Annual Report Combined Management Report and Consolidated Financial Statements 2021

HENSOLDT

Detect and Protect.

CONTENTS

HENSOLDT Key Figures

in € million	2021	2020
Order intake	**3,171.5**	**2,541.3**
Sensors	2,774.4	2,238.1
Optronics	405.4	308.3
Eliminination/Transversal/Others	-8.3	-5.1
Order backlog	**5,092.2**	**3,424.0**
Sensors	4,420.2	2,825.5
Optronics	676.1	600.0
Eliminination/Transversal/Others	-4.1	-1.5
Book-to-bill-ratio	**2.2**	**2.1**
Revenues	**1,474.3**	**1,206.9**
Sensors	1,147.7	923.6
Optronics	331.9	288.1
Eliminination/Transversal/Others	-5.3	-4.8
Revenues by region	**1,474.3**	**1,206.9**
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
Adjusted EBIT	**198.6**	**167.2**
Sensors	150.8	119.7
Optronics	49.7	50.1
Elimination/Transversal/Others	-1.9	-2.6
Adjusted EBITDA	**260.7**	**219.3**
Sensors	194.4	156.2
Optronics	68.2	65.6
Elimination/Transversal/Others	-1.9	-2.5
Adjusted pre-tax unlevered free cash flow	**252.3**	**196.4**

Foreword

Axel Salzmann
Chief Financial Officer
of HENSOLDT AG

Dear Shareholders,

HENSOLDT AG enjoyed another highly successful fiscal year in 2021. As the company's Chief Financial Officer, I am very proud of everything that our roughly 6,300 HENSOLDTIANS achieved for our company during the year just ended, despite numerous challenges.

We successfully increased the pace of our growth on our key performance indicators again in 2021. Our revenue last year rose significantly with a 22% boost. The orders we received were about 25% up on 2020, which was already a very strong year, and are at a record value of more than €3.1 billion. This translates into our book-to-bill ratio of 2.2 and the €5.1 billion worth of orders on our books. This is €1.7 billion higher than in 2020 and represents a jump of 49%. We are therefore continuing to consistently translate our excellent business prospects into incoming orders and have an order book that covers our planned revenue for 2022 roughly three times over.

Our large number of orders received and high turnover are powerful evidence of the appeal that the HENSOLDT product and technology portfolios have. Our company's financial strength can be seen first and foremost in our profitability and cash flow, with both of these key indicators having grown once again.

Our adjusted EBITDA rose by 19% to €261 million. Our adjusted EBIT reached €199 million, which also equates to a 19% improvement on 2020. Our adjusted EBITDA margin of 19.4% before pass-through business is almost one percentage point up on its 2020 level and therefore also exceeds our updated guidance from November 2021.

This margin growth is owed to higher volumes and a favorable product mix. As a result, we have more than made up for the opposing effects from projects in the early stages of their life cycle. Simultaneously, we have made further targeted investments in research and development and increased our proposal budgets to expand our leading position in technology and ensure future growth.

Cash flow as a key indicator of a strong, healthy company is of utmost importance to me. HENSOLDT again achieved persistently strong operational performance on this indicator in 2021. Our adjusted free cash flow of €252 million before taxes and interest was significantly above the previous year's €196 million, exceeding our expectations considerably despite planned investments in our working capital.

Dear shareholders, it is my pleasure that we continued to deliver on our promise in 2021 and achieved or exceeded all financial targets for another year in succession.

We are very proud to have almost halved our debt-to-equity ratio from 3.1x to 1.6x since going public. This achievement has been enabled by our outstanding operational performance and our focus on continually strengthening HENSOLDT's financial power. Our profitable growth also allows us to again include our shareholders in the success that HENSOLDT AG is enjoying. This year's proposed dividend of €0.25 per share is approximately double as much as it was in the preceding year and is a clear testament to the success of our business activities.

Our outlook for 2022 is also confident and we expect that our business will continue developing positively. We are predicting revenue of about €1.7 billion for the Group as well as adjusted EBITDA of €285 million to €300 million. We are also planning to lower our debt-to-equity ratio further to under 1.4x. As you can see, we have a clear plan for maintaining and building on our success. We firmly believe that we will keep consistently achieving our targets in the future thanks to our operational excellence and the strategic foresight of all HENSOLDTIANS.

I am delighted to have you with us on this journey.

Yours truly,
Axel Salzmann

Combined Management Report of

HENSOLDT Group

for the year ended December 31, 2021

References: The contents of websites referred to in the combined management report are not part of the combined management report and have not been audited but serve only to provide further information.

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

I Group fundamentals

1 Business model

The HENSOLDT Group (the “Group”, “HENSOLDT”) is a high-tech pioneer and specialized provider of defence and security sensor solutions, with a portfolio focus on high-performance sensors in the fields of radars, electronic warfare, avionics and optronics. The product portfolio as of December 31, 2021, included a variety of products with a lifecycle of ten years or more. HENSOLDT is constantly striving to increase and improve its current product offering through its own developments, industrial cooperations and acquisitions, in order to increase its competitiveness and expand into new markets.

2 Organization and group structure

2.1 Legal structure

The HENSOLDT Group consists of HENSOLDT AG (the “Company”) with statutory seat in Taufkirchen, Germany (registered office: Willy-Messerschmitt-Str. 3, 82024 Taufkirchen, Germany, under file no. HRB 258711, Munich Local Court) and its subsidiaries.

The consolidated financial statements include the financial statements of HENSOLDT AG and the financial statements of all significant subsidiaries directly and indirectly controlled by HENSOLDT AG. 33 entities (previous year: 32) were fully consolidated. With effect from June 2021, HENSOLDT switched the consolidation method of HENSOLDT Cyber GmbH, Taufkirchen (“HENSOLDT Cyber”) from at-equity to full consolidation.

The reporting for HENSOLDT AG is included in the Combined Management Report in chapter “X HENSOLDT AG”.

2.2 Locations and employees

HENSOLDT’s headquarters are located in Taufkirchen near Munich, an important innovation center of the defence industry in Germany. In addition, business activities in Germany are conducted in Ulm, Oberkochen and Pforzheim in particular. Other locations in Germany include Wetzlar, Immenstaad and Kiel. As of December 31, 2021, of the 6,316 employees (previous year: 5,605) of HENSOLDT, among them 587 trainees, interns, etc. (previous year: 430), approx. 4,600 (previous year: approx. 4,100) were employed in Germany. HENSOLDT’s larger locations outside Germany are mainly based in France, South Africa and the UK.

2.3 Operating segments

The HENSOLDT Group’s segmentation corresponds to its internal steering, controlling and reporting structures. In accordance with IFRS 8 HENSOLDT has identified the reportable 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 synergies between the two such as shared engineering and operations. As an aftersales division, Customer Services & Space Solutions 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 the division 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”) essentially comprises 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 mainly contains components for anti-aircraft missile defence systems, funded military studies and funding projects, and the elimination section, comprising the elimination/transversal of intra-segment revenue between the three divisions of the Sensors segment.

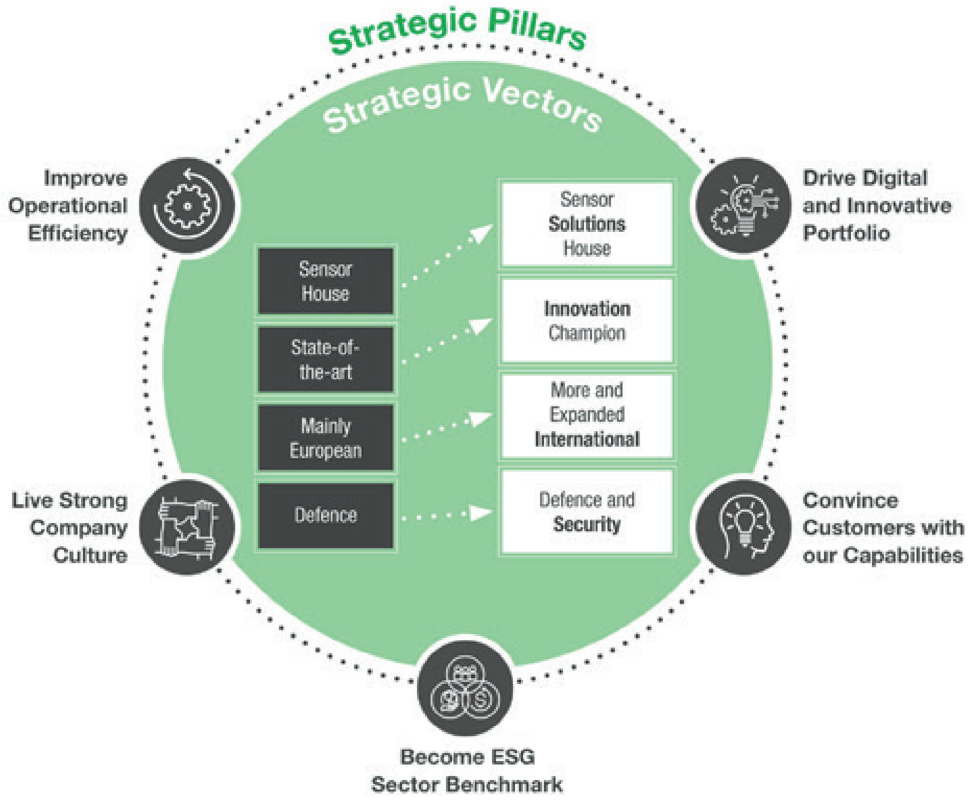
Optronics segment

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.

3 Goals and strategies

In 2021, HENSOLDT made further progress towards its mid-term goal of becoming Europe’s leading platform-independent provider of sensor solutions in the defence and security sector with global reach. Therefore, HENSOLDT further pursued its growth and business improvement plans and reached important milestones.

HENSOLDT’s strategy is based on a framework consisting of four vectors and five strategic pillars. The vectors describe the strategic objectives and the strategic pillars illustrate how such objectives should be achieved.



The four strategic objectives in the form of vectors remained unchanged during the current fiscal year:

- HENSOLDT increasingly wants to evolve from a pure sensor house to a holistic sensor solutions house
- HENSOLDT wants to further expand its innovative power and strengthen its role as innovation champion
- HENSOLDT wants to extend its international reach and presence, based on its success on its European home markets
- HENSOLDT wants to further expand its business beyond the defence industry by gaining market shares in the security area

The former five strategic pillars to achieve the strategic targets ("Innovation", "Customer", "Continuous Improvement", "Strategic Acquisitions", "Corporate Culture") principally remained unchanged in the current fiscal year. The pillar "Become ESG[1] sector benchmark" was supplemented and the pillar "Strategic Acquisitions" now forms an integral part of the pillars "Drive digital and innovative portfolio" and "Convince customers with our capabilities".

The five strategic pillars are thus:

- Drive digital and innovative portfolio
- Convince customers with our capabilities
- Become ESG sector benchmark
- Live strong company culture
- Improve operational efficiency

3.1 Drive digital and innovative portfolio

With its almost 2,000 engineering staff, HENSOLDT stands for high-performance sensor electronics. In order to further expand this core competence and further increase its competitiveness, the Group relies above all on a digital and innovative product portfolio. The continuous development of products and technologies enables HENSOLDT to improve its role in the competition and to meet the operational challenges and concepts of its customers. For this purpose, HENSOLDT is continuously expanding its self-funded research and development expenditure ("R&D"). Compared to 2020, HENSOLDT increased its self-funded R&D expenditure (including expensed R&D costs recognized in expenses and capitalized development costs) by 11.8 %. In 2021, self-funded R&D expenditure for HENSOLDT amounted to € 97.5 million.

Another important step towards a more innovative and competitive product portfolio was the strengthening of the internal business units in the segments and divisions of the HENSOLDT Group. A key result is that the power of innovation is given even more room through strong cross-divisional cooperation and benefits from the intensive exchange between employees.

In addition, HENSOLDT complements its own competencies with an M&A strategy strongly focused on growth and innovation. Accessing and expanding new and future-oriented technologies, in particular in the areas of artificial intelligence, data fusion and analytics, autonomous capabilities as well as intelligence and cyber are a key objective here. One example of the successful implementation of this strategy is the acquisition of HENSOLDT Analytics GmbH (formerly: SAIL LABS Technology GmbH), a leading provider of AI-based Open Source Intelligence (OSINT) solutions, which was completed in the current fiscal year. This completes HENSOLDT's sensor portfolio with intelligent solutions for the digital room and enables the Group to take another step towards becoming one of the leading data analysis houses in the security and defence sector in Germany.

The success of focusing on a digital and innovative portfolio is reflected in numerous developments, such as the newly launched Quadome naval surveillance radar, the latest achievement in the development of the multi-function jammers system "Kalaetron Attack" and the successful demonstration of the "Detect & Avoid Radar" as a collision warning system for civil and military drones.

3.2 Convince customers with our capabilities

HENSOLDT has established itself as a trustworthy and long-term partner for its customers. This pillar includes various strategic measures, such as understanding the market, developing country strategies, our international presence and partnerships, or understanding our clients' operational concepts and the circumstances relevant to their sovereignty and economic growth. We know what our clients need and who our best partners are.

With regards to the Group's home markets, the long-term growth strategy continues to focus on positioning HENSOLDT in new European programs and capturing the anticipated increases in defence spending and, simultaneously benefiting from the anticipated shift in such spending towards a higher share of electronic components. This approach will further enhance HENSOLDT's status as a premium provider of innovative technologies and ensures the attractiveness of its products for leading defence companies, public contractors as well as governments.

In order to strengthen the international network, acquisitions are being pursued in selected markets, such as the acquisition of two business units (ATM and Defence Division) of the South African company Tellumat (Pty) Ltd. in the current fiscal year. This strengthened both the regional presence and the technological competence, especially in the radar sector.

HENSOLDT has focused its export strategy on leveraging home country technologies for worldwide distribution. To this end, the Group is positioning itself in the most attractive markets for HENSOLDT, creates local proximity and continuously expands its international business operations as well as local partnerships to support sales campaigns.

In order to achieve the goal of developing customer relationships domestically and abroad, HENSOLDT built up a business development organization which as of December 31, 2021, has around 200 employees, distributed among the sales centers in Europe, the Middle East, Asia-Pacific, Africa, North America and Latin America.

3.3 Become ESG sector benchmark

As one of the pillars of its corporate strategy, it is HENSOLDT`s vision to become the benchmark in ESG in the defence and security industry. To this end, the ESG Strategy program 2026 was launched and 15 goals, over 100 measures and 120 key figures were defined.

The ESG Strategy program 2026 is the basis for HENSOLDT not only fulfilling its responsibility towards its customers, employees, investors and, above all, its responsibility towards society and the environment, but also for exceeding expectations in this area for HENSOLDT. This responsibility is also reflected in the Group's accession to the

[1] Environmental Social Governance

UN Global Compact[2], a United Nations initiative. HENSOLDT is thus committed to the ten universal sustainability principles in the areas of human rights, labor standards, the environment and corruption prevention.

The extensive ESG activities contributed significantly to HENSOLDT's excellent performance in the ESG rating by Sustainalytics. HENSOLDT was ranked first in the "Aerospace & Defence" sector in the current fiscal year.

Further information on the topic of sustainability or ESG can be found on the website of HENSOLDT at https://investors.hensoldt.net in the “Sustainability” section. For information on the goals underlying the Management Board remuneration, refer to the chapter “VI Remuneration report“.

3.4 Live strong company culture

One of the most important success factors for HENSOLDT is a strong and lived corporate culture. This is the only way the Group can ensure that joint success and employee appreciation will continue to be guaranteed in the future.

Here, HENSOLDT can build on a strong foundation. One of many measures, for example, is the “Echo” employee share program. Under this program, employees have the opportunity to participate like shareholders in the economic development of HENSOLDT AG and to benefit from a discounted price compared to buying HENSOLDT AG shares on the stock exchange. The offer was taken up by 3,751 employees (65 % of all employees eligible for participation) and reflects the already strong and distinctive corporate culture, but above all the commitment and trust of the employees towards HENSOLDT.

HENSOLDT has launched a cultural transformation initiative. The aim is to establish an outstanding corporate culture that attracts and retains talents and ensures that HENSOLDT's success story continues and that the group can expand its attractiveness for existing and future employees.

3.5 Improve operational efficiency

Since the introduction of the comprehensive efficiency program called “HENSOLDT GO!”, HENSOLDT has already achieved a number of improvements. In the current fiscal year, important progress was made through further improved operational project execution. The culture of continuous improvement leads to more and more optimizations. Furthermore, continuous improvements in operating and development efficiency as well as in the purchasing organization were achieved in the current fiscal year.

In the future, HENSOLDT intends to focus on enhancing production, further boosting development efficiency and improving the supply chain management. Other measures for efficiency improvements in the general administrative functions will also be in focus again.

4 Financial performance indicators

HENSOLDT uses certain key performance indicators (“KPIs”) to measure performance, identify trends and make strategic decisions. Besides revenue, the most important KPIs are order intake, the book-to-bill ratio[3] and adjusted EBITDA[4]. In addition, HENSOLDT uses two more non-IFRS performance indicators, the adjusted pre-tax unlevered free cash flow[5] and the adjusted EBIT[6], as well as one additional operating metric, the order backlog as performance indicator.

Adjusted EBITDA is used as a key indicator of the economic performance of the Group, in particular to illustrate the non-recurring effects from acquisitions and other non-recurring effects on the operating results. In addition, non-financial performance indicators are partly used to manage the Group. To this end, an additional remuneration element geared towards long-term, sustainable success of the HENSOLDT Group has also been included in the Management Board remuneration since the fiscal year 2021. The Long-Term Incentive bonus components for the Management Board members and other executives of the Group are determined, inter alia, according to the target achievement of the ESG targets “Diversity” and “Climate Impact” (refer to the “Corporate Governance” section on the website of HENSOLDT at https://investors.hensoldt.net).

	Fiscal year		
in € million	2021	2020	% Delta
Performance indicators			
Revenues	1,474.3	1,206.9	22.2%
Adjusted EBITDA	260.7	219.3	18.9%
Adjusted EBIT	198.6	167.2	18.8%
Adjusted pre-tax unlevered free cash flow	252.3	196.4	28.5%
Order intake	3,171.5	2,541.3	24.8%
Book-to-bill-ratio	2.2	2.1	2.2%
Order backlog	5,092.2	3,424.0	48.7%

5 Research and development

Research and development in the HENSOLDT Group comprises both product-specific developments, further development of products and general research and development activities that concentrate on basic research and product innovation.

R&D costs amounted to € 31.4 million in fiscal year 2021 (previous year: € 25.1 million). This corresponds to 2.1 % of revenue (previous year: 2.1 %). Development costs capitalized during the fiscal year of € 66.1 million (previous year: € 62.1 million) are not included in this figure, whereas the focus of expenses in the fiscal year related particularly to air traffic control, navy and ground radar programs as well as identification of friend or foe in the Sensors segment and to ground and sea programs in the Optronics segment. This reflects a capitalization rate of 67.8 % (previous year: 71.2 %) in relation to the entire research and development costs of € 97.5 million (previous year: € 87.2 million). Amortization of capitalized development costs amounted to € 15.7 million in the fiscal year (previous year: € 9.0 million).

6 HENSOLDT on the capital market

The HENSOLDT AG share price developed positively over the course of the current fiscal year compared to the initial listing as part of the IPO in September 2020. At the end of 2021, however, the share was trading at € 12.52 and thus below the price at the end of the previous year.

6.1 Stock markets and price development of the HENSOLDT share

Driven by the general economic recovery after the preliminary peak of the COVID-19 pandemic, the stock markets developed predominantly positively at the beginning of 2021. After slight fluctuations at the beginning of the year, the DAX and SDAX rose steadily until the middle of the year. After a slight decline in July, the two indices continued their positive development and reached temporarily a new high in September.

In the fourth quarter, the price development of the indices was characterized by increasing supply bottlenecks, rising commodity prices worldwide and the Omicron variant of the COVID-19 virus. The DAX and SDAX came under pressure at times, but subsequently recorded significant price gains and both marked new all-time highs in November. This trend was also supported by the expansive monetary policy of the central banks. In the fiscal year 2021, the DAX achieved a price increase of 15.8 %, the SDAX rose by 11.2 %.

The HENSOLDT AG share started the year 2021 with a price of € 14.09 per share and initially developed significantly positively in the first trading days of the new year. The share price development was supported by the generally positive

[2] The UN Global Compact is the world’s largest initiative for sustainable and responsible corporate governance.

[3] Defined as ratio of order intake to revenue in the relevant fiscal year. The importance of the book-to-bill ratio has increased in the current fiscal year which was taken into account accordingly in financial reporting.

[4] Defined as EBIT adjusted for depreciation and amortization (including effects on earnings from purchase price allocations), as well as certain non-recurring effects relating to transaction costs, separation costs, and other non-recurring effects.

[5] Defined as free cash flow adjusted for non-recurring effects as well as interest, tax and M&A activities. The free cash flow is defined as sum of the cash flows from operating and investing activities as reported in the consolidated statement of cash flows.

[6] Defined as EBIT, adjusted for certain non-recurring effects relating to transaction costs, separation costs, and other non-recurring effects.

market environment. However, the share price declined in the further course of the first quarter. The preliminary results of HENSOLDT Group for the fiscal year 2020 published in February and the promising forecast for the fiscal year 2021 were initially unable to counteract this development. At the beginning of the second quarter, HENSOLDT's share price then rose significantly. At the end of April, the HENSOLDT share price reached its high for the year at € 17.46. Starting from the high for the year, the share price initially fell significantly and moved mainly sideways in the following months. In the course of the general price decline on the stock exchanges due to the spread of the Omicron variant of the COVID-19 virus, the HENSOLDT share price also fell and reached its low for the year of € 11.88 in December. The year-end share price was € 12.52, and thus 10.3 % below the previous year's closing price.

Major milestones in the fiscal year 2021 that had a positive impact on the share price were the indirect entry of the Federal Republic of Germany ("German Government" or "Federal Government") as a shareholder in May and the announcement of the participation and strategic partnership with the Italian defence company Leonardo S.p.A., Italy, (hereinafter "Leonardo"), in April of this year as well as the good operating development of HENSOLDT AG in the current fiscal year.

