz and the procedure for succession planning for the Management Board.

The **Audit Committee** held seven meetings.

A significant part of its work was the discussion of the preliminary financials for the fiscal year 2020, the dividend proposal and the financials during the year (quarterly announcement 3M2021, half-yearly financial report 6M2021 and quarterly announcement 9M2021). With regard to the key financial figures, the audit committee consulted with the CFO and, with regard to the half-year financial report, with the auditor to explain the results of the audit review.

With a view to the first annual general meeting of HENSOLDT AG, the Audit Committee prepared the Supervisory Board’s resolution on the financial statements, combined management report and other reporting, including non-financial reporting, in its meeting on March 19, 2021 and made a recommendation to the Supervisory Board on the appropriation of the balance sheet profit.

On May 6, 2021, the Audit Committee assured itself of the quality of the audit, reviewed the risk development in HR / operative resources and the status of IT security.

In further meetings held on August 3, 2021, September 24, 2021 and November 23, 2021, the Audit Committee dealt with the Financial Market Integrity Strengthening Act (FISG), the audit plan for the consolidated financial statements and the financial statements for the fiscal year 2021 and the current status of the corresponding audit, as well as the approval of assurance and other non-audit services by the company KPMG AG. In addition, the Audit Committee prepared the recommendation to the Supervisory Board for a resolution on the Group’s budget for the fiscal year 2022.

In its regular meetings during the year, the Audit Committee also received regular reports from senior staff and the head of internal audit on audit activities and investigations as well as on current risk management issues. The Audit Committee verified that all identified potential risks were adequately addressed. Furthermore, the Audit Committee dealt with the performance of the acquisitions carried out by the HENSOLDT Group and their strategic classification in several meetings.

Regular consultations were conducted between the Audit Committee and the auditor without the presence of the Management Board and consultations between the Audit Committee and the Management Board without the presence of the auditor.

The **Compliance Committee** held six meetings in the last fiscal year.

A major focus of the Compliance Committee’s activities was the review and updating of the HENSOLDT Group’s compliance processes, which was the subject of deliberations and also resolutions on January 29, 2021 (extraordinary meeting), March 18, 2021, March 25, 2021 (written procedure with recommendation for approval regarding the introduction of the amended processes to the plenary meeting of the Supervisory Board), April 30, 2021, May 7, 2021, September 24, 2021 and November 9, 2021. The Compliance Committee dealt with the benchmarking review of HENSOLDT Group’s anti-corruption system commissioned in 2020, the target structure of the update and, in particular, the topic of a performance-based remuneration for sales agents. The status of the respective preparations for implementation was closely monitored, among other things, by addressing the corresponding accompanying training courses for the staff. Overall, the Compliance Committee came to the conclusion that the established compliance standards had so far proven to be appropriate.

Furthermore, the Compliance Committee received regular reports during the year from the Head of Compliance and the general counsel on the Compliance Dashboard, the status of e-learning, the compliance risk assessment and the Open Line cases. There was also a regular exchange with the Head of Internal Audit and with the Data Protection Officer of HENSOLDT Group.

In March 2021, the **Nomination Committee** prepared a competence profile for the Supervisory Board of HENSOLDT AG, which was adopted by the Supervisory Board on March 19, 2021 and reviewed as part of the Supervisory Board's self-assessment in autumn 2021.

The chairpersons of the Executive Committee, the Audit Committee and the Compliance Committee reported on the work of the committees in the plenary sessions.

The **Mediation Committee** and the **Related Party Transactions Committee** were not convened during the fiscal year.

The **IPO Committee**, which still existed in the fiscal year 2020 and was reported on here, was no longer established in the fiscal year 2021, as its field of duties ceased with the successful IPO of the company.