As part of the regular review of the SDAX index composition, the Frankfurt Stock Exchange announced at the end of December 2021 that HENSOLDT is no longer part of the SDAX share index. The main reason was that the market capitalization based on free float was too low compared to other companies.

6.2 Shareholder structure

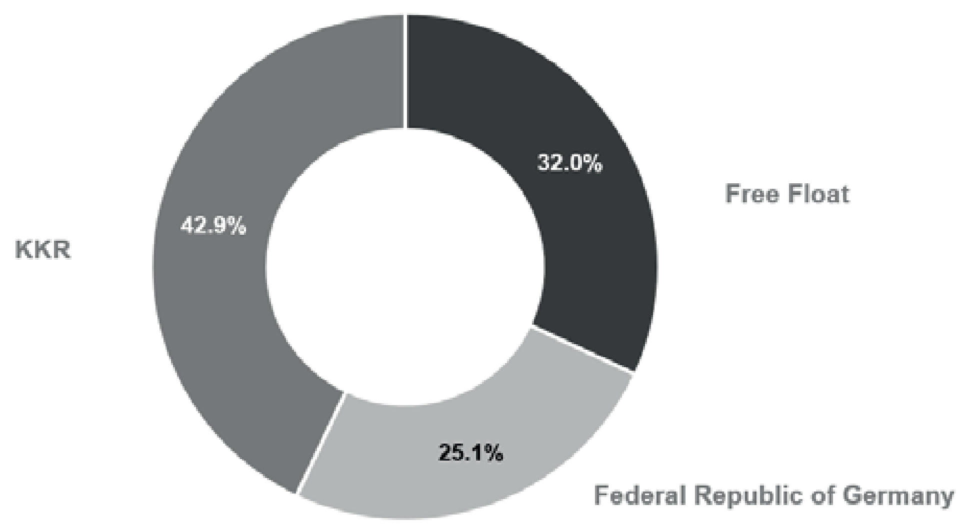
Square Lux Holding II S.à r.l. ("Square Lux"), a portfolio company controlled by funds advised by Kohlberg Kravis & Roberts & Co. L.P., held approximately 42.9 % of the shares of HENSOLDT AG on December 31, 2021.

The Federal Republic of Germany is indirectly a shareholder of HENSOLDT AG through the Kreditanstalt für Wiederaufbau ("KfW") with a share of 25.1 % on December 31, 2021.

With a share of more than 3.0 %, the institutional investors Wellington Management Group LLP (3.9 %) and Lazard Asset Management (3.1 %) are major shareholders of the Company.

Free float was around 32.0 % at the end of the year.

Shareholder structure of HENSOLDT AG as of December 31, 2021:



The free float as defined by Deutsche Börse includes all shares that are not held by major shareholders (share of share capital of more than 5 %).

In April 2021, Leonardo announced that it has entered into an agreement with Square Lux to purchase 25.1 % of the shares of HENSOLDT AG. The transaction was closed on January 3, 2022, and Leonardo now holds 25.1 % of the shares in HENSOLDT AG. The share of Square Lux decreased to approximately 17.8 % as of January 3, 2022, as part of the closing of the transaction.

On March 2, 2022, Square Lux reduced its share in HENSOLDT AG to approximately 8.3 %.

6.3 Analyst coverage

At the end of 2021, the following well-known national and international banks and local research houses were monitoring and evaluating the HENSOLDT stock:

- Agency Partners
- Bank of America Securities
- KEPLER CHEUVREUX / UniCredit
- Citigroup
- J.P. Morgan
- Warburg Research

At the end of 2021, a total of three of the six analysts issued a "buy" recommendation. Three analysts rated the stock a "hold" and none of the analysts issued a "sell" recommendation. The average target price was € 17.47 per share, corresponding to a possible price potential of 39.5 % compared with the year-end price of € 12.52 per share. The analysts considered the further growth prospects for the 2022 fiscal year as well as the current development of the security and defence industry to be positive.

Since August 2021, HENSOLDT AG publishes an Analyst Consensus Estimate containing the most important key figures. An overview is made available on the website of HENSOLDT at https://investors.hensoldt.net in the section "Investors".

6.4 Investor Relations – communication with the capital market

HENSOLDT strives to maintain a transparent and continuous dialogue with capital market participants. Therefore, it is an important concern of HENSOLDT to constantly deepen the relationship with investors, analysts and financial journalists through individual meetings, telephone calls, roadshows, conferences as well as company visits (if possible) and to expand the confidence of capital market participants in the Group. In the fiscal year 2021, the Management Board held an analyst and investor call following the publication of the financial figures for the first quarter, the first half year and the first nine months of 2021 and presented both the recent strategic developments of the Group, the current business performance and the growth prospects to the capital market participants.

In total, 60 discussions were conducted in individual or group meetings with investors and analysts.

In addition, the management of HENSOLDT organized a Capital Markets Day on November 11, 2021. During this event, HENSOLDT presented a comprehensive insight into the strategic orientation and medium-term planning and gave the participants the opportunity to hold personal discussions with the management of HENSOLDT.

6.5 General meeting

The first ordinary general meeting of HENSOLDT AG was held on May 18, 2021. Due to the COVID-19 pandemic, the event was held as a purely virtual meeting without the physical presence of any shareholders. A shareholder portal was made available so that participants were able to follow the event live on the internet via video transmission, exercise their voting rights and submit questions in advance of the meeting. All questions submitted were answered by the Management Board of HENSOLDT AG. The shareholders approved all agenda items with large majorities. They thus also approved the proposal of the Supervisory Board and Management Board to pay a dividend of € 0.13 per share. All voting results are made available on the website of HENSOLDT at https://investors.hensoldt.net in the section "Investors".

6.6 Basic information and key data on the HENSOLDT share in 2021

ISIN:	DE000HAG0005
WKN:	HAG000
Symbol:	HAG
Stock exchange listing:	Frankfurt Stock Exchange
Stock exchange segment:	Regulated market (Prime Standard)
Index membership:	Member of the SDAX share index until December 2021
Designated Sponsor:	J.P. Morgan
Number of shares:	105,000,000
Share type:	Bearer shares without par value (no par value share)
Highest share price in Xetra-trading in €:	17.46 (April 26, 2021)
Lowest share price in Xetra-trading in €:	11.88 (December 15, 2021)
Closing share price in Xetra-trading (December, 30 2021) in €:	12.52
Market capitalization (December, 30 2021) in €:	1.315 billion
Free float (December, 31 2021):	31.96%

II Economic report

1 Economic conditions

1.1 General economic conditions

In its press release on the economic situation in Germany in January 2022, the German federal government published a price-adjusted increase of the German gross domestic product (shortly: “GDP”) of 2.7 %. Despite the ongoing pandemic and increasing material and supply bottlenecks, the German economy was thus able to recover in the second COVID-19 crisis year. However, GDP growth in 2021 was not sufficient to compensate for the sharp decline in the first COVID-19 crisis year 2020. The economic development in 2021 was also strongly dependent on the incidence of infections. Particularly in the fourth quarter of 2021, the economic recovery was initially dampened due to increasing material and supply bottlenecks, and finally halted by the fourth COVID-19 wave and further measures initiated by the government to protect against COVID-19. Based on the knowledge available to date, the GDP has declined again in the fourth quarter of 2021 compared to the previous quarter. The supply and transport bottlenecks were also reflected in sharp price increases in production and imports of intermediate goods, as well as in a rise in order backlogs in the industry.

In 2021, added value increased in almost all economic sectors compared to the previous year. The production industry (excluding construction), in particular, as well as the service sector experienced significant increases, whereas the construction industry actually reported a slight drop in value added.

On the demand side, price-adjusted private consumer spending in 2021 was at the low level of the previous year. Government consumption expenditure continued to rise despite the already high level of the previous year and thus supported the growth in 2021. Investments in equipment also went up compared to the previous year. Foreign trade recovered compared to the previous year, with both exports and imports of goods and services increasing. At the same time, the labor market was able to stabilize in 2021. Corporate and property income increased more significantly than the pay levels of employees.

In an international comparison, the growth of the German economy was probably lower than in the other European countries. The pre-crisis level has not yet been reached again in the EU as a whole. The effects of the tightened COVID-19 measures, the support measures taken by the government and the development of consumer prices will be decisive for the further economic development.

The January 2022 World Economic Outlook published by the International Monetary Fund (“IMF”) projects the global economy to grow by 4.4 % in 2022 (2021: 5.9 %), which corresponds to a reduction of 0.5 % compared to the October 2021 forecast.

According to statements of the IMF, the ongoing global recovery faces many challenges in the third year of the pandemic. The rapid spread of the Omicron variant has led to renewed mobility restrictions in many countries and further exacerbated labor shortages. Supply chain problems burden the economy and, in addition to strong demand and higher food and energy prices, are further increasing inflationary pressures. In addition, record debt levels and rising inflation are limiting the options for action in many countries.

After the recovery in 2021, global growth is expected to decline in the medium term. While a return to the pre-pandemic trend is forecast for the advanced economies, some significant production losses are expected for the emerging and developing countries in the medium term. The growth in the USA is expected to be at 4.0 % in 2022 (2021: 5.6 %). A rise by 3.9 % (2021: 5.2 %) is expected for the Euro zone. In China, the growth is assumed to weaken to 4.8 % (2021: 8.1 %).

1.2 Conditions in the defence and security sector

In response to Russia's invasion of Ukraine, Chancellor Olaf Scholz announced in a speech to the German Bundestag a special fund for the Bundeswehr amounting to € 100 billion and an increase in German defence spending to 2 % of the gross domestic product. This will significantly influence the conditions for the defence and security industry. The specific design and implementation of possible procurement programs as well as procurement priorities are still open.

Also in 2021, existing security trends and tensions have expanded during the COVID-19 pandemic and have increased international competition for commodities and spheres of influence and made the security environment even more unpredictable. Because of the changing security environment and growing instability, worldwide defence investments increased in the last years. The focus of the European Union as well as the United States of America on the Indo-Pacific region and the strategic competition situation with China are the most obvious manifestations of this development. A new security cooperation between the US, the UK and Australia (AUKUS) highlights this focus and increases the pressure on the EU and its member states to invest more in their defence capabilities and broaden their focus beyond national and alliance defence.

The new Federal Government has stipulated in its coalition agreement that the German Federal Armed Forces, Bundeswehr, must fulfil national and alliance defence in equal measure alongside foreign missions within the framework of international crisis and conflict management. The EU member states want to further deepen their defence cooperation and strengthen EU-NATO relations. The EU Commission and its President, Ursula von der Leyen, are promoting this process and, following the step of increased industrial cooperation, are pursuing the goal of a deepened political defence union. The political guidelines are to be adopted in the new Strategic Compass by the heads of state and government of the member states.

In June 2021, the European Defence Fund (shortly referred to as "EDF") with a size of approximately € 8 billion from 2021 to 2027 was officially launched. The EDF offers HENSOLDT the opportunity to expand its European presence and status as a sought-after international cooperation partner. Another wave of projects in the field of Permanent Structured Cooperation ("PESCO") has also been decided in November 2021. Thus, there are currently 60 PESCO projects for multilateral military cooperation, some of which are linked to EDF and EDIDP programs[7]. Participation in the PESCO "Military Mobility" project was opened to Canada, the US and Norway in May 2021, underlining the enhanced EU-NATO cooperation. In addition, the EU member states have given the European Defence Agency a mandate to explore deeper cooperation with the US within the framework of an "Administrative Agreement". From NATO's side, a stronger involvement of industry in program planning is developing which also opens up business opportunities for HENSOLDT.

Hybrid scenarios and the use of modern technologies in conflicts, especially in the area of unmanned aircrafts, increasingly reveal capability gaps – e.g. in the cyber domain as well as in air defence and drone countermeasures. Many countries are investing in closing these capability gaps, but also in offensive cyber capabilities, leading to increased dual-use potential for defence and security industry products.

Overall, multifaceted business opportunities arise for HENSOLDT worldwide and especially in its EU home countries from the conditions in the defence and security sector. The restrictive arms export policy announced in the coalition agreement with a potential EU arms export regulation as well as a national arms export control law may harbor risks for the defence industry. The agreement between Germany and France on arms exports in cooperation programs was extended to include Spain in 2021 and offers the possibility of involving further countries or can serve as a template for further bilateral agreements between Germany and its partner states to create reliable rules for export in the context of future cooperation programs. It represents an indispensable pillar for successful European armaments cooperation as desired by the Federal Government.

2 Business development

In the fiscal year 2021, we continued to monitor the situation around the COVID-19 pandemic at all our sites to protect the health and well-being of all our employees, customers and partners as well as our Group. The COVID-19 pandemic has still not significantly influenced HENSOLDT`s business as a provider of defence and security electronic solutions. The utilization of the revolving credit facility, which was fully drawn as part of our COVID-19 mitigation plan in 2020, was repaid by a total of € 200.0 million in the fiscal year 2021.

In April 2021, Leonardo announced that it has entered into a definitive agreement with Square Lux to purchase 25.1 % of the shares in HENSOLDT AG. The purchase was closed by Leonardo in January 2022. In May 2021, KfW had acquired 25.1 % of HENSOLDT AG's shares from Square Lux, by executing the acquisition rights of the Federal Government.

In May 2021, HENSOLDT AG held its first annual general meeting. Due to the pandemic the meeting was held virtually. Following the decision of the annual general meeting, a total amount of € 13.7 million was distributed as dividend to the shareholders of HENSOLDT AG.

With effect from June 2021, HENSOLDT switched the consolidation method of HENSOLDT Cyber from at-equity to full consolidation. This was due to potential voting rights in connection with conversion rights related to the loans granted to HENSOLDT Cyber. In addition, HENSOLDT closed two minor but strategically important acquisitions at the beginning of 2021, namely two business units (Air Traffic Management ("ATM") and Defence Division) of Tellumat (Pty) Ltd. in South Africa as well as HENSOLDT Analytics GmbH (formerly: SAIL LABS Technology GmbH) in Vienna.

With the appointment of Celia Pelaz as of July 1, 2021, the Management Board of HENSOLDT AG was expanded to four members. Celia Pelaz serves as Chief Strategy Officer and continues to lead the Spectrum Dominance & Airborne Solutions division as well as HENSOLDT Ventures.

Overall, HENSOLDT Group's business operations in the fiscal year 2021 were marked by ongoing profitable development. In 2021, strong order intakes were recorded once again, most notably for the development and delivery of the airborne electronic signals intelligence system "PEGASUS" with a contract value of € 1.25 billion and large orders relating to the procurement of additional Eurofighters by the German Air Force ("Eurofighter Quadriga") as well as for observation, reconnaissance and sea platforms. Revenue increased significantly by 22.2 % (€ 1,474.3 million; previous year: € 1,206.9 million). This is mainly due to the ramp up of key programs. Adjusted EBITDA improved by 18.9 % (€ 260.7 million; previous year: € 219.3 million). The increase was mainly driven by volume effects, a favorable project mix and higher other operating income. These effects were partly compensated by lower project margins for higher revenue from pass-through business and for projects in early stage of life-cycle as well as by higher research and development and functional costs.

3 Net assets, financial position and results of operations

3.1 Results of operations

Order intake, revenue, book-to-bill ratio and order backlog

	Order intake			Revenue			Book-to-bill			Order backlog		
	Fiscal year			Fiscal year			Fiscal year			Dec. 31,	Dec. 31,	
in € million	2021	2020	% Delta	2021	2020	% Delta	2021	2020	% Delta	2021	2020	% Delta
Sensors	2,774.4	2,238.1	24.0%	1,147.7	923.6	24.3%	2.4	2.4	-0.2%	4,420.2	2,825.5	56.4%
Optronics	405.4	308.3	31.5%	331.9	288.1	15.2%	1.2	1.1	14.2%	676.1	600.0	12.7%
Elimination/ Transversal/ Others	-8.3	-5.1		-5.3	-4.8					-4.1	-1.5	
HENSOLDT	**3,171.5**	**2,541.3**	**24.8%**	**1,474.3**	**1,206.9**	**22.2%**	**2.2**	**2.1**	**2.2%**	**5,092.2**	**3,424.0**	**48.7%**

Order intake

Order intake increased significantly at Group level, with both segments showing strong growth. COVID-19-related delays and postponements had only insignificant effects.

Growth in the Sensors segment was mainly driven by orders for PEGASUS and Eurofighter Quadriga in the Spectrum Dominance & Airborne Solutions division. The division Radar & Naval Solutions benefitted from further contracts resulting from the Eurofighter Quadriga program as well as order for the delivery of long-range radars for German airspace surveillance and the modernization of F-124 frigates as well as a radio reconnaissance system for NATO countries. The previous year included the orders for the Eurofighter Common Radar System Mk1. In addition, the Customer Services & Space Solutions division contributed to growth through several customer support and maintenance contracts for the Eurofighter program. Within the Sensors segment, 29.2 % (previous year: 78.5 %) came from the Radar & Naval Solutions division. The Spectrum Dominance & Airborne Solutions division accounted for 60.0 %

[7] European Defence Industrial Development Programme

(previous year: 10.6 %) of the order intake and 10.8 % (previous year: 10.6 %) are to be allocated to the Customer Services & Space Solutions division.

The higher order intake in the Optronics segment resulted mainly from the product lines Ground Based Systems and Naval. Other increases could also be recorded in the High-Performance Optics product line. The increase was partly offset by lower order intake in the Aerospace & Protection product line.

Revenue

Revenue increased significantly, mainly due to the revenue for PEGASUS and the Eurofighter Common Radar System Mk1 in the Sensors segment. COVID-19-related delays and postponements had only minor effects.

The growth within the Sensors segment was particularly driven by the Spectrum Dominance & Airborne Solutions and Radar & Naval Solutions divisions. The Radar & Naval Solutions division contributed 41.6 % (previous year: 42.8 %) and the Spectrum Dominance & Airborne Solutions division 33.2 % (previous year: 27.4 %) to revenue. The increase in revenue within the Radar & Naval Solutions division was mainly due to higher revenues within Eurofighter radars. The Spectrum Dominance & Airborne Solutions division was able to significantly increase its revenue, in particular due to PEGASUS. The Customer Services & Space Solutions division accounted for 25.2 % (previous year: 29.4 %) of revenue which rose in particular due to higher revenue for the Eurofighter program.

In the Optronics segment, the increase was achieved in particular in the Security Solutions and Ground Based Systems product lines as well as in the South African company.

Book-to-bill ratio

The book-to-bill ratio could once again be slightly increased compared to the previous year due to the strong order intake.

In the Sensors segment, the book-to-bill ratio remained on a very high level. A decline in the Radar & Naval Solutions division was fully compensated by increases in the Spectrum Dominance & Airborne Solutions and Customer Services & Space Solutions divisions. The changes compared to the previous year resulted particularly from the order intake for Eurofighter Common Radar System Mk1 in the previous year and PEGASUS in the fiscal year 2021.

The book-to-bill ratio in the Optronics segment went up slightly. This resulted mainly from a higher order intake in the Ground Based Systems, Naval and High-Performance Optics product lines and was partially offset by declines in the Aerospace & Protection and Sights product lines and the South African company.

Order backlog

Order backlog at Group level increased strongly due to a book-to-bill ratio of 2.4 in the Sensors segment and 1.2 in the Optronics segment.

Further growth compared to December 31, 2020, was mainly driven by the order intakes in the divisions Spectrum Dominance & Airborne Solutions as well as Radar & Naval Solutions. Within the Sensors segment, approx. 53.0 % (previous year: 72.5 %) of the order backlog was held in the Radar & Naval Solutions division. Approx. 39.0 % (previous year: 14.9 %) relate to the Spectrum Dominance & Airborne Solutions division. The increase compared to the previous year was mainly caused by the order intake for PEGASUS. The Customer Services division accounted for approx. 8.0 % (previous year: 12.1 %).

Further increase in the Optronics segment compared to December 31, 2020 resulted primarily from the order intake in the product lines Ground Based Systems, Naval and High-Performance Optics.

Income[8]

	Profit			Profit margin	
	Fiscal year			Fiscal year	
in € million	2021	2020	% Delta	2021	2020
Sensors	194.4	156.2	24.5%	16.9%	16.9%
Optronics	68.2	65.6	4.0%	20.5%	22.8%
Elimination/Transversal/Others	-1.9	-2.5			
Adjusted EBITDA	**260.7**	**219.3**	**18.9%**	**17.7%**	**18.2%**
Depreciation and amortization	-126.0	-120.8	-4.3%		
Non-recurring effects	-9.0	-30.0	70.0%		
Earnings before finance result and income taxes (EBIT)	**125.7**	**68.5**	**83.5%**	**8.5%**	**5.7%**
Finance result	-40.8	-143.7	71.6%		
Income taxes	-22.2	10.7	<-200%		
Group result	**62.7**	**-64.5**	**197.2%**	**4.3%**	**-5.3%**
Earnings per share (in €; basic/diluted)	**0.60**	**-0.75**	**180.0%**		

Adjusted EBITDA

The adjusted EBITDA of the Group increased significantly compared to the previous year, mainly due to volume effects, a favorable project mix and higher other operating income. These effects were partly compensated by lower project margins for higher revenue from pass-through business and for projects in early stage of life-cycle as well as by higher research and development and functional costs.

The Sensors segment had a significant impact on the development of the Groups' EBITDA. The volume effects in the Sensors segment were the result of higher revenues for PEGASUS and the Eurofighter Common Radar System Mk1. Simultaneously, these programs achieved lower project margins from pass-through business. The favorable project mix was mainly reported in the Customer Services & Space Solutions division.

The increase of the adjusted EBITDA in the Optronics segment compared to the previous year was mainly due to volume effects realized by higher revenue in Security Solutions and Ground Based Systems and in the South-African company. These effects were compensated partly by higher costs of production ramp-ups in Germany and South Africa and increased research and development costs for sea programs and functional for new business fields such as e.g. security solutions.

Earnings before finance result and income taxes (EBIT)

Higher amortization of capitalized development costs, right of use assets and depreciation of property, plant and equipment were partly offset by lower amortization of acquired intangible assets.

Non-recurring effects[9] considered in the EBITDA went down mainly due to lower other non-recurring effects in general administrative expenses in connection with the preparation of the IPO of HENSOLDT AG in the previous year.

Group result

The significant improvement of the finance result was largely driven by the revaluation of an embedded derivative in the former Term Loan agreement in accordance with IFRS 9 which characterized the finance result in the previous year. In addition, expenses in the previous year of € 27.9 million were recorded due to the premature repayment of the replaced long-term loan. In the current reporting period no such effects were recognized due to restructured financial liabilities in connection with the IPO.

[8] The profit margins are calculated in relation to the corresponding revenue.

[9] Defined as transaction costs, separation costs and other non-recurring effects.

An income tax expense in the amount of € 22.2 million in the fiscal year (previous year: income of €10.7 million) was recorded. It includes current income tax expenses of € 20.2 million (previous year: € 9.4 million) and an effect from deferred tax expenses of € 2.0 million (previous year: income of € 20.1 million). The deferred tax expense for the fiscal year relates to the decrease in temporary differences amounting to € 6.0 million and the recognition of deferred tax assets for loss and interest carry-forwards in the amount of € 8.0 million. The decrease of deferred tax income mainly results from the revaluation of the embedded derivative in the replaced Term Loan agreement in the previous year.

Earnings per share

Earnings per share improved from € -0.75[10] to € 0.60 compared to the previous year, mainly due to the increased EBITDA, lower non-recurring effects and an improved finance result.

The Management Board intends to propose to the Supervisory Board the distribution of a dividend of € 0.25 per share to shareholders entitled to such dividends. This corresponds to an expected total payment of around € 26.3 million. The payment of the proposed dividend is subject to the approval of the annual general meeting.

Overall assessment

The Management Board assesses the economic performance of the HENSOLDT Group as being overall positive. Despite the temporarily challenging environment due to the COVID-19 pandemic, revenue targets were fully achieved. The targets for the order intake were exceeded. Due to the achieved increase in business volume and the consequent implementation of efficiency improvement measures, adjusted EBITDA fully met the expectations.

3.2 Net assets

in € million	Dec. 31, 2021	Dec. 31, 2020	% Delta
Non-current assets	1,320.2	1,313.4	0.5%
therein: Goodwill	*651.3*	*637.2*	*2.2%*
therein: Intangible assets	*385.0*	*386.2*	*-0.3%*
therein: Property, plant and equipment	*108.2*	*103.1*	*4.9%*
therein: Right-of-use assets	*140.7*	*143.5*	*-2.0%*
Current assets	1,629.5	1,634.2	-0.3%
therein: Inventories	*444.2*	*403.7*	*10.0%*
therein: Contract assets	*170.0*	*204.4*	*-16.8%*
therein: Trade receivables	*309.2*	*282.0*	*9.6%*
therein: Other current assets	*166.7*	*78.7*	*111.8%*
therein: Cash and cash equivalents	*529.3*	*645.5*	*-18.0%*
Total assets	**2,949.7**	**2,947.6**	**0.1%**

As at December 31, 2021, the Group's assets remained almost unchanged with a slight increase by 0.1 % to € 2,949.7 million. The slight increase resulted from the rise in non-current assets by € 6.8 million or 0.5 % and was partly offset by a decrease in current assets by € 4.7 million or 0.3 %.

The increase in non-current assets from € 1,313.4 million as at December 31, 2020, to € 1,320.2 million as at December 31, 2021, was largely due to the goodwill capitalized in the course of the full consolidation of HENSOLDT Cyber. Intangible assets remained almost unchanged since the amortization of assets from acquisitions and capitalized development costs of € 81.9 million (previous year: € 79.5 million) were compensated almost in full by the capitalization of development cost in the fiscal year 2021 of € 66.1 million (previous year: € 62.1 million) and further additions made in the course of the first-time consolidation of HENSOLDT Cyber. The rise in property, plant and equipment was caused, in particular, by higher investments in assets under construction of € 12.6 million (previous year: € 6.6 million) and were partly offset by lower investments in technical equipment and machinery of € 7.9 million (previous year: € 16.7 million) and depreciation.

In contrast to non-current assets, current assets decreased by € 4.7 million in the fiscal year 2021, from € 1,634.2 million as at December 31, 2020, to € 1,629.5 million as at December 31, 2021. The increase in inventories, trade receivables and other current assets was completely offset by the decline in cash and cash equivalents and contract assets. The rise in inventories and trade receivables resulted mainly from the increased business activity. The decline in contract assets by € 34.4 million to € 170.0 million as of December 31, 2021, resulted primarily from deliveries and invoicing in the context of the completion of some long-term projects. Other current assets amounting to € 166.7 million compared to € 78.7 million as of December 31, 2020, increased mainly due to higher advance payments to suppliers. The decline in cash and cash equivalents of € 116.2 million was primarily due to the partial repayment of the revolving credit facility of € 200.0 million and scheduled payments from the passing on of due amounts from factoring agreements to the factor of € 85.5 million. This effect was partly offset by the positive free cash flow of € 182.1 million.

The Management Board assesses the asset situation of the HENSOLDT Group as being overall positive.

3.3 Financial position

Basic principles of financial management

HENSOLDT's financial management is focused on guaranteeing financial stability, flexibility and especially liquidity of the Group at all times. This includes capital structure management and financing of the HENSOLDT Group, the cash and liquidity management and the monitoring and controlling of market price risks, such as exchange rate and interest rate risks. The financing structure of the HENSOLDT Group enables it to maintain financial room for maneuver in order to take advantage of business and investment opportunities.

Capital structure

In connection with the IPO, HENSOLDT replaced its existing debt financing with a new facilities agreement comprising a long-term loan of € 600.0 million and a revolving credit facility of € 350.0 million. In the fiscal year 2021, both the long-term loan and the revolving credit facility were increased by € 20.0 million each; the revolving credit facility was utilized in the amount of € 150.0 million (before accrued interest in the amount of € 0.1 million) as at the balance sheet date, refer to note "36.2 Financing liabilities" in the consolidated financial statements.

The availability and conditions of the long-term syndicated loan are tied to the compliance with a financial covenant, which refers to the ratio of net debt to adjusted EBITDA as defined in the Senior Financing Agreement. In the fiscal year 2021, the financial covenants were complied with at all times. In the event of a breach, the financing partners are authorized to terminate the syndicated loan. There are currently no indications that the covenant will not be complied with in the near future.

[10] Given the increase in share capital from company funds in 2020, calculated under the assumption that HENSOLDT AG had already issued 80.0 million shares before January 1, 2020.

in € million	Dec. 31, 2021	Dec. 31, 2020	% Delta
Equity	410.4	346.8	18.3%
therein: Share capital / capital reserve	*688.2*	*701.8*	*-1.9%*
therein: Other reserves	*-70.5*	*-86.3*	*18.3%*
therein: Retained earnings	*-218.4*	*-281.6*	*22.4%*
Non-current liabilities	1,284.5	1,257.1	2.2%
therein: Non-current provisions	*496.7*	*482.6*	*2.9%*
therein: Non-current financing liabilities	*622.0*	*601.3*	*3.4%*
therein: Non-current lease liabilities	*139.5*	*140.3*	*-0.6%*
Current liabilities	1,254.8	1,343.7	-6.6%
therein: Current provisions	*188.1*	*193.6*	*-2.8%*
therein: Current financing liabilities	*166.3*	*363.3*	*-54.2%*
therein: Current contract liabilities	*500.0*	*416.8*	*20.0%*
therein: Trade payables	*269.1*	*164.0*	*64.1%*
therein: Other current financial liabilities	*10.0*	*97.8*	*-89.8%*
therein: Other current liabilities	*94.1*	*86.9*	*8.3%*
Total equity and liabilities	**2,949.7**	**2,947.6**	**0.1%**

As of December 31, 2021, equity and liabilities increased only slightly by € 2.1 million or 0.1 % to € 2,949.7 million compared to € 2,947.6 million as of December 31, 2020.

This rise was primarily due to an increase in equity by € 63.6 million to € 410.4 million. The main reason for this rise was the reduction in negative retained earnings as a consequence of the positive Group result in the current fiscal year. In addition, negative other reserves decreased by € 15.8 million, mainly due to the adjustment of provisions for pension obligations according to the actuarial calculations in relation to the balance sheet date. The reversal of the capital reserve as a result of the dividend payment in the amount of € 13.7 million for the fiscal year 2020 had a compensating effect.

In addition, non-current liabilities increased by € 27.4 million from € 1,257.1 million as at December 31, 2020, to € 1,284.5 million as at December 31, 2021, mainly due to the increase in provisions for pension obligations and non-current financing liabilities. The latter increased primarily due to the increase in the long-term loan.

In contrast, current liabilities decreased by € 88.9 million from € 1,343.7 million as at December 31, 2020, to € 1,254.8 million as at December 31, 2021. The main reason for this decline was the partial repayment of the revolving credit facility by € 200.0 million. In addition, other current financial liabilities decreased. The latter position is determined by scheduled forwarding of payments to a factoring company. This relates to payments received for factoring contracts that were not yet due for forwarding to the factor as of December 31, 2020. These decreases were partly compensated by an increase in trade payables and current contract liabilities, which increased in particular due to the higher advance payments received which rose mainly due to the higher business volume in connection with the major projects.

Investment and liquidity analysis

	Fiscal year		
in € million	2021	2020	Delta
Cash flows from operating activities	299.2	196.9	102.3
therein: Group result	*62.7*	*-64.5*	*127.2*
therein: Financial expenses (net)	*33.2*	*128.2*	*-95.0*
therein: Income tax expense (+) / income (-)	*22.2*	*-10.7*	*32.9*
therein: Inventories	*-44.2*	*5.3*	*-49.5*
therein: Contract balances	*111.2*	*61.4*	*49.8*
therein: Trade receivables	*-22.1*	*5.3*	*-27.4*
therein: Trade payables	*107.2*	*-8.6*	*115.8*
therein: Other assets and liabilities	*-82.8*	*-17.8*	*-65.0*
Cash flows from investing activities	-117.1	-95.0	-22.1
therein: Acquisition of subsidiaries net of cash acquired	*-12.1*	*6.4*	*-18.5*
Free cash flow	**182.1**	**101.9**	**80.2**
Non-recurring effects	12.1	50.4	-38.3
Interest, income taxes and M&A activities	58.1	44.1	14.0
Adjusted pre-tax unlevered free cash flow	**252.3**	**196.4**	**55.9**
Cash flows from financing activities	**-297.2**	**411.0**	**-708.2**
therein: Repayment from financing liabilities to banks	*-210.0*	*-920.0*	*710.0*
therein: Proceeds from financing liabilities to banks	*30.3*	*950.0*	*-919.7*
therein: Change in other financing liabilities	*-83.7*	*97.1*	*-180.8*
therein: Issue of shares	-	*300.0*	*-300.0*
Net changes in cash and cash equivalents	**529.3**	**645.5**	**-116.2**

Free cash flow

The improvement in cash flow from operating activities was primarily due to an increase in profitability. The increase in trade payables and the higher build-up of contract liabilities, mainly due to advance payments received, were partly offset by higher inventories and trade receivables as well as advance payments made.

The increase in negative cash flow from investing activities was primarily due to higher payments for M&A activities and increased investments in property, plant and equipment and intangible assets in the fiscal year.

Investments include capital expenditure used to acquire, upgrade and maintain physical assets such as property, plant and equipment as well as intangible assets, such as software or licenses. In addition, capital expenditure includes development costs which were capitalized as internally generated intangible assets. The increase in capital expenditure is mainly due to higher investments in construction in progress and higher capitalized development costs (refer to chapter "I 5 Research and development").

Adjusted pre-tax unlevered free cash flow

The adjusted pre-tax unlevered free cash flow improved by € 55.9 million to € 252.3 million, amongst other things due to lower non-recurring effects. The non-recurring effects[11] were mainly associated with the preparation of the IPO in the previous year and lower transaction costs in the current fiscal year. The increase in interest[12], income tax[13] and M&A

[11] Defined as "transaction costs, separation costs and other non-recurring effects".

[12] Defined as "Interest paid" (including interest on lease liabilities) as reported in the consolidated statement of cash flow.

[13] Defined as "Income tax payments / refunds" as reported in the consolidated statement of cash flow.

activities[14] was mainly related to higher outflows from M&A activities and for income taxes which were partly compensated by lower interest payments in the current reporting period.

Cash flows from financing activities

The decrease in cash flows from financing activities resulted primarily from the partial repayment of the revolving credit facility by € 200.0 million, while the net cash inflows of € 350.0 million in the previous year were determined by its drawing. In the comparative period of the previous year, the proceeds of the IPO of € 300.0 million were used to reduce non-current financing liabilities in the course of refinancing. Further cash outflows in the reporting period resulted from scheduled payments to a factoring company of € 85.5 million. This related mainly to payments received for factoring contracts that were not yet due for forwarding to the factor as of December 31, 2020. In addition, this includes dividend payments amounting to € 13.7 million in the current fiscal year, while no distribution was made in the previous fiscal year.

Cash and cash equivalents

As of December 31, 2021, cash and cash equivalents were exclusively composed of bank balances amounting to € 529.3 million. The decrease compared with the previous year resulted mainly from the partial repayment of the revolving credit facility and scheduled payments to a factoring company. This effect was partially offset by the positive free cash flow and the additional long-term borrowings.

Overall assessment

Overall the Management Board assesses the financial situation as positive. The liquidity of the Group was ensured at all times during the fiscal year.

[14] Defined as sum of “Share of profit in entities recognized according to the equity method”, “Payments received from the sale of intangible assets, property, plant and equipment”, “Acquisition of associates, other investments and other non-current financial investments”, “Disposal of associates, other investments and other non-current financial assets”, “Acquisition of subsidiaries net of cash acquired” as well as “Other cash flows from investing activities” as reported in the consolidated statement of cash flow.

III Forecast

1 Development of overall economic conditions

The IMF still expects an increase of the global economic performance of 5.9 % in the fiscal year 2021. For 2022, the IMF forecasts a global economic growth of 4.4 %. This forecast, which has been revised downwards by 0.5 percentage points compared to October 2021, reflects in particular the projected markdowns for the two largest economies, the US and China. The IMF’s latest World Economic Outlook projects that the Omicron variant of the COVID-19 virus will weigh on economic activity in the first quarter of 2022, but that this effect will fade from the second quarter onwards.

For the Euro area, the IMF projects a declining growth compared to previous years of 3.9 % on average. Compared to the last forecast, there was a downgrade of 0.4 percentage points, due in particular to ongoing supply chain difficulties and constraints related to COVID-19. For 2023, the IMF expects a growth of 2.5 % on average.

The uncertainty surrounding these forecasts is unusually high because they are based on health and economic factors that are by nature difficult to predict. The emergence of new COVID-19 variants could prolong the pandemic and cause renewed economic disruption. Uncertainties about inflation and the global effects of countermeasures remains high. Other global risks may emerge as geopolitical tensions remain high and the ongoing climate emergency means that the likelihood of major natural disasters remains elevated.

As the pandemic continues, an effective global health strategy is more important than ever. The monetary policy needs to be tightened further in many countries to contain inflationary pressures, while fiscal policy should prioritize health and social spending. In this context, international cooperation will be crucial in order to maintain access to liquidity and to expedite an orderly debt restructuring whenever needed. Investments in climate policy continue to be essential to reduce the risk of catastrophic climate change.

2 Development in the defence and security sector

Russia's invasion of Ukraine will have significant impacts on the future development of the industry. Specific developments and medium- to long-term trends are currently still open.

France assumed the presidency of the EU Council in the first half of 2022 and will also pursue a sovereign and more independent Europe in the field of defence as its objective. This is in line with the EU Commission’s plans for a strong European defence community.

The Federal Government also wants to work for an increase in Europe’s strategic sovereignty in foreign, security, defence and development policy. The government is committed to fulfilling NATO obligations it concluded as well as to fair burden sharing. This corresponds to the intention to invest 3 % of its gross domestic product in international action in order to strengthen diplomacy and development policy as well as to fulfill the obligations entered into in NATO. The European pillar in NATO is to be strengthened and better cooperation between the EU and NATO established.

The Federal Government will present a decided focus and prioritization of future procurement programs as part of the preparation of a new draft budget for the year 2022 and the medium-term financial planning until 2026. The announcement of the special fund for the Bundeswehr and the planned increase of the German defence budget to 2 % of the gross domestic product will be reflected and concretized in these draft budgets. In their coalition agreement, the new German government agreed on the procurement of a successor system for the Tornado fighter aircraft at the beginning of the legislative period and the armament of drones. The coalition agreement also considers the role of the security and defence industry. Taking into account national key technologies, the governing parties are in favor of stronger defence technology cooperation in Europe, especially with high-value cooperation projects. Bilateral and multilateral cooperation projects offer the Group a long-term strategic perspective in terms of product development and high-volume procurement projects. In view of the further technologization in the defence sector and the need for faster procurement processes due to new and rapidly changing threat situations, the new Federal Minister of Defence has placed a major focus on modernizing procurement management. As a key national technology company and a major player in European consolidation in defence electronics, HENSOLDT is well positioned for the coming years.

With the acquisition of 25.1 % of the shares in HENSOLDT AG by Leonardo S.p.A., HENSOLDT Group has gained another long-term and strategic anchor shareholder in addition to the Federal Republic of Germany. In addition to the already existing trusting cooperation in pan-European programs, this opens up a wide range of different opportunities for further cooperation. Italian defence spending has risen to over € 28.3 billion in 2021 and is expected to remain at a level of between € 27.5 and € 24.3 billion until 2024. In the procurement area, seven programs have been identified as strategic, including radars for air defence and new ships with air defence capabilities.

Following its “Integrated Review” in the first half of 2021, the United Kingdom has set a strategic course for bilateral and multilateral cooperation in the security sector. In addition to increasing defence budgets, the UK wants to focus on new technologies and threats, especially in the cyber domain, in deeper cooperation with its closest allies. The UK’s global presence is to be expanded, to secure freedom of trade routes and to promote global cooperation in combating the consequences of climate change. The clearest example of this strategic focus is the new Asia-Pacific security alliance with the USA and Australia. Germany and the United Kingdom are also planning to strengthen bilateral cooperation in the field of defence.

In France, defence spending continues to rise according to the military planning act. This law determines that the budget for defence is set to increase by € 1.7 billion annually until 2022 and by approx. € 3 billion annually from 2022 until 2025 in order to achieve the two-percent goal set out by NATO by 2025. In 2022, the defence budget will amount to approx. € 41.0 billion and is expected to increase accordingly to approx. € 44 billion in 2023. In its new strategic direction, the French Armed Forces are to focus on digital transformation, innovation, adaptability and operational readiness in multiple scenarios, as well as the ability to react faster. The goal of deepening strategic partnerships in Europe enables further defence-industrial cooperation – bilaterally and multilaterally as well as within the framework of the EU and NATO.

The national and European ambitions in security and defence policy and the focus on digital as well as key technologies open up a multitude of business opportunities for HENSOLDT in its EU home countries, which are complemented by the strong involvement in the European Defence Fund.

Russia’s invasion of Ukraine, rising international tensions and systemic competition may continue to be accompanied by an increase in global defence budgets, investments as well as capacities in the short- and long-term. It is, in particular, the ability of the EU and NATO to cooperate which plays an important role in this complex situation.

3 Outlook

In the business planning for the Group, the Management Board expects a significant growth in revenue for the fiscal year 2022 for both segments, in particular due to the high order backlog.

For order intake in the fiscal year 2022, the management expects a sharp decline in the Sensors segment due to the very high order intake in fiscal year 2021 and a moderate increase for the Optronics segment.

The management expects a total book-to-bill ratio of more than 1.0.

Adjusted EBITDA is anticipated to increase significantly in 2022, whereby earning effects from the adjustment item purchase price allocation are assumed to decline whereas other non-recurring effects will remain constant. The adjusted EBITDA is expected to rise in both segments.

This expectation does not account for possible implications from additional waves of infection or further lockdowns in connection with the global COVID-19 pandemic as well as possible impacts on the defence and security industry from Russia's invasion of Ukraine.

The forecast strongly depends on the conditions mentioned in the opportunities and risks report and, besides the macroeconomic developments described above, is based on the multi-year business plan of the Group. This forecasts a US dollar exchange rate of $ 1.22/€ 1.00 and an average inflation rate of 2.0 % for the planning period. Furthermore, a 3.0 % increase in personnel costs is forecasted for Germany and a 2.0 % increase for France and Great Britain. In addition, the forecast volumes for revenue and order intake highly depend on the reliability and stability of the political situation.

HENSOLDT plans to achieve insignificant total revenue and order intake attributable to end-customers and business customers in the UK for 2022 to 2024. In view of the negotiated comprehensive economic partnership as part of the Brexit agreement negotiated between the EU and the United Kingdom, HENSOLDT expects only marginal effects regarding the administrative effort for imports and exports.

Overall, the Management Board is confident that HENSOLDT can build on the strong fiscal year 2021 and expects another positive development for 2022.

IV Opportunities and risks report

1 Risk report

1.1 Basic principles of the HENSOLDT risk management

At HENSOLDT Group, measures and systems have been implemented with the objective to allow an early identification of risks. Such an early identification is the basis for the timely introduction of adequate counter-measures. The same applies to consistently seizing opportunities as they arise.

To support transparent risk and opportunity management, the HENSOLDT Group identifies, manages and reports all risks and opportunities on a segment specific-basis and thus differentiates between the two segments, Sensors and Optronics.