Presence of the members of the Supervisory Board at the meetings

Below is information on the participation of the Supervisory Board members in the meetings of the Supervisory Board and the committees that took place in the fiscal year under review:

	Plenary sessions of the Supervisory Board		**Audit Committee**		**Compliance Committee**		**Executive Committee**	
(number of meetings / participation in %)	*Number*	*in %*	*Number*	*in %*	*Number*	*in %*	*Number*	*in %*
Johannes P. Huth Chairman of the Supervisory Board	4/5	80	-	-	-	-	4/4	100
Armin Maier-Junker[1] Vice Chairman of the Supervisory Board	5/5	100	-	-	-	-	4/4	100
Dr. Jürgen Bestle[1]	2/2	100	-	-	2/2	100	-	-
Jürgen Bühl[1]	5/5	100	-	-			4/4	100
Dr. Frank Döngi[1]	3/3	100	-	-	4/4	100	-	
Achim Gruber[1]	2/2	100	-	-	2/2	100	-	
Prof. Wolfgang Ischinger	5/5	100	-	-	-	-	4/4	100
Ingrid Jägering	5/5	100	7/7	100	-	-	-	-
Marion Koch[1]	5/5	100	7/7	100	-	-	-	-
Christian Ollig	5/5	100	5/7	71.4	5/6	83.33	-	-
Prof. Dr. Burkhard Schwenker	5/5	100	-	-	6/6	100	-	-
Julia Wahl[1]	4/5	80	7/7	100	-	-		
Claire Wellby	5/5	100	-	-	-	-		
Ingo Zeeh[1]	3/3	100	-	-	4/4	100		
		97.14		**92.85**		**97.22**		**100**

[1]Employee representative

Attendance at the meetings of the Supervisory Board was therefore 97.14 % in the last fiscal year and 96.69 % at the meetings of the committees. In the year under review, no Supervisory Board member attended only half or fewer of the meetings of the Supervisory Board and the committees to which the member belongs.

Conflicts of interest in the Supervisory Board

Conflicts of interest of Management Board or Supervisory Board members that should have been disclosed to the Supervisory Board were not reported in the past fiscal year.

Changes in the Management Board and Supervisory Board

One change occurred in the Management Board during the fiscal year. Mrs. Celia Pelaz has been appointed to the Management Board with responsibility for HENSOLDT's strategic positioning and business development with effect from July 1, 2021. In addition, Mrs. Pelaz is head of the Spectrum Dominance & Airborne Solutions division as well as HENSOLDT Ventures. Since then, the Management Board of the company has consisted of a total of four persons.

Mr. Winfried Fetzer retired from the Supervisory Board with effect on December 31, 2020. In his place, Mr. Ingo Zeeh was appointed to the Supervisory Board by resolution of the register court on January 12, 2021. Elections of employee representatives to the Supervisory Board were held from May 17 to 19, 2021. Mr. Dr. Frank Döngi and Mr. Ingo Zeeh were not re-elected. Dr. Jürgen Bestle and Achim Gruber were newly elected or re-elected as employee representatives. Mr. Armin Maier-Junker, Ms. Marion Koch, Mr. Jürgen Bühl and Mrs. Julia Wahl were re-elected to the Supervisory Board.

Audit of the financial statements and the Consolidated Financial Statements

KPMG AG Wirtschaftsprüfungsgesellschaft was appointed auditor for the fiscal year 2021 by resolution of the annual general meeting on May 18, 2021. Previously, KPMG AG Wirtschaftsprüfungsgesellschaft had confirmed that there were no circumstances that could impair its independence as auditor or cast doubt on its independence. KPMG AG Wirtschaftsprüfungsgesellschaft also explained the extent to which services outside of the audit of the financial statements were provided to all companies of the HENSOLDT Group in the previous fiscal year. KPMG AG Wirtschaftsprüfungsgesellschaft and Mr. Martin Leistner as the responsible audit partner have audited HENSOLDT AG since its foundation in 2019, at that time as HENSOLDT GmbH, and the HENSOLDT Group since the first-time preparation of the consolidated financial statements by HENSOLDT Holding GmbH in 2017.

The Management Board of HENSOLDT AG has prepared the financial statements, the combined management report of HENSOLDT AG and of the Group as well as the Consolidated Financial Statements for the fiscal year 2021.