1.2 Risk management system

The risk management system, applicable to the entire HENSOLDT Group, considers relevant legal requirements and is based on generally accepted principles set out in external frameworks and standards, such as COSO[15]. The HENSOLDT risk management system represents an integral part of the systems and instruments, which the HENSOLDT Management Board is using for a value- and success-oriented corporate management. The central objective is the early and systematic identification, assessment and management of significant risks. For this purpose, valid procedures and methods, which are applicable for all entities, are defined on HENSOLDT Group level. The overall responsibility for the risk management system lies with the Head of "Internal Audit, Risk Management & ICS". The HENSOLDT risk management team permanently monitors the HENSOLDT risk management system to support a continuous improvement process. The Group policy "Enterprise Risk Management (ERM)" issued by the Management Board defines the methodical and organizational standards dealing with risks and opportunities. In the fiscal year 2021, the requirements of the revised version of the auditing standard IDW PS 340 and, in particular, the changes related to risk-bearing capacity and risk appetite were taken into account in the Group guideline on ERM. Otherwise, no changes were made to the risk management system in the reporting period.

The operational and IT-based risk management process takes the risks of all entities into account and consists of the following steps:

- Making assumptions and setting goals,
- Annual validation and confirmation of the risk-bearing capacity and risk appetite;
- Determining roles and responsibilities,
- Identifying risks and opportunities,
- Assessing the impact of these identified risks and opportunities,
- Responding in the form of implementing appropriate measures,
- Consolidation and aggregation of individual risks by considering the interactions at corporate level,
- Monitoring the effectiveness of these response measures,
- Regular preparation of risk management reports.

For the identification and assessment of risks, the responsible persons in the various Group companies and departments have to follow the predefined procedures of the ERM team.

For the assessment of risks and opportunities on a Group level, HENSOLDT is using a predefined evaluation matrix, which includes the following levels of probability and impact.

[15] Committee of Sponsoring Organizations of the Treadway Commission

Probability (%)	min	max	Risk Matrix (Chapter IV 1.4)
Very unlikely	0.0%	4.9%	Low
Unlikely	5.0%	24.9%	Low
Possible	25.0%	49.9%	Medium
Likely	50.0%	74.9%	High
Very likely	75.0%	100.0%	High
Impact on Group Level (Mio.€)	min	max	Risk Matrix (Chapter IV 1.4)
Low	0.0	1.0	Low
Medium	1.0	2.0	Medium
High	2.0	5.0	High
Very high	5.0	10.0	High
Critical	10.0	200.0	Critical

As a scale for assessing the financial impact of risk, adjusted EBIT is used at a Group level. The basis for the subsequent impact assessment of (operative) risks on a project level is defined by the respective overall project volume or budget. Following the gross assessment of the risks and opportunities, the responsible risk owner defines respective countermeasures or measures to support the realization of opportunities. This results accordingly in the net assessment of the risks and opportunities. The HENSOLDT risk management system provides four response action strategies for risks as well as for opportunities. Related to risk management, these strategies are risk avoidance, risk transfer to third parties such as insurer, risk mitigation and acceptance of the risk. Accordingly, the strategies for opportunity management are, first, the exploitation of the opportunity; second, the allocation of the opportunity to parties or entities that are more likely to realize the opportunity; third, the enhancement of the opportunity by increasing the likelihood and/or the impact of it; and fourth, the acceptance of the fact that the opportunity cannot be realized.

For the risk reporting, the heads of the central departments of the HENSOLDT Group and the ERM Point of Contact in each legal entity are responsible for providing their risk portfolio to the ERM Officer at the Group level in time for the quarterly risk reporting. Besides, the site managers have to provide their risk information related to health and safety (HSE[16]) also in time for the reporting.

The ERM officer at Group level prepares the quarterly ERM report for the Management Board and the Supervisory Board by consolidating and aggregating the reported individual risks accordingly, taking into account the interactions between the risks. Risk contingencies are calculated and secured accordingly for operative risks with a probability of occurrence of less than 50.0 %. If the likelihood exceeds 50.0 %, for accounting purposes, the expected costs in relation to these risks are fully taken into account, but are not weighted for purposes of risk reporting. However, these risks above 50.0 % are included in the existing risk reporting for monitoring purposes.

1.3 Accounting-related internal controls and risk management

Risks related to Group accounting include – amongst other things – the incomplete, invalid or inaccurate processing of financial data leading to misstatements in the financial reporting. To mitigate these risks, the management of HENSOLDT has implemented a number of measures and controls. These are part of the internal control system over financial reporting, which is monitored on a regular basis and subject to a continuous improvement process. Key elements of controls over financial reporting are diverse to cover the variety of risks related to Group accounting effectively.

To set binding guidelines and internal regulations in the context of preparing the monthly, quarterly and annual Group financials, respective accounting policies and manuals are in place, which have to be adhered to by any member of staff involved in accounting and closing processes. In addition, every legal entity uses a uniform Group chart of accounts.

For the preparation of the financial reporting, HENSOLDT has issued detailed instructions on how and when to prepare and submit reporting packages to ensure a consistent quality over all reporting entities. Preparer and reviewer of these reporting packages are different persons to support an adequate segregation of duties.

[16] Health, Safety, Environment

Such segregation of duties is also constant practice within the accounting department and its various functions. Here, for example, master data maintenance is separated from transaction processing on the basis of a 4-eyes-principle. In addition, accounting personnel regularly perform a reconciliation of the most critical general ledger accounts with the respective sub-ledger accounts.

HENSOLDT management has installed procedures for a monthly review of the financials based on pre-defined key performance indicators, and thus ensures a reconciliation of the actuals with planning data.

IT applications and tools that are used for preparing the financial statements as well as the underlying infrastructure are secured against unauthorized access, unauthorized system changes and loss of data.

In addition, the accounting-related internal control system in the respective companies is regularly audited by the internal audit department.

1.4 Risks

To support the identification and the management of risks and opportunities, the HENSOLDT Group has defined risk groups and risk categories. Risk groups are operative and functional risks, whereas the latter includes the two subgroups of risks related to strategy & planning and compliance risks. This categorization of risks and opportunities is applied in the same way for the two segments Sensors and Optronics.

All those risks that are not directly project-related are summarized under functional risks for the HENSOLDT Group. Risk categories within the group of functional risks such as strategic risks and compliance risks are independent from HENSOLDT's operational activities.

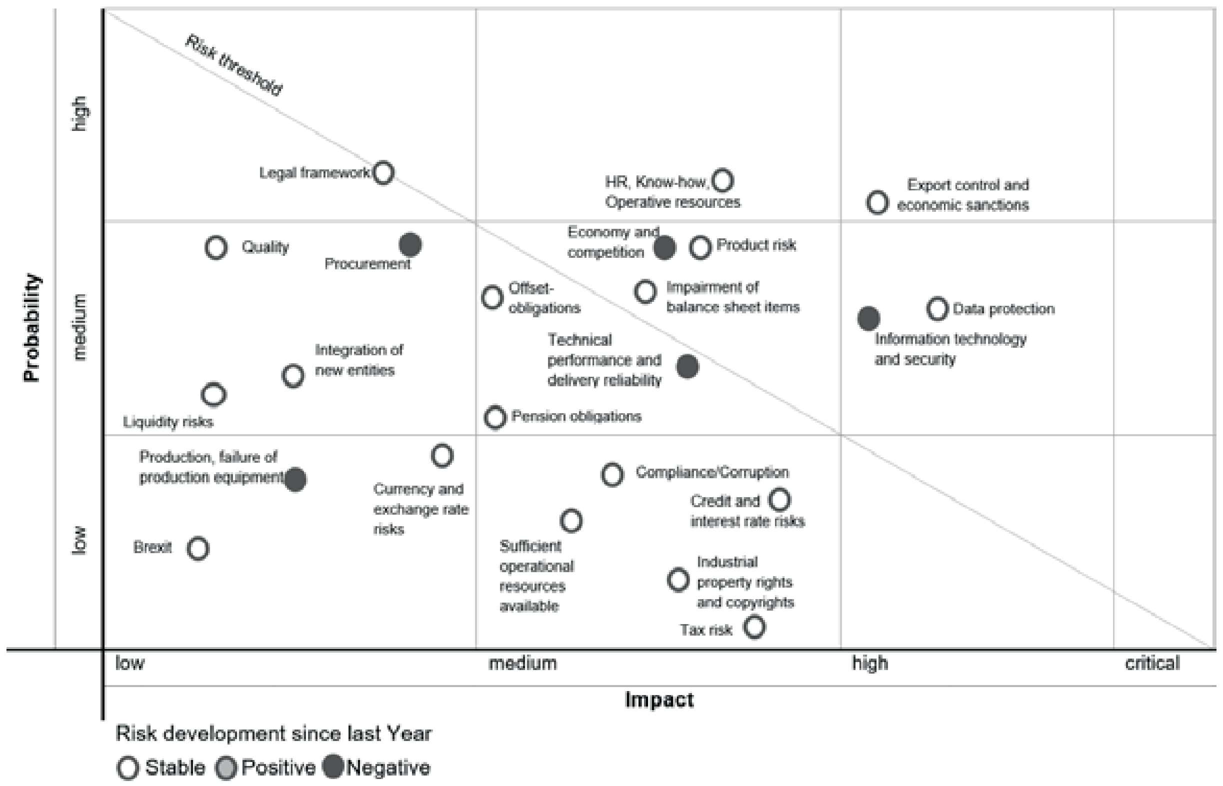
Operative risks result from operational activities in particular in the context of HENSOLDT's project business. HENSOLDT has defined further sub-categories of operative risks; these are project specific. At HENSOLDT, sustainability risks are managed with their impact on the planet and society in the category "Sustainability to external". Furthermore, risks with an impact on HENSOLDT are analyzed in the risk categories of strategy, compliance / corruption, health / safety / environment, construction / technology, export control, HR, legal, procurement and production / product risk in a broader manner under the concept of sustainability. In this way, potentially negative, primarily inward-looking changes also related to HENSOLDT's sustainability goals are recorded and countermeasures are taken.

Functional risks and opportunities	Operative risks and opportunities	Financial risks and opportunities
Strategic risks and opportunities	Construction/Technology	Currency and exchange rate risks
Strategy (incl. Brexit)	HR	Credit and interest rate risks
M&A	Information management/Security	Liquidity risks
Controlling	Legal	Impairment of assets
Compliance risks and opportunities	Operational quality	Taxes
Compliance/Corruption	Procurement	
Data protection	IP rights	
Export control	Production/Product risk	
Health, safety, environment	Sale/Offset obligations	
Sustainability to external		

As risks and opportunities can be both functional and operative, HENSOLDT is not always in a position to assign them to only one group of risks. Risks or opportunities that have been identified as functional can also be relevant for specific projects and therefore need to be assessed and managed with respect to these projects, e.g. by implementing measures on operational level. Vice versa, operative risks might require an assessment and management on a segment, entity or even Group level. Therefore, and to avoid a duplication of risks, the management of both functional and operative risks follows the same procedures of the HENSOLDT Group risk management system as described above.

Functional risks

Functional risks cover risks related to strategy and planning as well as compliance risks. The subgroup strategy and planning covers any risks that have an impact on the strategic goals of the HENSOLDT Group, such as reputation and brand risks or risks resulting from market and industry changes and developments. The markets in which HENSOLDT is operating are highly regulated, which results in compliance risks.



Risks related to strategy

For both segments, risks arising from the global economic cycle cannot be averted permanently. A change of the legal, regulatory or economic environment might affect revenue and adjusted EBIT of the segments and therefore of the HENSOLDT Group as a whole. International conflicts and political developments around the world, among other things, affect HENSOLDT's international sales and supply chains, cause more complexity and create additional barriers. Because of globalization as well as increasing intensity of competition, market risks are on the rise. Geopolitical developments also contribute in a significant way to market risks for HENSOLDT. Thus, fluctuations of prices, units and margins can occur.

To anticipate and mitigate the negative consequences of such circumstances, a strategy workshop is held annually. The aim is to identify growth areas and to recognize relevant influencing factors as well as resulting risks at an early stage through a comprehensive PESTEL analysis[17] and to counter these with adequate measures.

Innovation and technical progress in the industry are fundamental for the expansion into new markets and customer groups. The HENSOLDT Group therefore considers R&D as being fundamental for its business and market opportunities and is substantially investing in this area. By expanding the service business, additional revenue potential can be realized in the framework of project management and execution.

Although being a leading provider of defence and civil technology with a profound growth in size and know how in recent years, the HENSOLDT Group is constantly facing competitive risks. In Germany, its key market, HENSOLDT competes for contracts with a number of international competitors purely on market terms, which is not always the case

[17] PESTEL: Analysis of political, economic, socio-cultural, technical, environmental and legal factors of influence

for procurements on certain competitors' domestic markets and therefore may result in competitive challenges for HENSOLDT. While the small and mid-sized competitors are typically specialized in certain market niches, HENSOLDT also competes with large defence companies, which might have more resources, and may therefore be better positioned to develop and market new products and take advantage of economies of scale. An additional aspect to consider are national promotion programs and political support, which could put competitors in a better position.

These risks can be addressed through inorganic growth within the boundaries of competition law. HENSOLDT management is constantly evaluating, whether – and if so, how – the acquisition of leading technology providers or even competitors can positively contribute to addressing these competitive risks. However, such acquisition and integration of organizations into the existing HENSOLDT structure leads to additional risks that have to be managed adequately.

Towards the end of the Brexit transition period, the EU and the UK have reached a comprehensive trade agreement in December 2020. The agreement is provisionally effective from January 1, 2021, onwards and will become permanently effective upon approval by the European Parliament. Due to the comprehensive economic partnership of the EU with the UK negotiated in the agreement, HENSOLDT only reported marginal effects on the administrative effort for imports and exports.

Risks related to compliance

As an internationally acting Group, the HENSOLDT Group is subject to a range of compliance requirements in all countries in which it operates or sells its products and in particular to the ongoing changes in the legal framework relevant to the Group's business activities. Breaches of compliance can have a number of severe consequences for HENSOLDT and its staff, such as damages in reputation, loss of customers, exclusions from orders, sanctions, reduction in profits, compensation for damages as well as civil and criminal prosecution. The financial expenditure of compliance breaches, should they occur despite all precautionary measures, on consolidated results is difficult to gauge and is highly dependent on individual circumstances. The assurance of compliance with relevant legal requirements as well as internal rules is therefore a key principle for HENSOLDT, even though the risk posed by individual exceptions can never be fully eliminated. In view of the industry and the markets in which HENSOLDT operates, the avoidance or control of risks concerning corruption, competition law, export controls, economic sanctions and data protection are in focus. To address these risks, HENSOLDT Group has set up a compliance organization that ensures the lawful conduct of HENSOLDT Group and its employees through a compliance management system, as well as an appropriate response to potential or actual violations of external and internal rules. All business units of HENSOLDT are thus responsible for compliance with applicable laws and regulations in the course of their work. Should any suspected cases occur, such are actively investigated. HENSOLDT will cooperate with the relevant authorities in the event of any investigation proceedings. In the event that any incompliance occurs despite the measures that were put in place, all parties involved will have to deal with consequences and the processes will be reviewed.

HENSOLDT has implemented a number of preventive measures to identify currently relevant laws and regulations on an ongoing basis and ensure they are taken into account in all decisions and operative processes. One of these measures is the regular compliance risk assessment across the Group. With the risk assessment, systemic and company-specific compliance risks can be identified, rated and necessary measures can be taken. In relation to this, there are also regular training and Q&A sessions. HENSOLDT also issued standards for the Group and all employees for the most important ethical questions and compliance issues in its directive "Standards of Business Conduct". All employees receive regular training on this. To further minimize compliance risks, HENSOLDT introduced processes and procedures (e.g., for dealing with third parties, including sales representatives, gifts and invitations as well as memberships and donations, processes for regulating export controls and international sanctions).

In relation to the internal directives, HENSOLDT employees are obliged to promptly report all compliance violations to their supervisors, their contacts in the HENSOLDT compliance team, the head of the compliance department or any other employee of the HENSOLDT compliance team. In addition, employees have the option of anonymously reporting violations to the "OpenLine" (anonymous telephone and email hotline).

Data protection risks

HENSOLDT has a data protection management system across the Group, which is particularly intended to ensure a uniform level of data protection while taking into account the General Data Protection Regulation (GDPR) introduced by the EU. The goal is to enable a sustainable data-based business model as well as to ensure a responsible treatment of data in the interest of customers and employees. A variety of measures are fundamentally developed and implemented in order to achieve the goals mentioned above. The focus is always on a continuous review and improvement of the data protection management system. For this, HENSOLDT adheres to a risk-based approach. Specific data protection risks based on the GDPR may be punishable with a fine of up to 4 % of the HENSOLDT Group's global annual revenue per incident, depending on the severity and culpability of an individual incident. To avoid such data protection incidents, HENSOLDT sensitizes its employees for a responsible handling of data and the new challenges of data-based business models. The legal department continuously updates the regulatory requirements and integrity standards for the data protection management system. As a result, HENSOLDT wants to offer its employees and customers as well as other stakeholders new services alongside safe processing of data. HENSOLDT offers an operational framework for the treatment of data for all employees of the Group. This includes defined fundamental principles for data processing, such as transparency, autonomy and data security. Both market specific and regional differences are considered in the application of those fundamental principles. The goal of implementing suitable processes and systems is to enable an efficient and effective way of secure and powerful data processing. Ongoing monitoring of the effectiveness is part of this system as well. Data protection officers are appointed in accordance with the legal requirements. All employees are trained in data protection.

Operative risks

Each project has a variety of inherent operative risks. Following the HENSOLDT risk management procedures, project management has to complete a risk assessment for each project prior to entering into any legally binding agreement with a partner or customer.

HENSOLDT Group has to manage complex and long-running projects with demanding technical and volume requirements. Due to various uncertainties regarding calculations, unexpected technical problems or underestimated levels of complexity, which could have an impact on the adherence to the agreed-upon delivery dates, there are a number of risks to take into account. In addition, failure to meet its offset obligations may result in penalties and have a negative effect on project margins. Utilizing experienced employees, technical know-how, and professional project, quality and contract management, these risks can be minimized but not totally avoided.

As a company dependent on the sales of innovative and complex technological products to a relatively small number of customers, the success of the two segments of the HENSOLDT Group depends on the ability to attract and retain highly qualified engineering personnel for both segments, as well as skilled sales people and capable management. Since it is a competitive market environment, HENSOLDT needs to outbid its competitors by offering a more attractive work environment.

As much of the business is project-related, this requires the Group to continuously adjust research and development and production capacities. For this purpose, HENSOLDT employs certain measures such as flexible working hours, temporary workers, and the alignment of the production network to production volume.

The HENSOLDT Group has initiated a number of measures to be regarded as an attractive employer. For example, it is offering a mobile work environment as part of the Group agreement for all German sites, childcare during school holidays or an incentive program based on BONAGO employee cards. Against the background of the current labor market situation, HENSOLDT expects increased challenges in the future with regard to attracting and retaining highly qualified employees.

In the area of operational quality, the HENSOLDT Group is required to perform with the highest standards. Due to the complex and advanced nature of its products, there are technological challenges that arise in conjunction with the development and manufacturing of new products. In order to maintain high quality standards for its products, the HENSOLDT Group implemented a number of quality assurance measures such as an enhanced customer review and feedback process, single quality points of contact for "A-parts" and joined problem solving with suppliers. Other measures in this area are dynamic sampling as part of the incoming goods inspection or an improved first sample inspection for so-called "B-parts". Product quality is also significantly dependent on properly functioning production facilities. Risks related to production, such as failure of production facilities or a decrease in performance of production facilities are addressed through an ongoing improvement process for production "HotSpots" and continuous improvement workshops. These measures are expected to increase production effectiveness and efficiency and to reduce production time as well as production cost. An adequate product quality reduces the risk of increased refunds to customers due to product liability and product warranty agreements.

For both segments, the procurement of raw materials, components and other modules is exposed to risks regarding delivery shortfalls or delays, supply bottlenecks, quality issues and price increases. A variety of different materials at low volumes characterizes the supply chain. In addition, these materials are also used in other industries, which is why the HENSOLDT Group only purchases small fractions of the suppliers' total output. The HENSOLDT Group also procures highly customized products, which are only available from a small number of suppliers or even only from a single source. To mitigate these procurement risks, a number of measures are in place: suppliers are involved in projects at an early stage, preferred suppliers are specified and, moreover, suppliers are selected on the basis of fact- and competition-oriented factors. There is also a management system in place for supplier relationships. These measures have been further strengthened and focused under the continuous monitoring and analysis of global pandemic-related shortages of certain materials in the fiscal year 2021. Potential effects for HENSOLDT are regularly assessed in purchasing and in the operational business units in order to counteract them with appropriate measures. Therefore, HENSOLDT is currently subject to a low risk in terms of the effect.

As a company in the security and defence industry, HENSOLDT is particularly prone to attempted cyberattacks as well as the misappropriation or compromise of its IP or other confidential (project-related) information, including that of its customers. To mitigate this risk, several measures, including employee awareness campaigns and trainings, have been initiated. Furthermore, the HENSOLDT Group implemented cyber security measures including a dedicated cybersecurity team and budget, security monitoring, a Group-wide security operations team, penetration testing, and regular internal IT audits.

Financial risks

In the context of ensuring Group-internal and external financing, the HENSOLDT Group is exposed to a range of financial risks. Above all, these are currency and exchange rate risks, interest rate risks, liquidity risks, risks related to pension plans and risks of impairment of assets.

Financial risks can have negative effects on the profitability, financial position and cash flows of the HENSOLDT Group. The probability of occurrence and the possible impact of these risks and opportunities is considered as shown in the matrix above.

The Treasury department is centrally responsible for the management of the HENSOLDT Group's financing and liquidity and sets out guidelines in this function. These include primarily ensuring external Group financing at all times, coordinating financing needs within Group entities and monitoring compliance with corresponding internal and external requirements, such as covenants of loan agreements.

Currency and exchange rate risks

As a globally operating company, the HENSOLDT Group is exposed to risks and opportunities related to fluctuations in currency and exchange rates. While the reporting currency is the Euro, some of the consolidated subsidiaries report in foreign currencies. The results of operations are therefore affected by exchange rate fluctuations, in particular the exchange rates of the U.S. Dollar, South African Rand and British Pound to the Euro. The income and cost risks resulting from currency fluctuations are limited by purchases and sales in corresponding foreign currencies as well as forward exchange transactions. Hedging contracts are concluded centrally for each foreign exchange rate risk resulting from various customer or supplier contracts. Corresponding foreign exchange forward and swap contracts are concluded with banks for the respective Group entities.

Credit and interest rate risks

To secure the cash requirements of the Group's business operation, the HENSOLDT Group uses interest-rate-sensitive financial instruments. The interest rate risks associated with these instruments have been mitigated by way of interest rate hedges. The aim of interest rate management is to limit the impact of interest rates on the financial performance as well as on assets and liabilities of the Group. The existing interest rate hedges expire in the first quarter of 2022. HENSOLDT monitors developments on the interest rate market in order to hedge if necessary. At present, HENSOLDT sees no need to conclude further interest rate hedges.

In conjunction with the IPO in the third quarter of 2020, HENSOLDT replaced its existing debt financing with a new credit facility agreement, consisting, among others, of a new term loan amounting to € 600.0 million (nominal value). The long-term loan was increased by € 20.0 million in the fourth quarter of 2021 under the aspect of diversifying the banking landscape. The long-term syndicated loan is tied to compliance with a financial covenant. In the event of a breach, 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.

Liquidity risks

The liquidity of the HENSOLDT Group is dependent on its credit rating. Liquidity risk is the risk that a company may be unable to meet short-term financial demands. This usually occurs due to the inability to convert a security or asset into cash without loss of capital and/or income in the process. Risk and opportunities related to liquidity arise in connection with potential downgrades or upgrades of credit ratings by the rating agencies.

In the fiscal year 2020, the IPO proceeds were used by the HENSOLDT Group to improve liquidity and reduce debt. To ensure the liquidity of the Group, HENSOLDT replaced the existing revolving credit facility with a new revolving credit facility amounting to € 350.0 million in the context of the IPO. The revolving credit facility was increased by € 20.0 million in the fourth quarter of 2021. In order to plan the required utilization of this facility, there is a comprehensive process in place for planning future liquidity requirements and thus to adequately cover the associated risk.

Risks related to pension plans

The HENSOLDT Group has certain obligations with respect to defined benefit plans for employees in Germany. Under these plans, HENSOLDT is required to ensure specific retirement, invalidity, and survivor's benefits levels for employees participating in the plans. The plans are partly financed through contractual trust arrangements ("CTAs"). The calculation of expected liabilities arising from defined benefit plans is based on actuarial calculations and demographic and financial assumptions. The HENSOLDT Group is obliged to fund the CTAs only with respect to the employee-funded part of the pension plan. The HENSOLDT Group expects to make significant endowment contributions in the future due to the expected increase in personnel. The funding status of existing pension plans could be affected both by a change in actuarial assumptions, including the discount rate, and by changes in the financial markets or a change in the composition of invested assets. Opportunities and risks arise depending on changes in these parameters.

Asset impairment risks

The carrying amounts of individual assets are exposed to risks related to changing market and business conditions and thus to changes in fair values as well. Necessary impairments could have a significant negative non-cash impact on earnings and affect the balance sheet ratios. The intangible assets of the Group mainly consist of technology, customer relationships, order backlog, the brand, and capitalized development costs. Under the International Financial Reporting Standards as applicable in the EU ("IFRS"), HENSOLDT is required to annually test the recorded goodwill and intangible assets with indefinite useful lives, such as its brand, for impairment and to assess the carrying values of other intangible assets when impairment indicators exist. All relevant risks were assessed during the preparation of the consolidated financial statements and have been taken into account accordingly.

Tax risks

Due to the international nature of its business, HENSOLDT is subject to taxation in several countries and is therefore exposed to tax risks. As a result, HENSOLDT is subject to numerous different legal requirements and tax audits. Possible changes in legislation as well as jurisdiction and differing legal interpretations by the tax authorities – especially in the area of cross-border transactions – may be subject to considerable uncertainty. In the course of tax audits, different assessments of facts may lead to additional claims by the responsible tax authorities. In addition, changes in tax legislation or interpretation as well as new jurisdiction may result in additional taxes for HENSOLDT and adversely affect the effective tax rate and the carrying amount of deferred tax assets or liabilities. Furthermore, tax risks may arise in connection with the expiration of tax loss carryforwards or from changes in the legal and tax structure of HENSOLDT. Particularly, certain Group companies of HENSOLDT are part of tax groups or tax consolidation systems. It can therefore not be ruled out that the companies concerned will be held liable for unpaid taxes of the members of such tax consolidation systems pursuant to law or contract. Additional taxes, interest and penalties may arise for HENSOLDT from a restructuring, other corporate actions or the non-recognition of tax consolidation options (e.g. by tax authorities or a tax court).

COVID-19

Since the beginning of the fiscal year 2020, HENSOLDT has tracked the situation around the COVID-19 pandemic at all sites to protect the health and well-being of all employees, customers, partners as well as the business itself. The local business continuity management teams have reviewed and updated their plans to enable maximum resilience of business activities. Key processes were tested and changed where necessary to not only ensure ongoing operations but also minimize the spread of the virus. The Business Continuity Management has consistently adhered to these measures in 2021 as well.

So far, the COVID-19 pandemic has not significantly affected the business of HENSOLDT as a supplier of defence and security electronics. In the fiscal year 2021, there have also been neither formal cancellations of large orders from defence sector customers nor significant effects on the order backlog or future prospects in the defence sector due to the pandemic. Potential effects of further waves of infection and lockdowns due to the global COVID-19 pandemic have not yet been considered.

1.5 Overall risk assessment

HENSOLDT is not aware of any single or aggregated risk that could endanger the continuity of its business operations. The Management Board assesses the overall risk situation of the HENSOLDT Group as essentially unchanged compared to the previous year.

2 Opportunity report

2.1 Opportunities

In line with its categorization of risks, HENSOLDT Group has defined the same groups and categories for the identification and management of opportunities for the segments Sensors and Optronics. HENSOLDT Group has summarized all single reported opportunities below.

Functional opportunities

The business policy is designed to ensure a long-term and economically sustainable future of the HENSOLDT Group. New opportunities shall be recognized systematically and at an early stage.

As a high-tech pioneer in the area of defence and security electronics, the HENSOLDT Group is a specialized provider for civil and military sensor solutions. The HENSOLDT Group operates in a highly regulated industry that is affected by international conflicts and political developments. For the HENSOLDT Group, the most important development has been the increase in defence spending by NATO member countries. Throughout these countries, political pressure to spend at least 2.0 % of the national GDP on defence rises. As a result, the German government decided to increase its national defence budget significantly by 2031. Even though the approvals concerning the exports of armaments rose, the HENSOLDT Group is still subject to the restrictive German approval policy.

From the year 2017 to 2021, the German government’s defence equipment expenditure was the most significant driver for the revenue of the Group. The new German Federal Government also wants to work for an increase in Europe’s strategic sovereignty in foreign, security, defence and development policy. The government is committed to fulfilling its NATO obligations as well as to fair burden sharing. This corresponds to the intention to invest 3 % of its gross domestic product in international action in order to strengthen diplomacy and development policy as well as to fulfill the obligations entered into in NATO.

The fact that military budgets in Germany and allied NATO countries are expected to increase in the nearer future is highly relevant for the business of the HENSOLDT Group. Germany is one of the leading participants and decision-makers for major European and other international defence projects. When the political environment in Germany supports military spending, it not only directly affects HENSOLDT’s project business, it also indirectly results in business prospects with respect to such projects. Due to the long-term nature of military projects, such commitments to increase budgets should ensure cash flows for many years.

In view of the further technologization in the defence sector and the need for faster procurement processes due to new and rapidly changing threat situations, the new Federal Minister of Defence has placed a major focus on modernizing procurement management.

Being a national key technology company whose products are represented in all military branches and dimensions, and as an essential player in the European consolidation of the defence and security industry, HENSOLDT is in a very good position for the upcoming years.

Additional opportunities for the Sensors and Optronics segments result from the integration of newly acquired or formed Group companies. This could result in synergies, for instance through the centralization of functions.

Currently the main aim of HENSOLDT is to generate additional business volume. To achieve this goal, the Management Board, among other things, initiated the aforementioned program “HENSOLDT GO!”.

Operative opportunities

The Group benefits from long-term experience in the highly regulated and complex market of defence and non-defence applications. In addition to its civil and military sensor solutions, HENSOLDT also develops new products for data management, robotics and cyber security by crosslinking existing expertise with software solutions. HENSOLDT pursues the goal to become Europeans leading, platform-independent provider of defence and security sensor solutions with global reach. Diversification of its products is considered key to increasing opportunities in this context.

As a consequence, the HENSOLDT Group started expanding its product offering, for example, through surveillance and protection solutions utilized for a number of high-profile events. This allows the entry into new markets, which may both facilitate future growth as well a diversification of risks.

Within the defence applications, the Group currently expands its customer services, including for example technical assistance, commissioning and installment. These services can lead to an increase in profitability and – at the same time – a decrease of risks concerning fluctuations of future cash flows.

The HENSOLDT Group has been successfully developing customer-specific solutions. These unique and highly technical products may have been costly initially (e.g. due to expensive special production facilities) but now they can impede market entry of new competitors.

The HENSOLDT Group has co-operations with many renowned universities and research institutes, especially in Germany, for nearly all early-stage technological developments in the radar and optronics sectors. Through this intense collaboration between the universities and research institutes, the HENSOLDT Group lays the foundation for maximizing its opportunities as an innovative organization. Both segments take advantage of this.

2.2 Overall opportunity assessment

The most important opportunities for HENSOLDT Group arise from the European ambitions in safety and defence policy, the focus on national key technologies and current increase of the defence budget. This is supported by the further diversification of the product range and the expansion of the service business as well as HENSOLDT’s ability to act as a leading innovator within its industry.

V Non-financial group statement

Sustainability (Environment Social Governance or “ESG”) is an integral part of HENSOLDT`s business strategy. In the year 2021, the Group-wide ESG Strategy 2026 was rolled out for this purpose, which tangibly defines the goals, measures and key performance indicators in the area of sustainability in seven categories. The seven thematic areas include our “Corporate Integrity”, “Product Responsibility”, “Human Potential”, “Occupational Health and Safety”, “Social Engagement“, “Responsible Sourcing”, as well as “Planet and Resources“.

Like in the previous year, HENSOLDT issues a sustainability report, which will be compliant with the requirements for capital market-oriented companies, which describes the sustainability-related activities of HENSOLDT and extensively deals with the Company’s influence on the environment and society. For this purpose, current initiatives and relevant KPIs, especially, regarding relevant topic areas will be included and a forecast for future measures and initiatives will be given. Business integrity and health and safety have been identified as key issues for the fiscal year 2021. In addition, product responsibility and further development of employees as well as diversity in the company (topic area “human potential”) are further focal points.

The sustainability report contains the non-financial declaration pursuant to sections 315b und 315c of the German Commercial Code (HGB). The sustainability report for the fiscal year 2021 is published simultaneously with the annual report and can be found on the website of HENSOLDT at https://investors.hensoldt.net.

VI Remuneration report

The remuneration report provides an overview of the structure and system of remuneration for the Management Board and Supervisory Board of HENSOLDT AG and contains detailed information on the respective remuneration granted and owed to the current and former members of the Management Board and Supervisory Board. In accordance with the Act Implementing the Second Shareholders’ Rights Directive (ARUG II), the reporting framework for this remuneration report has changed due to the requirements of section 162 AktG (German Stock Corporation Act). This remuneration report will be submitted to the annual general meeting on May 13, 2022 for approval.

The remuneration report was prepared jointly by the Management Board and the Supervisory Board.

The current remuneration systems for the members of the Management Board and Supervisory Board are available on the website of HENSOLDT at https://investors.hensoldt.net.

1 Remuneration of the members of the Management Board in the fiscal year 2021

The structure of the remuneration and the amounts paid to the members of the Management Board are determined and regularly reviewed by the Supervisory Board. The review applies the recommendations of the German Corporate Governance Code in the version adopted by the Government Commission on December 16, 2019 (“GCGC”) and implements the requirements pursuant to section 87 AktG.

1.1 Composition of the Management Board in the fiscal year 2021

Thomas Müller, Axel Salzmann, Peter Fieser and Celia Pelaz were appointed Management Board members of HENSOLDT AG in the fiscal year 2021.

Thomas Müller, Axel Salzmann and Peter Fieser exercised their Management Board activity during the entire fiscal year. By resolution of the Supervisory Board of March 19, 2021, Celia Pelaz was appointed as another member of the Management Board with effect from July 1, 2021.

1.2 Overview of the remuneration system

The remuneration system for the members of the Management Board was submitted to the annual general meeting on May 18, 2021, for voting in accordance with section 120a (1) AktG and approved with a majority of 97.98 %.

The remuneration of the members of the Management Board is based on their area of responsibility, individual performance, the performance of the Management Board as a whole, the economic and financial situation as well as the success of the HENSOLDT Group. The compensation paid to the members of the Management Board is appropriate, performance-related and in line with market conditions.

An external independent expert was consulted to review the appropriateness of the Management Board remuneration in terms of amount and structure. In addition, the proportion of the Management Board remuneration to the remuneration of the senior management and the staff members was considered. The benchmark used for a market comparison is based on a German peer group of listed companies of comparable size with a focus on industrial, mechanical engineering and automotive suppliers, as well as listed companies of comparable size from the information technology sector which is explained, in detail, in the remuneration report for members of the Management Board.

The remuneration for the members of the Management Board consists of a fixed remuneration, a short-term variable remuneration component (Short-Term Incentive, “STI annual bonus” or “STI”) and a long-term variable remuneration component (Long-Term Incentive, “LTI bonus” or “LTI”). The variable remuneration resulting from the achievement of long-term targets exceeds the share of short-term targets (under the assumption of a target-achievement of 100.0 %). The criteria for the assessment of the performance-based remuneration and the annual targets set by the Supervisory

Board at the beginning of the fiscal year are not subject to change in the course of a fiscal year. Subsequent changes to the target values or reference parameters for the STI bonus and the LTI bonus are generally excluded. The Supervisory Board does, however, have the option of taking appropriate account of extraordinary developments when assessing target achievement.

The remuneration system for the Management Board members contributes to the promotion of the business strategy and the long-term development of the company and its affiliated companies, namely through a simple design of the Management Board remuneration with a clear incentive structure for the members of the Management Board. The remuneration system is structured in such a way that it appropriately rewards the performance of the Management Board members while complying with all regulatory requirements, the recommendations of the GCGC and market practice. The variable remuneration is designed to reward the achievement of both short-term annual targets and long-term targets measured over multi-year periods. That way, it should be avoided that the Management Board makes decisions for reasons of short-term optimization of its remuneration that do not promise sustainable business success. Furthermore, the members of the Management Board are incentivised by a share acquisition and shareholding obligation.

Fixed remuneration components

The members of the Management Board receive a fixed annual base salary for their services and fringe benefits from the Company. These mainly comprise a company car, employer contributions to private and statutory health insurance, continued payment of wages in the event of incapacity for work due to illness or death, preventive health checks at the company's expense, a group accident insurance, a term life insurance, reimbursement of home travel expenses[18], and a housing cost subsidy for a secondary residence[19] as well as security expenses, e.g. for constructional measures at private apartments to protect the members of the Management Board. Fringe benefits are restricted to a maximum amount specified by the Supervisory Board for the fiscal year.

The Management Board members participate in the company pension scheme for the duration of the Management Board service contract in accordance with the pension commitment regulations applicable to senior executives and executives. The corporate pension is granted in the form of a direct commitment. The company does not grant any old-age, survivors' or disability benefits, in particular no other defined benefit pension commitments for which provisions would have to be recognized (apart from contributions to a term life insurance policy, which are part of the fringe benefits). No bridging allowance or other forms of early retirement are provided for in the remuneration system.

STI annual bonus

The members of the Management Board have the opportunity to receive an STI annual bonus depending on the annual performance of the HENSOLDT Group. The basis for determining the amount of the STI annual bonus is the target amount ("STI target amount"), i.e. the amount to which a Management Board member is entitled if it achieves exactly 100.0% of the STI annual targets. The STI annual bonus might amount to a maximum of 150.0 % of the STI target amount (cap). The STI annual bonus serves as reward for the achievement of the HENSOLDT Group's short-term business targets and depends on the achievement of the target values for the three STI bonus components which are free cash flow, EBITDA and revenue - each on a consolidated basis for the HENSOLDT Group. The three STI bonus components are each equally weighted, i.e. one third of each is included in the calculation of the target achievement for the STI annual bonus. Details on the definition of the target values can be found in the remuneration system on the website of HENSOLDT at https://investors.hensoldt.net.

The corresponding target values are approved by the Supervisory Board as part of the determination of the annual budget. The STI annual bonus is payable within thirty workdays after the approval of the consolidated financial statements for the past fiscal year.

The target setting for the STI annual bonus follows the following logic:

[18] This only concerns the Management Board member Axel Salzmann.

[19] This concerns the Management Board members Axel Salzmann and Celia Pelaz.

	Disbursement % of target bonus					
Bonus component	weighting	<80% of target value	>80% and <100% of target value*	target value	>100% and <120% of target value*	>120% of target value**
Adjusted Free Cash Flow	1/3	0%	linear reduction in the ratio 1:5	100%	linear increase in the ratio 1:2.5	150%*
Adjusted EBITDA	1/3	0%	linear reduction in the ratio 1:5	100%	linear increase in the ratio 1:2.5	150%*
Consolidated revenue	1/3	0%	linear reduction in the ratio 1:5	100%	linear increase in the ratio 1:2.5	150%*

* If the respective target value for an STI bonus component is not reached, the respective bonus component is reduced on a straight-line basis in the ratio 1:5. If one target value for an STI bonus component is exceeded, the respective bonus component increases on a straight-line basis in the ratio 1:2,5.

** The linear increase in the bonus component only occurs if a target value of more than 80 % for all three STI bonus components has been achieved.

LTI bonus

All members of the Management Board are entitled to a multi-year performance-related remuneration ("LTI bonus"). The basis for determining the amount of the LTI bonus is the target amount ("LTI target amount"), i.e. the amount to which a Management Board member is entitled if it achieves 100.0 % of the multi-year targets. The LTI bonus might amount to a maximum of 200.0 % of the LTI target amount (cap). The performance period for the LTI bonus is four years.

At the beginning of the respective four-year evaluation period of an LTI bonus tranche, the Supervisory Board shall determine at its reasonable discretion the terms and conditions for each LTI bonus component and the corresponding target values of the relevant bonus tranche. The LTI bonus is measured according to the following LTI bonus components: (i) 40.0% based on the relative Total Shareholder Return[20] (TSR) of the company compared to the MDAX, (ii) 30.0 % based on the order intake of the HENSOLDT Group, and (iii) 15.0 % each based on two ESG targets ("Diversity" and "Climate Impact"). In addition, the LTI bonus is linked to the development of the share price during the performance period (Performance Share Plan). At the end of the respective measurement period, an overall target achievement level is determined for the performance targets set by the Supervisory Board before the start of the performance period. The target achievement for each of the LTI bonus components and the total target achievement resulting from the individual target achievement values can amount to a maximum of 150.0 %. The LTI bonus is payable when the Supervisory Board determines that the target values have been achieved.

Furthermore, the performance share plan to be applied as part of the LTI bonus ensures that the amount of the LTI bonus is even more dependent on the share price of HENSOLDT AG. At the beginning of the respective measurement period, the Management Board member receives a number of virtual shares ("stock rights") calculated by dividing the target amount of the LTI target bonus by the average price of the shares of HENSOLDT AG. After the end of the respective assessment period, the number of stock rights calculated at the beginning of the measurement period is multiplied by the total target achievement of the LTI bonus components determined from the target achievement of the individual LTI bonus components.

The LTI bonus to be paid out as a cash entitlement is determined by multiplying the number of stocks calculated on the basis of the target achievement with the average closing price of the shares of HENSOLDT AG.

The overall degree of target achievement is determined according to the following logic:

[20] The relative TSR refers to the share price performance plus notionally reinvested gross dividends during the four-year performance period and is determined on the basis of data from a recognized data provider (e.g. Bloomberg, Thomson Reuters).

	Disbursement % of target bonus					
Bonus component	weighting	<80% of target value	>80% and <100% of target value*	target value	>100% and <120% of target value*	>120% of target value**
Relative total shareholder return compared with MDAX	40%	0%	linear reduction in the ratio 1:5	100%	linear increase in the ratio 1:2.5	150%*
Order Intake of HENSOLDT Group acc. to management report	30%	0%	linear reduction in the ratio 1:5	100%	linear increase in the ratio 1:2.5	150%*
ESG-target: Diversity	15%	0%		100%		150%**
ESG-target: Climate Impact	15%	0%	linear reduction in the ratio 1:5	100%	linear increase in the ratio 1:2.5	150%*

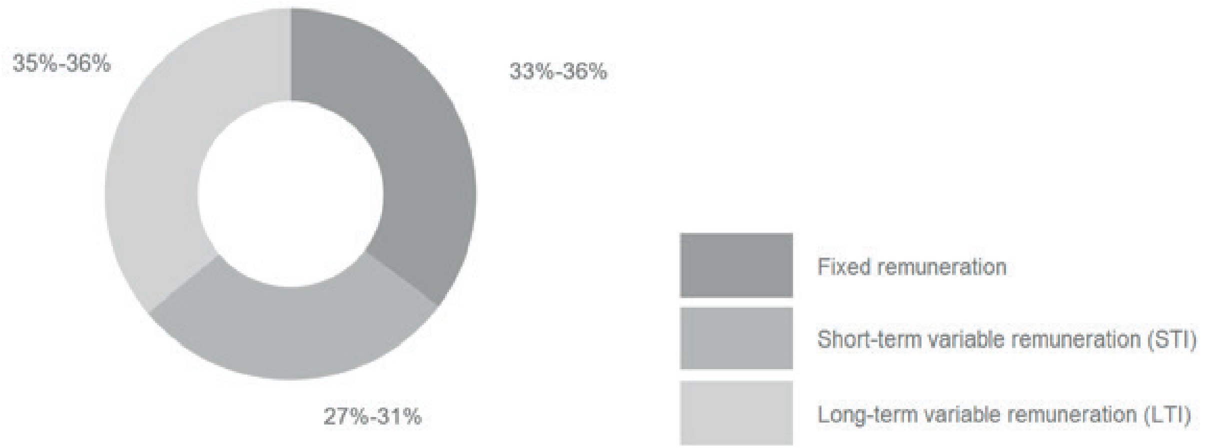
* If the respective target value for an LTI bonus component is not reached, the respective bonus component is reduced on a straight-line basis in the ratio 1:5. If one target value for an LTI bonus component is exceeded, the respective bonus component increases on a straight-line basis in the ratio 1:2,5.