KPMG AG Wirtschaftsprüfungsgesellschaft audited the financial statements, the combined management report of the HENSOLDT Group and the Consolidated Financial Statements for the fiscal year 2021 and issued an unqualified audit opinion in each case dated March 15, 2022. The Consolidated Financial Statements were prepared on the basis of the International Financial Reporting Standards (IFRS), as applicable in the EU, and the supplementary German statutory regulations pursuant to section 315e (1) HGB (German Commercial Code). The financial statements and the combined management report were prepared in accordance with the provisions set forth in the German commercial code.

The auditor conducted the audit of the annual and consolidated financial statements in accordance with section 317 HGB and the German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors (IDW).

The aforementioned documents were distributed to us by the Management Board in good time or were available at the balance sheet meeting. They were dealt with intensively in the Audit Committee on March 16, 2022. The members of the Audit Committee reported, in detail, on these deliberations to the plenary session at the balance sheet meeting on March 16, 2022. The plenary discussed the financial statements and reports in detail – also in the presence of the Management Board. Both meetings were attended by the auditor, who reported on the main results of their audit. Part of the presentation were the scope, focus and costs of the audit.

We agreed with the results of the final audit. According to the final result of the audit by the Audit Committee and our own audit, no objections needed to be raised. The Supervisory Board approved the annual financial statements prepared by the Management Board and the consolidated financial statements prepared by the Management Board. The financial statements are thus adopted. The Management Board proposes to use € 32,269,716.20 of the balance sheet profit totalling € 26,250,000.00 to distribute a dividend of € 0.25 per no-par value share entitled to dividend. We agreed with this proposal.

As part of its review, the Supervisory Board also examined the non-financial group declaration as part of the sustainability report, which was to be prepared in accordance with section 315b HGB, and came to the conclusion that it meets the existing requirements and that no objections are to be raised. An external review by KPMG AG Wirtschaftsprüfungsgesellschaft had previously confirmed that no matters had come to the attention of the auditors that caused them to believe that the non-financial group statement had not been prepared, in all material respects, in accordance with section 315c HGB.

Audit of the report of the Management Board on relations with affiliated companies

The Management Board of HENSOLDT AG prepared a report on relations with affiliated companies (dependency report) for the fiscal year 2021 in accordance with section 312 AktG and submitted it to the Supervisory Board in due time. The dependency report was audited by the auditor in accordance with section 313 AktG. Since there were no objections to be raised after the final result of their audit, the auditor issued the following unqualified audit certificate in accordance with section 313 (3) AktG: "Having conducted a proper audit and assessment, we confirm that (1) the factual statements made in the report are correct, (2) the consideration paid by the company for the legal transactions listed in the report was not unreasonably high, (3) there are no circumstances that would support a materially different assessment of the measures listed in the report than that made by the Management Board."

The dependency report and the auditor's report were submitted to the Audit Committee and the Supervisory Board in good time or were available for inspection at the Supervisory Board meeting on March 16, 2022 and were examined by them. The audit did not result in any objections. According to the final result of the preliminary examination by the Audit Committee and our own review, the Supervisory Board has no objections to the Management Board's declaration on relationships with affiliated companies. The result of the audit of the dependency report by the auditor is approved.

Thanks to the Management Board and the employees

The Supervisory Board would like to express its thanks to the members of the Management Board, the employees and the employee representatives of all Group companies for their work and especially for their contribution to the successful first annual general meeting of HENSOLDT AG. You contributed to a very successful year for the HENSOLDT Group in economic terms.

For the Supervisory Board

The Chairman of the Supervisory Board

Imprint

Published by
HENSOLDT AG
Willy-Messerschmitt-Straße 3
82024 Taufkirchen
Germany

Content written by
Finsbury Glover Hering Europe GmbH
Ludwigstraße 8
80539 München
Germany

Designed by
Guido Bentner Branding
Häldäckerstraße 11
78052 Villingen-Schwenningen
Germany

Printed by
Druckerei Leute GmbH
Wehrstraße 3
78050 Villingen-Schwenningen
Germany

Image copyright