** The determination of whether and to what extent the Management Board member has achieved this LTI bonus component shall be made at the end of the four-year measurement period by the Supervisory Board, which, in doing so, shall compare the actual value achieved with the targeted objectives at its reasonable discretion and may, at its reasonable discretion, take into account any under- or overachievement, but with a maximum of 150.0 % of the intended weighting (as well as the individual components, if applicable).

Further details on the setting of targets and the determination of target achievement can be found in the remuneration system of the Management Board on the website of HENSOLDT at https://investors.hensoldt.net.

Relationship of the remuneration components to each other

The current target direct remuneration for the average of all Management Board members will thus comprise basic remuneration and variable remuneration as follows:



Clawback

The STI annual bonus and the LTI bonus have been subject to a clawback regulation since the conclusion of the Management Board contracts. Further details on the clawback provision can be found in the remuneration system of the Management Board on the website of HENSOLDT at https://investors.hensoldt.net.

Maximum remuneration

The annual maximum remuneration in terms of section 87a (1) sentence 2 no. 1 AktG is, according to the remuneration system:

- for the CEO: € 3.5 million
- for the CFO: € 3.3 million
- for any other ordinary member of the Management Board: € 2.5 million

If the actual remuneration granted exceeds the maximum remuneration cap, the entitlement to the LTI bonus will be reduced accordingly.

Share retention program

The members of the Management Board are obliged to hold shares of HENSOLDT AG for the duration of their appointment as a member of the Management Board, whereby this obligation must be fulfilled for the first time latest four years after the initial appointment as a member of the Management Board ("build-up phase"). The share retention program is designed to incentivize the members of the Management Board to increase the value of the Company in the interest of the shareholders. Further details on the share retention program provision can be found in the remuneration system of the Management Board on the website of HENSOLDT at https://investors.hensoldt.net.

Benefits in the event of premature termination of employment

In the event of premature termination of the appointment, the Management Board members are entitled to a severance payment. The severance payment is limited to two years' remuneration and is reduced on a pro rata temporis basis if the remaining term of the Management Board service contract is less than two years ("severance cap"). More details on the benefits in the event of premature termination of employment can be found in the remuneration system of the Management Board on the website of HENSOLDT at https://investors.hensoldt.net.

The Management Board members are subject to a post-contractual non-competition clause for a period of one year. During this period the Management Board member is entitled to a compensation of monthly 50 % (gross) of the proportional annual basic remuneration most recently received by the Management Board member on a monthly basis. The severance payment will be offset in the full amount against the entitlement.

The service contracts of the members of HENSOLDT AG's Management Board do not include any commitments for benefits in the event of premature termination of the Management Board service contract by the Management Board member due to a change of control.

1.3 Remuneration of the members of the Management Board in the fiscal year

HENSOLDT AG was formed by change of legal form of HENSOLDT GmbH. On September 25, 2020, the shares of HENSOLDT AG were listed for the first time on the Frankfurt Stock Exchange. Insofar as the 2020 remuneration is reported, it relates exclusively to the remuneration paid to the aforementioned persons in their capacity as members of the Management Board of HENSOLDT AG from August 17, 2020 (after the change of legal form) and remuneration paid in their capacity as managing directors at the legal predecessor HENSOLDT GmbH from January 1, 2020 to August 17, 2020.

Fixed remuneration components

Application in the fiscal year

The following table shows the fixed remuneration components granted to the acting members of the Management Board in the fiscal year 2021.

in €	Thomas Müller (CEO)	Axel Salzmann (CFO)	Peter Fieser (CHRO)	Celia Pelaz (CStO)*
Annual basic remuneration	600,000	600,000	400,000	170,000
Additional benefits	63,809	181,968	43,816	29,497
Fixed remuneration 2021	**663,809**	**781,968**	**443,816**	**199,497**

* The fixed annual basic salary of Celia Pelaz amounts to € 340,000.

Contribution to the long-term development of the HENSOLDT Group

For the contribution of the remuneration system to the long-term development of the company, please refer to the general remarks under 1.2. The purpose of the fixed remuneration is to attract and retain suitable personalities for management duties in the HENSOLDT Group by means of an attractive fixed salary in line with customs in the market.

STI annual bonus

Application in the fiscal year

In the reporting year 2021, the STI was granted to the Management Board members for the fiscal year 2020 and is thus attributed to the remuneration granted and owed to the Management Board members in the fiscal year 2020 within the meaning of section 162 (1) sentence 1 AktG and consequently reported in this remuneration report. The Supervisory Board issued corresponding target values for the parameters defined in the remuneration system – free cash flow, EBITDA and consolidated revenue – whereby each criterion was included in the overall assessment to 33 %.

The table below shows, for each Management Board member, who was in office in the fiscal year 2021, the respective target amount (for a target achievement of 100 %), the degree of target achievement determined by the Supervisory Board and the amount paid out in 2021 in accordance with the due date stipulated in the remuneration system. For the STI 2020, the Supervisory Board has made use of the option provided for in the remuneration system to adjust the key figures for special and non-recurring effects, so that the underlying parameters correspond to the adjusted key figures reported in the annual report for 2021.

STI-annual bonus paid in 2021 for 2020	target value in €	degree of achievement in %	disbursement amount in €
Thomas Müller (CEO)	580,357	150%	870,536
Axel Salzmann (CFO)	530,357	150%	795,536
Peter Fieser (CHRO)	300,000	150%	450,000
Celia Pelaz (CStO)*	-	-	-

* Management Board member since July 1, 2021

The STI for 2021 will be due within thirty working days after the approval of the consolidated financial statements of HENSOLDT AG for the previous fiscal year in 2022 and is therefore considered neither granted nor owed remuneration in the fiscal year 2021 within the meaning of section 162 (1) sentence 1 AktG. The STI for 2021 – including target achievement – will therefore be reported in the remuneration report for the fiscal year 2022.

Contribution to the long-term development of the HENSOLDT Group

For the contribution of the remuneration system to the long-term development of the company, please refer to the general explanations under 1.2. The STI is intended to reward the achievement of specific financial targets that are classified as being important for the strategic development of the company.

LTI bonus

Application in the fiscal year

The annual assignment value (target amount) amounts to € 650,000 for Thomas Müller, € 600,000 for Axel Salzmann, € 400,000 for Peter Fieser and € 340,000 for Celia Pelaz. For the fiscal year 2021, Celia Pelaz is entitled to the pro rata allocation value of € 170,000.

The overall degree of target achievement is determined from the degree of target achievement of the targets for the four LTI bonus components set by the Supervisory Board for the respective performance period. The four LTI bonus components for the performance period 2021 to 2024 comprise the relative Total Shareholder Return of HENSOLDT AG compared to the MDAX, the order intake of HENSOLDT Group and the ESG objectives diversity and climate impact. Details and definitions as well as general information on the remuneration system can be found under 1.2.

The number of virtual shares of LTIP underwent the following changes in the current fiscal year:

Number of virtual shares	Thomas Müller (CEO)	Axel Salzmann (CFO)	Peter Fieser (CHRO)	Celia Pelaz (CStO)
Maximum term (in years)	4	4	4	4
Number of outstanding virtual shares as at January 1, 2021	-	-	-	-
Virtual shares granted during the reporting period	46,628	43,042	28,694	24,390
Number of outstanding virtual shares as at December 31, 2021	46,628	43,042	28,694	24,390
Number of exercisable virtual shares as at December 31, 2021	46,628	43,042	28,694	24,390

Contribution to the long-term development of the HENSOLDT Group

For information on the contribution of the remuneration system to the long-term development of the company, reference is initially made to the general information under 1.2. The LTI should be a reward for achieving the long-term objectives, measured over multi-year periods. In this way, it should be avoided that the Management Board makes decisions for reasons of short-term optimization of its remuneration that do not promise sustainable business success. For the purpose of the LTI, success parameters from the areas of environment, social and governance are added as so-called ESG targets to the financial performance targets and the strong alignment on the share price. In the current Management Board employment contracts, these ESG goals include the “Diversity” target, which is aimed at achieving certain quotas of women at various company levels, as well as the “Climate Impact” target, through which an increase in the share of renewable energy in the energy consumed by the HENSOLDT Group, a reduction in CO2 emissions and a reduction in the use of volatile organic compounds (VOCs) are targeted.

Share retention program

Currently, the four-year build-up phase for the share retention program has not expired for any of the members of the Management Board who were in office in the fiscal year 2021. Details of the share retention program are available in the remuneration system on the website of HENSOLDT at https://investors.hensoldt.net.

Overview of the remuneration granted and owed in terms of section 162 (1) sentence 1 AktG

The following table shows the total remuneration granted and owed individually to the members of the Management Board in office in the fiscal year 2021, in accordance with section 162 (1) sentence 1 AktG.

All amounts that were actually received by the individual members of the Management Board in the fiscal year 2021 are reported as remuneration granted within the meaning section 162 (1) sentence 1 AktG. Amounts that were due in the fiscal year 2021 but were not received by the members of the Management Board are reported as remuneration owed within the meaning of section 162 (1) sentence 1 AktG.

in €	Thomas Müller (CEO)	in %	Axel Salzmann (CFO)	in %	Peter Fieser (CHRO)	in %	Celia Pelaz (CStO)*	in %
Annual basic remuneration	600,000	39%	600,000	38%	400,000	45%	170,000	85%
Additional benefits	63,809	4%	181,968	12%	43,816	5%	29,497	15%
Total	**663,809**	**43%**	**781,968**	**50%**	**443,816**	**50%**	**199,497**	**100%**
STI annual bonus 2020**	870,536	57%	795,536	50%	450,000	50%	-	-
LTI bonus***	-	-	-	-	-	-	-	-
Total compensation awarded and due in the fiscal year 2021	**1,534,345**	**100%**	**1,577,504**	**100%**	**893,816**	**100%**	**199,497**	**100%**

* Management Board member since July 1, 2021

** The STI earned in the fiscal year 2021, if any, is considered neither a granted nor owed remuneration for the fiscal year 2021 and will therefore only be reported in the remuneration report for the fiscal year 2022.

***Since no performance period has yet expired, the LTI will not result in any remuneration granted or owed in the fiscal year 2021. Reports on the respective performance periods will be made accordingly after their expiry.

Other information on the remuneration

Review of the maximum amount of remuneration (maximum remuneration)

The relevant maximum amount was not exceeded by any member of the Management Board in the reporting year. However, since the LTI bonus amount is not available until the third year after the end of the reporting year due to the four-year performance period, compliance with the maximum remuneration for the fiscal year 2021 can only be reported conclusively as part of the remuneration report for the fiscal year 2024.

Granted or promised shares and share options

In accordance with the remuneration system, no shares or share options were granted or promised to the members of the Management Board who were in office during the reporting year.

Retention (malus) and clawback

No use was made of the option to withhold or reclaim variable remuneration components.

Deviations from the remuneration system applicable to the Management Board

There were no deviations from the remuneration system of the Management Board in the reporting year.

Benefits promised or granted by a third party

In the reporting year, no benefits were promised or granted to any member of the Management Board by a third party with regard to their activities as a member of the Management Board.

Commitments in connection with contract terminations

Commitments in the event of premature termination of activity, including changes to these commitments agreed during the last fiscal year

The commitments contractually agreed with the members of the Management Board who were in office during the reporting year in the event of premature termination of their activities comply with the requirements of the remuneration system (refer to 1.2 above).

Pension benefits

The company pension commitments contractually agreed with the members of the Management Board are granted in the form of a direct commitment and comply with the requirements of the remuneration system, which is described on the website of HENSOLDT at https://investors.hensoldt.net. The pension benefits presented below also include commitments to the members of the Management Board prior to their appointment from previous activities at the HENSOLDT Group.

	Pension plans		Deferred compensation	
in €	commitments	service cost*	commitments	service cost*
Thomas Müller (CEO)	1,261,141	3,000	-	-
Axel Salzmann (CFO)	1,213,098	91,456	-	-
Peter Fieser (CHRO)	635,610	136,993	1,202,092	2,116
Celia Pelaz (CStO)**	575,609	23,564	25,354	251

* including past service cost

** Management Board member since July 1, 2021

1.4 Benefits to former members of the Management Board

No members retired from the Management Board since the company changed its legal form to a stock corporation (AG) in August 2020. Benefits or commitments for benefits to former members of the Management Board are therefore currently not reportable.

2 Remuneration of the members of the Supervisory Board

2.1 Remuneration system for the members of the Supervisory Board

The remuneration system for the members of the Supervisory Board was submitted to the annual general meeting on May 18, 2021, for voting and approved by a majority of 99.99 % of the valid votes cast. In the fiscal year 2021, the remuneration system applied to all active and retired members of the Supervisory Board. The remuneration of the members of the Supervisory Board is regulated in section 12 of the articles of association of HENSOLDT AG.

According to the articles of association, the fixed annual remuneration of each Supervisory Board member amounts to € 40,000. The chairman of the Supervisory Board receives twice the amount, thus € 80,000, the vice chairman receives one and a half times this amount, thus € 60,000. For their work on the Executive Committee, Nominating Committee, Audit Committee, Compliance Committee, the members receive additional fixed compensation amounting to € 10,000. The Chairpersons of these Committees receive € 15,000 each. No remuneration is paid for activities in other committees.

The maximum remuneration for Supervisory Board members is provided for in section 12 (3) in the articles of association and amounts to twice the amount of the annual remuneration of the Supervisory Board members according to section 12 (1) in the articles of association. Supervisory Board members, who are members of the Supervisory Board or a Committee or are Chairperson of a committee for only part of the fiscal year, receive a remuneration which is lower in proportion to the time served. The remuneration is due four weeks after the end of each fiscal year.

The company reimburses the members of the Supervisory Board for expenses incurred in the performance of their duties, including any value-added tax payable on the reimbursement of expenses.

The company has taken out a liability insurance policy in favour of the members of the Supervisory Board, which covers the legal liability arising from their Supervisory Board activities.

The system for the remuneration of the members of the Supervisory Board provides for a purely fixed remuneration without performance-based variable components and without share-based remuneration. The Management Board and the Supervisory Board are of the opinion that a purely fixed remuneration of the Supervisory Board members is best suited to strengthen the independence of the Supervisory Board, to take into account the advisory and supervisory function of the Supervisory Board to be fulfilled independently of the company's success and to avoid potential wrong incentives in the process. The granting of a fixed remuneration is also in line with the current predominant practice in other listed companies and the suggestion G.18 sentence 1 GCGC. The amount and structure of the Supervisory Board remuneration is in line with the market. It enables the company to attract and retain outstandingly qualified candidates with valuable, industry-specific knowledge for the Supervisory Board. This is a prerequisite for the best possible performance of the advisory and supervisory activities by the Supervisory Board and contributes significantly to the promotion of the business strategy and the long-term development of the company.

More details of the remuneration system can be found on the website of HENSOLDT at https://investors.hensoldt.net.

2.2 Remuneration of the members of the Supervisory Board in the fiscal year 2021

The following table shows the remuneration granted and owed to current and former members of the Supervisory Board in the fiscal year 2021 within the meaning of section 162 AktG. The remuneration earned in 2021 is reported as the remuneration granted in the reporting period within the meaning of section 162 AktG.

in €	fixed remuneration	in %	committee remuneration	in %	total 2021
Active members of the Supervisory Board as of December 31, 2021					
Johannes P. Huth (Chairman)	80,000	73%	30,000	27%	110,000
Armin Maier-Junker* ** (Vice Chairman)	60,000	86%	10,000	14%	70,000
Jürgen Bühl*	40,000	80%	10,000	20%	50,000
Dr. Jürgen Bestle* ** (since May 19, 2021)	25,000	80%	6,250	20%	31,250
Achim Gruber* ** (since May 19, 2021)	25,000	80%	6,250	20%	31,250
Prof. Wolfgang Ischinger	40,000	67%	20,000	33%	60,000
Ingrid Jägering	40,000	62%	25,000	38%	65,000
Marion Koch* **	40,000	80%	10,000	20%	50,000
Christian Ollig***	-	-	-	-	-
Prof. Dr. Burkhard Schwenker	40,000	73%	15,000	27%	55,000
Julia Wahl*	40,000	80%	10,000	20%	50,000
Claire Wellby	40,000	100%	-	-	40,000
Retired members of the Supervisory Board in the fiscal year 2021					
Dr. Frank Döngi * ** (until May 18, 2021)	15,000	80%	3,750	20%	18,750
Ingo Zeeh (from Jan. 12, 2021 to May 18, 2021)	15,000	80%	3,750	20%	18,750

* Representative of the employees

** Employees of HENSOLDT AG or one of its group companies

*** Member of the Supervisory Board has waived his remuneration

No deviations from the remuneration system of the Supervisory Board occurred in the fiscal year.

3 Multiple-year overview: Information on the development of Management Board and Supervisory Board remuneration in relation to the remuneration of the rest of the workforce and the development of the company's result of operation

Pursuant to section 162 (1) sentence 2 no. 2 AktG, the following overview presents the relative development of the remuneration granted and owed to members of the Management Board and Supervisory Board in the respective fiscal year in accordance with the presentations in the tables under 1.3 and 2.2 in comparison to the average remuneration of the employees on a full-time equivalent basis as well as selected key earnings figures of the HENSOLDT Group.

The comparative presentation of the fiscal years 2020 and 2021 is influenced by special effects in connection with the IPO of HENSOLDT AG in the fiscal year 2020.

In the fiscal year 2020, the current members of the Management Board, Thomas Müller, Axel Salzmann and Peter Fieser were initially employed on the basis of a Managing Director service contract by HENSOLDT Holding GmbH. In the context of the change of legal form they were appointed as members of the Management Board of HENSOLDT AG on August 17, 2020.

The remuneration of the Supervisory Board members in the fiscal year 2020 listed below includes the remuneration of the Supervisory Board at the level of HENSOLDT Holding GmbH until August 17 as well as the remuneration of the Supervisory Board of HENSOLDT AG.

For the presentation of the company's earnings situation, those key figures are used for which HENSOLDT AG issued a forecast in the past fiscal year, as well as the key figures that form the basis for the short-term remuneration of the Management Board. In addition, the net profit for the year from the individual financial statements of HENSOLDT AG according to HGB is included in the comparison.

For the presentation of the average remuneration of the employees, the gross taxable amount for employees covered by collective agreements and non-tariff employees on the basis of full-time equivalence (without apprentices, trainees, etc.) is used, insofar as it exceeds € 4,000 per year. This is based on the workforce of HENSOLDT AG and the following German subsidiaries of HENSOLDT AG: HENSOLDT Optronics GmbH, HENSOLDT Holding Germany GmbH and HENSOLDT Sensors GmbH.

	Fiscal Year		
Remuneration granted and owed acc. to section 162 AktG in €	**2021**	**2020***	**% Delta**
Management Board remuneration			
Members in office			
Thomas Müller (CEO)	1,534,345	1,261,834	21.6%
Axel Salzmann (CFO)	1,577,504	1,317,378	19.7%
Peter Fieser (CHRO)	893,816	699,317	27.8%
Celia Pelaz (CStO)	199,497	-	-

* See remuneration in the table “Inflow in the reporting year – Group (January 1 to December 31, 2020)” in the Remuneration Report 2020.

	Fiscal Year		
Remuneration granted and owed acc. to section 162 AktG in €	**2021**	**2020***	**% Delta**
Supervisory Board remuneration			
Members in office			
Johannes P. Huth (Chairman)	110,000	79,166	38.9%
Armin Maier-Junker (Vice Chairman)	70,000	62,500	12.0%
Jürgen Bühl	50,000	54,166	-7.7%
Dr. Jürgen Bestle (since May 19, 2021)	31,250	-	-
Achim Gruber (since May 19, 2021)	31,250	-	-
Prof. Wolfgang Ischinger	60,000	58,333	2.9%
Ingrid Jägering	65,000	60,416	7.6%
Marion Koch	50,000	20,833	140.0%
Christian Ollig**	-	-	-
Prof. Dr. Burkhard Schwenker	55,000	56,250	-2.2%
Julia Wahl	50,000	54,166	-7.7%
Claire Wellby	40,000	43,334	-7.7%
Retired members			
Dr. Frank Döngi (until May 18, 2021)	18,750	45,833	-59.1%
Ingo Zeeh (from Jan. 12, 2021 to May 18, 2021)	18,750	-	-
Winfried Fetzer	-	54,166	-
Thomas Hoepfner	-	33,333	-
Peter Härtle	-	8,333	-

* See remuneration in the table “Inflow in the reporting year – Group (January 1 to December 31, 2020)” in the Remuneration Report 2020.

** Member of the Supervisory Board has waived his remuneration

	Fiscal Year		
Key earnings figures in € million	**2021**	**2020**	**% Delta**
Net profit (annual financial statement acc. to HGB)	-35.8	-42.9	16.6%
Net profit (Group)	62.7	-64.5	197.2%
Revenue (Group)	1,474.3	1,206.9	22.2%
EBITDA (Group)*	260.7	219.3	18.9%
Order Intake (Group)	3,171.5	2,541.3	24.8%
Free Cashflow (Group)**	252.3	196.4	28.5%

* Key figure pursuant to reconciliation in the combined management report chapter “II Economic Report 3.1 Results of Operations”.

** Key figure pursuant to reconciliation in the combined management report chapter “II Economic Report 3.3 Financial Situation”.

	Fiscal Year		
Workforce information	**2021**	**2020**	**% Delta**
Employee compensation in €	91,218	90,956	0.3%

VII Takeover-relevant information and explanatory report

The takeover-relevant information and the explanatory report for the fiscal year 2021 are made in accordance with sections 289a and 315a HGB.

1 Composition of share capital

As of December 31, 2021, the share capital of HENSOLDT AG amounts to € 105.0 million and is divided into 105,000,000 ordinary bearer shares (no-par value shares). The shares are fully paid up. All shares carry the same rights and obligations. The rights and obligations of shareholders arise in detail from the provisions of the German Stock Corporation Act (AktG), especially sections 12, 53a et seq., 118 et seq. and 186 AktG.

2 Restrictions on voting rights or transfer of shares

Each share grants one vote at the general meeting and is decisive for the shareholders’ share in the company’s profit. Excluded from this are treasury shares held by the Company, which do not entitle the Company to any rights pursuant to section 71b AktG. In the cases of section 136 AktG, the voting rights from the relevant shares are excluded by law. Violations against the notification requirements according to section 33 (1), section 38 (1) and section 39 (1) German Securities Trading Act (WpHG) can lead to a situation where rights arising from shares and also voting rights are at least temporarily suspended according to section 44 WpHG.

The German Federal Ministry for Economic Affairs and Energy (“BMWK”) may examine the direct or indirect acquisition of shares in the Company by a foreign acquirer if, following the acquisition, the acquirer will directly or indirectly hold 10 % or more of the voting rights in the Company. According to the provisions in sections 60 et seq. of the German Foreign Trade and Payments Ordinance (Aussenwirtschaftsverordnung), the intended acquisition must be notified in writing to the BMWK, which will only approve the acquisition if it does not raise any concerns in view of any essential security interests of the Federal Republic of Germany. If section 60 of the German Foreign Trade and Payments Ordinance is not applicable, the BMWK may nevertheless prohibit or restrict the acquisition if this would probably endanger public order or security in Germany or in another EU member state or in relation to projects or programs that are of interest to the Union (cross-sectoral examination, sections 55 et. seq. of the German Foreign Trade and Payments Ordinance).

In the course of the IPO of HENSOLDT AG, Square Lux had entered into a lock-up obligation vis-à-vis the syndicate banks for the shares held by it or its affiliates for a period of six months from the date of the IPO on September 25, 2020. Certain transactions were excluded from this. This lock-up obligation expired accordingly in the fiscal year 2021 and therefore no longer exists as at December 31, 2021.

In connection with article 19 (11) of the Regulation (EU) No. 596/2014 (Market Abuse Regulation) and on the basis of internal rules for members of the Management Board and Supervisory Board, several restrictions exist for the purchase and sale of shares of HENSOLDT AG, in particular in the temporal context with the publication of financials, as well as acquisition and holding obligations in connection with the compensation of the Management Board.

The Company launched an employee share program in October 2021. The shares underlying this program are acquired and held centrally by a service provider in its own name, but internally in trust for the participating employees. According to the regulations of the employee share program, there is a one-year lock-up period from the acquisition date, during which the underlying shares may generally not be sold, encumbered or otherwise transferred by the participating employees.

Otherwise, the Management Board is not aware of any agreements by shareholders of HENSOLDT AG containing restrictions for the exertion of voting rights or the transfer of shares.

3 Shareholdings exceeding 10.0 % of the voting rights

To the Company's knowledge, the following direct or indirect shareholdings in the voting capital of HENSOLDT AG exceeding 10.0 % of the voting rights existed as of the balance sheet date:

In a voting rights notification dated March 26, 2021, the Federal Republic of Germany announced that, in the context of an allocation transaction pursuant to section 2 (4) of the KfW Act, the KfW acting in exercise of its acquisition right notified in a voting rights notification dated September 29, 2020, entered into a share purchase agreement on March 24, 2021, with Square Lux regarding a 25.1 % shareholding in HENSOLDT AG and that, with this agreement, the acquisition rights of the Federal Republic have been transferred, in full, from the Federal Republic to KfW. In relation to the share capital of HENSOLDT AG, which is divided into 105,000,000 shares, this represents a share of 25.1 % of the voting rights.

With voting rights notification dated May 27, 2021, (date of threshold contact: May 26, 2021), the Federal Republic then announced that the share purchase and transfer agreement concluded as part of the allocation transaction of the Federal Republic of Germany had been executed on May 26, 2021, after the conditions for execution had been met. In its notification pursuant to section 43 (1) of the German Securities Trading Act (WpHG) dated June 14, 2021, the Federal Republic of Germany reported on that process, inter alia, that the market acquisition of the voting rights in HENSOLDT AG serves the implementation and safeguarding of strategic objectives of the Federal Government, inter alia, to protect the national security and defence industry key technologies defined in the Federal Government's strategy paper on strengthening the security and defence industry dated February 12, 2020, and that the notification duties intend to influence the filling of administrative, management and mainly supervisory positions in HENSOLDT AG.

With voting rights notifications dated May 28, 2021, (date of threshold contact: May 26, 2021), KKR Management LLP, Wilmington, Delaware, USA, and KKR SP Limited, George Town, Grand Cayman, Cayman Islands, as persons subject to the reporting requirements pursuant to section 40 WpHG, each reported that 45,084,988 voting rights were indirectly attributed to them. In relation to the share capital of HENSOLDT AG, which is divided into 105,000,000 shares, this represents a share of approximately 42.9 % of the voting rights. The voting rights are, in each case, held directly by Square Lux as shareholder of HENSOLDT AG.

With voting rights notifications dated April 30, 2021, (date of threshold contact: April 24, 2021), Leonardo S.p.A. with registered office in Rome, Italy, additionally reported the conclusion of a share purchase agreement with Square Lux in relation to instruments relating to a total of 26,355,000 shares and the relating voting rights, where the share purchase agreement was subject to conditions precedent. In relation to the share capital of HENSOLDT AG, which is divided into 105,000,000 shares, this corresponds to a share of 25.1 % of the voting rights. This share purchase agreement was executed on January 3, 2022. The corresponding voting rights notifications were published on January 4, 2022.

With voting rights notifications dated January 4, 2022, (date of threshold contact: January 3, 2022), KKR Management LLP, Wilmington, Delaware, USA, and KKR SP Limited, George Town, Grand Cayman, Cayman Islands, as persons subject to the reporting requirements pursuant to section 40 WpHG, each reported that 18,729,988 voting rights were indirectly attributed to them. In relation to the share capital of HENSOLDT AG, which is divided into 105,000,000 shares, this represents a share of approximately 17.84 % of the voting rights. The voting rights are, in each case, held directly by Square Lux as shareholder of HENSOLDT AG.

With voting rights notifications dated March 4, 2022, (date of threshold contact: March 2, 2022), KKR Management LLP, Wilmington, Delaware, USA, and KKR SP Limited, George Town, Grand Cayman, Cayman Islands, as persons subject to the notification requirement pursuant to section 40 WpHG, each reported that 8,754,988 voting rights were indirectly attributed to them. In relation to the share capital of HENSOLDT AG, which is divided into 105,000,000 shares, this represents a share of approximately 8.34 % of the voting rights. The voting rights are, in each case, held directly by Square Lux as a shareholder of HENSOLDT AG.

Other direct or indirect shareholdings in the Company's capital exceeding 10.0 % of voting rights have not been reported to the Company nor has the Company become aware of any such shareholdings in any other way.

4 Shares with special rights of control

Shares with special rights of control do not exist.

However, the Federal Republic of Germany (represented by the Federal Ministry of Defence together with the Federal Ministry for Economic Affairs and Energy or the corresponding ministry succeeding it in the respective function) is entitled, as soon as and for as long as it is a shareholder of the Company, to appoint one of the members attributable to the shareholders to the Supervisory Board. As long as Square Lux is a shareholder of the Company, the right of delegation of the Federal Republic of Germany described above exists as a joint right of delegation of the Federal Republic of Germany and Square Lux. The Federal Republic of Germany furthermore has the right to delegate one further member attributable to the shareholders to the Supervisory Board, as long as the Federal Republic of Germany directly or indirectly holds shares amounting to at least 25.1 % of the Company's share capital. Further details of this right of delegation, including further modalities of exercise, can be found in section 8 (2) of the articles of association of the Company.

5 Type of voting rights control if employees have an interest in the capital and do not exercise their control rights directly

Employees who hold shares of HENSOLDT AG exercise their control rights in the same way as other shareholders in accordance with legal requirements and the articles of association. Under the terms of the employee share program launched in October 2021, the shares acquired by participating employees are held in trust for the participants by a service provider. As long as the shares are held in trust, appropriate measures will be taken by the service provider to enable participating employees to exercise, directly or indirectly, their voting rights attached to the shares under management.

6 Legal requirements and provisions of the articles of association concerning the appointment and dismissal of members of the Management Board and amendments to the articles of association

The appointment and dismissal of members of the Management Board are governed by sections 84 and 85 AktG as well as section 31 of the German Codetermination Act (MitbestG). Pursuant to section 6 (1) of the articles of association, the Management Board consists of at least two members, the number of members of the Management Board shall otherwise be determined by the Supervisory Board. The articles of association also stipulate that the Supervisory Board may appoint a member of the Management Board as chairman of the Management Board.

Pursuant to sections 119 (1) no. 6, 179 AktG, any amendment of the articles of association requires a resolution of the general meeting. The authority to make amendments that only affect the wording is delegated to the Supervisory Board, according to section 10 (9) of the articles of association. Further, the Supervisory Board has been authorized by resolutions of the general meeting to amend section 4 of the articles of association in accordance with the respective utilization of Conditional Capital 2020/I and, in the event of non-utilization after the expiry of the authorization period or the expiry of the exercise and fulfillment periods, and in accordance with the utilization of Authorized Capital 2020/I.

According to section 179 (2) AktG, resolutions of the general meeting amending the articles of association require a majority of at least three quarters of the share capital represented when the resolution is adopted, unless the articles of association stipulate a different capital majority. Section 16 (2) of the articles of association of HENSOLDT AG stipulates a different capital majority in this respect. Accordingly, unless otherwise stipulated by the articles of association or by law, resolutions of the annual general meeting are adopted by a simple majority of the votes cast and, if a capital majority is also required, by a simple majority of the share capital represented when the resolution is adopted. However, the majority pursuant to section 16 (2) of the articles of association does not apply in particular to a change in the Company's business purpose, since in this respect only a larger capital majority may be specified in the articles of association according to section 179 (2) sentence 2 AktG. The capital majorities of at least three quarters of the share capital represented at the time the resolution is adopted, which are required by law for an amendment to the articles of association in addition to the simple majority of votes, also remain unaffected. This applies in particular to resolutions on the creation of conditional capital, section 193 (1) sentence 1 AktG, the creation of authorized capital, section 202 (2) sentence 2 AktG, a capital increase from company funds, section 207 (2) sentence 1 AktG, reductions of share capital, section 222 (1) sentence 1 AktG as well as section 229 (3) AktG, and the redemption of shares, section 237 (2) sentence 1 AktG.

7 Authority of the Management Board to issue or repurchase shares

7.1 Conditional capital

By resolution of the general meeting on August 18, 2020, the Management Board was authorized, subject to the approval of the Supervisory Board, to issue bearer or registered bonds with warrants and/or convertible bonds, profit participation rights and/or participating bonds, or a combination of these instruments for a total nominal amount of up to € 500 million, with or without limited term, on one or more occasions up to August 11, 2025, in return for contributions in cash or in kind and to grant or impose option rights or obligations on the holders or creditors of bonds with warrants or participatory certificates with warrants or participating bonds with warrants, or grant or impose conversion rights or obligations on the holders of convertible bonds or participatory certificates with warrants or convertible participating bonds, in respect of bearer shares with no par value of the Company representing a pro rata amount of the share capital of up to € 16.0 million in total, in accordance with the respective terms and conditions of these bonds.

The bonds may be issued in Euro or in the legal currency of a member country of the Organization for Economic Cooperation and Development (”OECD”), limited to the equivalent value in Euros. They may also be issued by a subordinated Group company of the Company; in this case, the Management Board is authorized, subject to the approval of the Supervisory Board, to assume the guarantee for the bonds on behalf of the Company and to grant or impose option or conversion rights or obligations on the holders in respect of bearer shares with no par value of the Company. Further details are contained in the authorization resolution.

The shareholders are generally entitled to a subscription right to the bonds. Insofar as the shareholders are not enabled to subscribe directly to the bonds, the shareholders shall be granted the statutory subscription right in such a way that the bonds are taken over by a credit institution or a syndicate of credit institutions with the obligation to offer them to the shareholders for subscription. If the bonds are issued by a subordinated Group company, the Company must ensure that the statutory subscription right is granted to the Company's shareholders in accordance with the preceding sentence.

However, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude fractional amounts resulting from the subscription ratio from the shareholder’s subscription right and also to exclude the subscription right to the extent necessary to grant holders of previously granted option or conversion rights as well as imposed option or conversion obligations a subscription right to the extent to which they would be entitled as shareholders after exercising the option or conversion rights or upon fulfillment of the option or conversion obligation.

The Management Board is also authorized, subject to the approval of the Supervisory Board, to fully exclude subscription rights of shareholders to bonds issued in return for cash contributions which are issued with option or conversion rights or option or conversion obligations, provided that the Management Board, after due examination, is of the opinion that the issue price of the bond is not significantly lower than its hypothetical market value calculated in accordance with recognized methods, in particular financial mathematics methods. However, this authorization to exclude subscription rights only applies to bonds issued with option or conversion rights or option or conversion obligations, with an option or conversion right or an option or conversion obligation on shares with a pro rata amount of the share capital which in total may not exceed 10.0 % of the share capital, either at the time this authorization becomes effective or – if this value is lower – at the time it is exercised. Shares sold or issued under exclusion of subscription rights pursuant to section 186 (3) sentence 4 AktG during the term of this authorization up to the issue of the bonds with option or conversion rights or option or conversion obligations without subscription rights pursuant to section 186 (3) sentence 4 AktG shall count towards the aforementioned 10.0 % limit.

Insofar as profit participation rights or participating bonds are issued without conversion rights or conversion obligations or option rights or option obligations, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude the shareholders’ subscription rights altogether if these profit participation rights or participating bonds have bond-like features, i.e. do not confer any membership rights in the Company, do not grant any participation in liquidation proceeds and the amount of interest is not calculated on the basis of the amount of net income for the year, of the net retained profits or of the dividend. In this case the interest rate and the issue amount of the profit participation rights or participating bonds must correspond to the current market conditions at the time of issue.

The Management Board is also authorized, subject to the approval of the Supervisory Board, to exclude shareholders’ subscription rights to bonds issued against contributions in kind with option or conversion rights or option or conversion obligations, in particular in the case of the acquisition of companies, parts of companies, equity interests in companies or other assets, including rights and receivables, or in connection with business combinations.

In order to grant shares to the holders or creditors of the aforementioned instruments, the share capital of HENSOLDT AG is conditionally increased by up to € 16.0 million, divided into up to 16,000,000 new bearer shares with no par value (Conditional Capital 2020/1). Further details of the Conditional Capital 2020/I can be found in section 4 (4) of the articles of association.

7.2 Authorized capital

The Management Board is authorized, subject to the approval of the Supervisory Board, to increase the share capital on or before August 11, 2025, on one or more occasions by in total up to € 36.0 million by issuing new bearer shares with no par value in return for contributions in cash or in kind (Authorized Capital 2020/I).

When shares are issued from Authorized Capital 2020/I, shareholders must generally be granted subscription rights. However, the Management Board is authorized, in each case subject to the approval of the Supervisory Board, to exclude subscription rights of shareholders on one or more occasions in each of the following cases:

- in order to exclude fractional amounts from shareholders’ subscription rights in the event of capital increases against cash contributions or contributions in kind;
- to the extent necessary to grant subscription rights to the new bearer shares with no par value to holders or creditors of option or conversion rights granted or option or obligations imposed by the Company or by its direct or indirect affiliated companies in the scope to which they would be entitled as shareholders after exercising the option or conversion right or after fulfilling the option or conversion obligation as shareholders;
- insofar as the capital increase takes place against contributions in kind, especially in the case of the acquisition of companies, parts of companies, participations in companies or other assets, including rights and receivables, or in the context of mergers;
- for the purpose of issuing shares to employees of the Company and employees and members of the management of subordinated Group companies, with regard to employees also in compliance with the requirements of section 204 (3) AktG;
- In the case of capital increases against cash contributions, if the subscription price for which the new bearer shares with no par value are issued does not significantly fall short of the market price at the time of final determination of the amount of which the shares are issued, which should be as close as possible to the placement of the bearer shares with no par value (simplified exclusion of subscription rights pursuant to section 186 (3) sentence 4 AktG). The shares issued under exclusion of the subscription right in accordance with section 186 (3) sentence 4 AktG may not exceed a total of 10.0 % of the share capital existing at the time when the resolution on the creation of this authorization is adopted or – if this value is lower – at the time when the resolution on the initial exercise of this authorization is made. The upper limit of 10.0 % of the share capital shall be reduced by the prorated amount of the share capital attributable to those shares issued or sold during the period of effectiveness of this authorization under the exclusion of subscription right in direct or analogous application of section 186 (3) sentence 4 AktG. Furthermore, this limit is decreased by shares that have been or may be issued in order to satisfy option or conversion rights or obligations, if the option or conversion rights or obligations were granted or imposed under exclusion of the subscription rights in accordance with section 186 (3) sentence 4 AktG during the period of effectiveness of this authorization.

In accordance with section 186 (5) AktG, the new shares may also be subscribed by a credit institution or a company operating in accordance with section 53 (1) sentence 1 or section 53b (1) sentence 1 or (7) of the German Banking Act (KWG) with the obligation to offer them to the shareholders for subscription (indirect subscription right).

The Management Board is authorized, subject to the approval of the Supervisory Board, to determine the further details of the capital increase and the conditions for the issuance of shares.

7.3 Share buyback

By resolution of the general meeting on August 18, 2020, the Management Board was also authorized until August 11, 2025, to acquire treasury shares of the Company up to a total of 10.0 % of the Company’s share capital existing at the time the resolution is adopted or – if one of these values is lower – at the time this authorization becomes effective or at the time this authorization is exercised. The authorization may be exercised, in each case individually or jointly, by the Company or also by subordinated Group companies of the Company or by third parties for the account of the Company or its subordinated Group companies. The authorization to acquire and use treasury shares may be exercised in full or in part, once or several times.

At the discretion of the Management Board, the shares may be purchased on the stock exchange or by means of a public purchase offer or a public invitation to shareholders to submit an offer for sale.

- If treasury shares are purchased on the stock exchange, the purchase price paid by the Company (excluding incidental costs) may not be more than 10.0 % higher or lower than the price of the Company's shares determined by the opening auction on the trading day in the Xetra trading system (or a comparable successor system) on the Frankfurt Stock Exchange.
- If the shares are purchased by means of a public offer to buy or a public invitation to submit an offer to sell, the purchase or selling price offered or the limits of the purchase or selling price range per share (excluding incidental costs) may not be more than 10.0 % higher or lower than the average closing price in the Xetra trading system (or a comparable successor system) on the Frankfurt Stock Exchange on the three trading days prior to the date of the public announcement of the offer or the public invitation to submit an offer to sell. If there is a significant deviation in the relevant price after publication of a purchase offer, the offer may be adjusted. In this case, the average price of the three stock exchange trading days prior to the day of publication of any adjustment shall be taken as the basis; the 10.0 % limit for oversubscription or undersubscription shall be applied to this amount. If the offer to purchase is oversubscribed or, in the case of an invitation to submit an offer to sell, not all of several equivalent offers can be accepted, acceptance must be in proportion to the shares tendered (tender ratios). In addition, shares may be rounded down to avoid fractional amounts.

The authorization may be exercised for any legally permissible purpose, in particular in pursuit of one or more of the purposes set out below, excluding shareholders' subscription rights in accordance with the following provisions, and may be exercised individually or jointly by the Company or a subordinated Group company or by third parties for the account of the Company or a subordinated Group company.

- The Management Board is authorized, subject to the approval of the Supervisory Board, to sell the treasury shares acquired on the basis of the authorization granted at the general meeting on August 18, 2020, also in a way other than via the stock exchange or by means of an offer to all shareholders, provided that the sale is for cash and at a price which is not significantly lower than the stock market price of shares in the Company at the time of the sale (simplified exclusion of subscription rights pursuant to section 186 (3) sentence 4 AktG). The shares sold on the basis of this authorization may not exceed a total of 10.0 % of the share capital, either at the time the resolution is adopted by the general meeting or at the time this authorization is exercised. The maximum limit of 10.0 % of the share capital shall be reduced by the pro rata amount of the share capital attributable to those shares issued during the term of this authorization with exclusion of subscription rights in direct or analogous application of section 186 (3) sentence 4 AktG. Furthermore, this limit shall be reduced by shares issued or issuable to service option or conversion rights, provided that the bonds were issued during the term of this authorization under exclusion of subscription rights in accordance with section 186 (3) sentence 4 AktG.
- The Management Board is authorized, subject to the approval of the Supervisory Board, to transfer the treasury shares acquired on the basis of the authorization granted by the general meeting on August 18, 2020, to third parties in return for contributions in kind, in particular in connection with the acquisition of companies, parts of companies, or equity interests in companies, or in connection with business combinations, as well as in connection with the acquisition of other assets, including rights and receivables.
- The Management Board is authorized, subject to the approval of the Supervisory Board, to use the treasury shares acquired on the basis of the authorization granted by the annual general meeting on August 18, 2020, to fulfill obligations arising from conversion or option rights or conversion obligations from convertible bonds or bonds with warrants or profit participation rights or income bonds (or combinations of these instruments) issued by the Company or its subordinated Group companies which grant a conversion or option right or stipulate a conversion or option obligation.
- The Management Board is authorized, subject to the approval of the Supervisory Board, to use the treasury shares acquired on the basis of the authorization granted by the general meeting on August 18, 2020, to grant holders of convertible bonds or bonds with warrants or profit participation rights or participating bonds (or combinations of these instruments) issued by the Company or its subordinated Group companies, which grant a conversion or option right or stipulate a conversion or option obligation, treasury shares to the extent that they would be entitled to a subscription right to shares of the Company after exercising the conversion or option right or after fulfillment of the conversion or option obligation.
- The Management Board is authorized to offer for purchase the treasury shares acquired on the basis of the authorization granted by the general meeting on August 18, 2020, to persons who are or were employed by the Company or one of its affiliated companies (employee shares).

In addition, in the event of a sale of treasury shares by means of an offer to all shareholders, the Management Board may with the approval of the Supervisory Board exclude shareholders' subscription rights for fractional amounts.

In addition, treasury shares acquired on the basis of the authorization granted by the general meeting on August 18, 2020, may be retired without any further resolution by the general meeting. The retirement generally leads to a capital reduction. In derogation of this, the Management Board may determine that the share capital shall remain unchanged and instead the retirement shall increase the proportion of the share capital represented by the remaining shares in accordance with section 8 (3) AktG. In this case, the Management Board is authorized to adjust the number of shares stated in the articles of association.

The details of the authorization and particularly the limits of the possibility to exclude subscription rights and the offsetting modalities, are set out in the authorization resolution.

8 Significant agreements of the Company that are subject to a change of control due to a takeover bid

On September 7, 2020, HENSOLDT AG, as borrower, entered into a Senior Facilities Agreement ("SFA") with a number of lenders in the amount of € 950 million. In the agreement dated November 2, 2021, the SFA was increased by € 40 million to a total of € 990 million. This credit agreement contains a so-called "change of control" clause, which is triggered if a person other that the person specified in the agreement directly or indirectly acquires more than 50.0 % of voting rights in HENSOLDT AG. In the case of a change of control, the loan may be called in for repayment immediately.

9 Compensation agreements concluded by the Company with members of the Management Board or employees in the event of a takeover bid

For the event of a change of control, HENSOLDT AG has not concluded any compensation agreements with its employees or with members of the Management Board or with managing directors or with employees of any direct or indirect subsidiaries.

VIII Corporate governance statement

In this corporate governance statement, we report on the principles of corporate management and corporate management practices and on significant structures of our corporate governance for the past fiscal year in accordance with sections 289f and 315d HGB. It also includes the Declaration of conformity pursuant to section 161 AktG.

The corporate governance statement is part of the combined management report for HENSOLDT AG and the Group. In accordance with section 317 (2) sentence 6 HGB, the auditor's examination of the statements pursuant to section 289f (2) and (5) and section 315d HGB is limited to whether the statements have been made.

1 Fundamentals

HENSOLDT promotes the principles of good corporate governance in the sense of responsible, transparent corporate management and control aimed at increasing the value of the Company in the long term. This is a prerequisite for promoting the trust of national and international investors and financial markets, business partners, employees and the public in HENSOLDT. HENSOLDT Group bases its activities on the recommendations and suggestions of the German Corporate Governance Code ("Code") as amended on December 16, 2019.

2 Declaration of conformity pursuant to section 161 AktG

The Management Board and Supervisory Board of HENSOLDT AG were subject to the obligation under section 161 AktG to issue a declaration of conformity with the Code throughout the entire fiscal year. The Management Board and Supervisory Board issued the following declaration on the Code in resolutions dated on March 8/11, 2022:

"The Management Board and the Supervisory Board declare that since the submission of the last declaration of conformity on March 5, 2021, the company has complied and will continue to comply with the recommendations of the German Corporate Governance Code in the version of December 16, 2019, published in the official section of the Federal Gazette (*Bundesanzeiger*) on May 20, 2020.

Taufkirchen, March 8/11, 2022

HENSOLDT AG

Management Board Supervisory Board"

The declaration of conformity, as printed above, is also available on the website of HENSOLDT at https://investors.hensoldt.net in the "Corporate Governance" section. Future declarations of conformity by the Company shall also be published there, and in the future, the respective declarations of conformity for the last five fiscal years will be available.

3 Remuneration of Management Board and Supervisory Board

The remuneration report on the remuneration of the Management Board and the Supervisory Board in the last fiscal year, including the auditor's report pursuant to section 162 AktG, will be on the agenda for approval at the annual general meeting on May 13, 2022. The remuneration report as part of the combined management report will be published on the website of HENSOLDT at https://investors.hensoldt.net in the "Investors" section. The remuneration report and the note for the remuneration report will be kept publicly available in accordance with the statutory regulations.

The applicable remuneration system for the members of the Management Board pursuant to section 87a AktG was approved by the annual general meeting on May 18, 2021, with a majority of 97.98 % of the valid votes cast. The resolution on the remuneration and the remuneration system of the Supervisory Board pursuant to section 113 AktG was also adopted at the annual general meeting of May 18, 2021, with a majority of 99.99 % of the valid votes cast. Further information on the currently applicable remuneration system of the Management Board as well as the Supervisory Board, including the respective resolutions of the annual general meeting, can be found on the website of HENSOLDT at https://investors.hensoldt.net in the "Corporate Governance" section.

4 Disclosures on corporate governance practices

4.1 Principles

HENSOLDT is named after Moritz Hensoldt (1821-1903). He was a German pioneer in optics and precision engineering. He developed innovative technologies, which at the time revolutionized the possibilities in the fields of surveillance and reconnaissance. We still see his entrepreneurial spirit today as the key to fulfilling our mission for our customers. For this purpose, we have introduced four principles: "Collaboration" is the foundation of our culture, our most important principle. Therefore, our motto is "We are a team" - we can only innovate and succeed together. Motivated employees who take responsibility, who work together, who respect and trust each other, and who use their individual strengths to work for our Company are at the heart of a successful and well-functioning collaboration. "Continuous Improvement", "Responsibility" and "Innovation" are the three other principles.

4.2 Suggestions of the Code

In the reporting period, HENSOLDT voluntarily complied with the suggestions of the Code with the following exceptions:

At the time of this statement, it is unclear whether, in the event of a takeover bid, the Management Board would convene an extraordinary general meeting at which the shareholders would discuss the takeover bid and, if necessary, decide on measures under company law (suggestion A.5). The Management Board would make this decision depending on the content of any takeover bid and the specific need for discussion and decision in each individual case, taking into account the expense of an extraordinary general meeting.

According to suggestion D.8 sentence 2 of the Code, participation in the meetings of the Supervisory Board and the committees via telephone and video conferences should not be the rule. For the Supervisory Board of HENSOLDT AG and its committees, personal meetings are the rule. However, the special circumstances of the COVID-19 pandemic resulted in several meetings of the Supervisory Board and its committees being held in virtual form during the fiscal year 2021.

4.3 Standards of Business Conduct

HENSOLDT is committed to the core values of integrity, quality, trust and innovation, thus securing tomorrow's success. Regardless in which business area HENSOLDT is active or which professional tasks HENSOLDT performs – HENSOLDT gains the trust of colleagues and stakeholders not only with what HENSOLDT does, but also with how HENSOLDT does it. "Doing the right thing" is not always easy, especially in the complex, international and highly regulated business environment in which HENSOLDT operates. The Standards of Business Conduct provide valuable guidance on key ethical and compliance issues and explain the mutual rights and obligations of employees and the HENSOLDT Group. As it is also important for HENSOLDT that the high standards regarding accountability are met by suppliers, HENSOLDT requires its suppliers to follow the same rules of conduct.

HENSOLDT's Standards of Business Conduct are available on the website of HENSOLDT at https://investors.hensoldt.net in the "Corporate Governance" section.

4.4 Compliance

HENSOLDT’s compliance program aims to ensure the compatibility of its business activities with applicable law and regulations, but also with ethical principles, and to develop a culture of integrity. To achieve this, HENSOLDT developed and implemented a comprehensive compliance program specifically designed for the individual risk profile. If business proposals are submitted, which HENSOLDT believes involve compliance risks that are inconsistent with its values and zero-tolerance policy, we do not hesitate to reject these business opportunities.

One of the focal points of the compliance system is the prevention of corruption; to this end, HENSOLDT has developed an anti-corruption policy and has devoted particular attention and resources to dealing with the risk of engaging commercial agents and other third parties. HENSOLDT has implemented several compliance policies and procedures for this purpose, including a Partner Review Directive, a Gifts and Hospitality Directive, an investigation policy, a privacy policy and an offset compliance policy. HENSOLDT’s compliance process is further supported by the internal audit department, which is involved in conducting regular compliance-focused audits. HENSOLDT additionally conducts regular risk analysis to update risk assessments and improve compliance processes.

Furthermore, HENSOLDT has established a whistleblower system, which allows employees and external parties to report violations in person or anonymously via an “OpenLine” (anonymous telephone and e-mail hotline). HENSOLDT’s compliance organization includes twelve employees as of December 31, 2021. The compliance organization reports directly to the general counsel who reports to the CEO. The Head of Compliance also reports regularly to the Compliance Committee of HENSOLDT's Supervisory Board. In addition to the Head of Compliance, eight Compliance Officers (full-time) are currently employed. Besides, there are compliance contacts in subordinate companies who report to the central compliance organization. Training courses are held both virtually and in person. For this purpose, IT tools are being used. These tools are used in particular as part of due diligence to screen potential business partners. The Management Board of HENSOLDT regularly communicates on the compliance organization via internal communication media.

More information on the compliance organization is available on the website of HENSOLDT at https://investors.hensoldt.net in the “Compliance” section.

4.5 Risk and control management

Functioning control systems are an essential component of stable business processes. HENSOLDT’s Group-wide control systems are embedded in an overall concept, which, among other things, takes into account statutory regulations, the recommendations of the Code, international regulations and recommendations, and other company-specific guidelines. The responsible persons for the individual elements of the control system are in close contact with each other and with the Management Board and report regularly to the Supervisory Board or its committees. Similarly, the Group has a Group-wide risk management system in place, which describes and regulates functions, processes and responsibilities in a binding manner. Key features of the internal control and risk management system are explained in chapter “IV Opportunities and risks report”.

4.6 Sustainability

HENSOLDT is aware of the special responsibility and knows the impact of the activities on society and the environment. HENSOLDT is committed to conducting its business sustainably and responsibly at all times. The Long-Term Incentive bonus components for the Management Board members are among other criteria based on the achievement of the ESG targets “Diversity” and “Climate Impact”. Further information on the topic of sustainability (ESG) can be found in chapter “V Non-financial Group Statement” and on the website of HENSOLDT at https://investors.hensoldt.net in the “Sustainability" section.

4.7 Shareholders and general meeting

The shareholders of HENSOLDT AG exercise their rights at the general meeting. The general meeting decides on all matters assigned to it by law, including the appropriation of profits, the discharge of the Management Board and the Supervisory Board, and the election of the auditor. The general meeting also elects the Supervisory Board members representing the shareholders. By using electronic means of communication, especially the internet, the Management Board extends the possibilities for shareholders to follow the speeches of the Chairman of the Supervisory Board as well as of the members of the Management Board and enables shareholders to be represented by proxies designated by the Company when exercising their voting rights.

The reports, documents and information required by law for the general meeting, including the annual report as well as the agenda for the general meeting and any countermotions or election proposals from shareholders, which have to be made accessible, are available on the internet.

The second ordinary annual general meeting of HENSOLDT AG will take place on May 13, 2022. Due to the ongoing COVID-19 pandemic and the resulting uncertainty with regard to holding a meeting in person, the general meeting should be held as a virtual meeting without the physical presence of shareholders or their representatives in order to protect employees and shareholders in accordance with applicable legal requirements.

4.8 Management Board and Supervisory Board shareholdings

Pursuant to article 19 of Regulation (EU) No. 596/2014 on market abuse, members of the Management Board and the Supervisory Board as well as persons closely associated with them are legally obliged under certain circumstances to disclose transactions made in shares of HENSOLDT AG or in derivatives relating thereto or in other related financial instruments.

A process is established to properly disclose these transactions in the event of such notification. The reported transactions are available on the website of HENSOLDT at https://investors.hensoldt.net in the “Corporate Governance” section.

4.9 Corporate Communication and transparency

Corporate Communication provides comprehensive and timely information. All mandatory publications are made available on the website of HENSOLDT at https://investors.hensoldt.net in the “Investors“ section. Numerous publications, for example ad hoc announcements, press releases and interim and annual reports, are issued in German and English. HENSOLDT organizes press conferences and conference calls on important occasions. The Management Board is responsible for HENSOLDT's communication with shareholders, shareholder associations, financial analysts, the media and the interested public on the Company's development and significant events. In addition, the Chairman of the Supervisory Board participates to an appropriate extent in investor meetings in close consultation with the Management Board, to the extent in which such meetings relate to the work and tasks of the Supervisory Board. The current financial calendar, which provides information on all significant publication and event dates, is also available on the website of HENSOLDT at https://investors.hensoldt.net.

The articles of association, the rules of procedure of the Supervisory Board, the report of the Supervisory Board from the fiscal year 2020, the Declaration of Conformity from the fiscal year 2020 and the Corporate Governance Report from the 2020 fiscal year are available on the website of HENSOLDT at https://inventors.hensoldt.net in the “Corporate Governance” section.

5 Working methods of Management Board and Supervisory Board

The actions of the Management Board and Supervisory Board of HENSOLDT AG are based on the principle of responsible corporate management and control (corporate governance). The cooperation between the two committees is characterized by mutual trust.

On the basis of section 90 AktG, the Management Board informs the Supervisory Board regularly, promptly, comprehensively and generally in text form about all issues of strategy, planning, business development, risk situation, risk management and compliance that are relevant to the Company. The Management Board discusses the status of strategy implementation with the Supervisory Board at regular intervals and addresses any deviations in the course of business from adopted plans and targets, including an explanation regarding the reasons. The Chairmen of the two boards meet regularly to discuss all relevant current issues, also at short notice and with regard to specific events.

5.1 Management Board of HENSOLDT AG

Working methods of the Management Board

The Management Board manages the Company on its own responsibility. In doing so, it is bound to the interests of the Company and committed to increasing the sustainable value of the Company. The board's main tasks include defining the Company's objectives and strategic direction, managing and monitoring the operating units, and establishing and monitoring an efficient risk management system. The Management Board is responsible for the preparation of the consolidated financial statements and the annual financial statements as well as the preparation of interim financial information of HENSOLDT AG. The Management Board is also responsible for ensuring compliance with legal requirements and official regulations.

The members of the Management Board are jointly responsible for the overall management of the Company and its direct and indirect subsidiaries within the meaning of section 290 HGB ("subsidiaries" and the Company together with its subsidiaries the "HENSOLDT Group"). They work together as colleagues and inform each other on an ongoing basis about important measures and events within their respective areas of responsibility. Irrespective of the overall responsibility, each member of the Management Board is responsible for managing the area of responsibility assigned to them. As far as measures and transactions of one area of responsibility simultaneously affect another or several other areas of responsibility, the respective member of the Management Board must first reach an agreement with the other member(s) involved. If no agreement can be reached, each member of the Management Board involved is obliged to bring about a resolution by the Management Board.

The current Management Board has four functional responsibilities, namely the position of Chief Executive Officer (CEO), Chief Financial Officer (CFO), Chief Strategy Officer (CStO) and Chief Human Resources Officer (CHRO), with the CHRO also serving as Labor Director. The business allocation plan assigns specific business areas to the respective Management Board members; the business allocation plan is reviewed by the Supervisory Board in regular intervals and adjusted as necessary. At present, the CEO's portfolio includes, inter alia, responsibility for the Optronics & Land Solutions division, the Radar & Naval Solutions division and the Customer Service & Space Solutions division. The CEO is also responsible for HENSOLDT France, Corporate Sections (Corp. Sec.)/Chief Legal Officer (CLO), Communication, Governmental Relation, Operations/Production/Chief Technical Officer (CTO), Procurement and Quality. The CFO is primarily responsible for the departments Finance & Controlling, Treasury, Investor Relations, Commercial & Offset, Internal Audit, as well as other related programs and tasks (Enterprise Risk Management, Information Management and "HENSOLDT GO!"). In addition to Human Resources, the CHRO is also responsible for Security and Corporate Social Responsibility, Facility Management and Health, Safety and Environment. The CStO is responsible for the Spectrum Dominance & Airborne Solutions division, HENSOLDT Ventures, Corporate Development and M&A, Governmental Business Development (including Public Affairs) and International Business Development. Within their respective functional areas of responsibility, the members of the Management Board each have – relating to all parts of the Company – the authority to issue directives, the duty of supervision and the duty to coordinate, without prejudice to the continuing overall responsibility of the Management Board. This also applies towards the heads of entities with their own legal form and towards HENSOLDT Group companies abroad, unless this is not legally permissible in individual cases.

The detailed structure of the work of the Management Board is determined by the rules of procedure, which is issued by the Supervisory Board; the Supervisory Board reviews the rules of procedure on a regular basis to determine whether any adjustments are required. These rules of procedure govern, among other things, matters reserved for a decision by the whole Management Board, special measures requiring the approval of the Supervisory Board as well as other procedural and resolution modalities. The Management Board meets regularly at Management Board meetings. These are convened by the Chairman of the Management Board, who coordinates the work of the Management Board. Any member of the Management Board may request the convening of a meeting. In accordance with the rules of procedure, the Management Board regularly adopts resolutions by a simple majority of the members participating in the resolution. In the event of a tie, the vote of the Chairman of the Management Board shall be decisive.

Composition of the Management Board

Pursuant to section 6 (1) of the articles of association, the Management Board of HENSOLDT AG consists of at least two persons. In the reporting period until June 30, 2021, the Management Board comprised three members: Thomas Müller as Chairman (CEO), Axel Salzmann as CFO and Peter Fieser as CHRO. By resolution of the Supervisory Board of March 19, 2021, Celia Pelaz was appointed as the fourth member of the Management Board (CStO) with effect from July 1, 2021.

Further information on the personnel composition and the curricula vitae, term of appointment and areas of responsibility of the individual Management Board members can be found on the website of HENSOLDT at https://investors.hensoldt.net in the "Corporate Governance" section. It also contains information on other mandates held by members of the Management Board. In addition, the composition of the Management Board is presented in the Notes to the Consolidated Financial Statements.

The members of the Management Board are appointed by the Supervisory Board on the proposal of the Executive Committee. In any appointment decisions, the Supervisory Board takes into account diversity aspects such as age, gender, educational or professional background. In particular, the Supervisory Board aims to give appropriate consideration to women. The flexible age limit for members of the Management Board stipulates that members of the Management Board should generally not be older than 65. The flexible age limit is formulated in a soft way in order to retain a certain degree of flexibility to the Supervisory Board in its appointment decisions.

For further information on the representation of women in the Boards of HENSOLDT AG, please refer to the chapter "5.4 Disclosure on the representation of women in the Management Board and Supervisory Board and at the top management levels of HENSOLDT AG".

As part of the succession planning for the Management Board, the Chairman of the Supervisory Board, who is also the Chairman of the Executive Committee, regularly discusses suitable internal candidates with the Management Board and involves the Executive Committee in the considerations or discussions. In addition, the Executive Committee will also evaluate external candidates for Management Board positions as required and, if necessary, will seek the help of external service providers.

5.2 Supervisory Board of HENSOLDT AG

Working methods of the Supervisory Board

The Supervisory Board monitors and advises the Management Board in the management of the Company. It supports the Management Board in major business decisions and assists in matters of strategic importance. Measures requiring the approval of the Supervisory Board have been defined by the Supervisory Board in the rules of procedure for the Management Board. Furthermore, the Supervisory Board appoints the members of the Management Board, determines their total remuneration and reviews the consolidated and annual financial statements of HENSOLDT AG, the combined management report including the separate non-financial group statement and the report of the Management Board on relations with affiliated companies (dependency report).

At least two Supervisory Board meetings are held each calendar half-year. Extraordinary meetings are held as required. The committees also hold regular meetings. The resolutions of the Supervisory Board require a majority of the votes cast, unless otherwise stipulated by law. If a vote results in a tie, each member of the Supervisory Board has the right to demand a new vote on the same matter. If this also results in a tie, the Chairman has two votes. In the past fiscal year, various Management Board matters were discussed at the Supervisory Board meeting on March 19, 2021, that required the Supervisory Board to meet without the Management Board being present, including the Management Board's remuneration system, the resolution on the variable remuneration of the Management Board for 2020 and the targets for variable remuneration in the year 2021, the expansion of the Management Board from three to up to five members, the appointment and employment of Celia Pelaz as a member of the Management Board, the determination of the representation ratios as well as the approval of additional management mandates pursuant to section 88 (1) sentence 2 AktG and the amendment of the schedule of responsibilities of the Management Board. Furthermore, the Supervisory Board held a meeting on December 14, 2021, on the competence profile and the self-assessment of the Supervisory Board with the Management Board being present. The Supervisory Board has adopted rules of procedure for itself, which are published on the website of HENSOLDT at https://investors.hensoldt.net.

HENSOLDT considers the regular review of the effectiveness of the Supervisory Board's work in accordance with recommendation D.13 of the Code as an important component of good corporate governance. In October and November 2021, the Supervisory Board conducted a self-assessment for the first time. The members of the Supervisory Board had the opportunity to evaluate the efficiency of the work of the Supervisory Board and its committees by means of a questionnaire. In addition, a survey of the competences of the Supervisory Board members was carried out to review the competence profile. The results of this stocktaking were discussed and debated at the Supervisory Board meeting on December 14, 2021. 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 competency profile were not considered necessary or appropriate at the present time. With regard to the organization of the Supervisory Board meetings, the Supervisory Board members expressed their hope that an improvement of the pandemic situation in 2022 would allow the meetings to be held as face-to-face meetings again. It was also noted that the Supervisory Board will continue to keep an eye on the issue of sustainability in particular.

In principle, members of the Supervisory Board take responsibility for the training and continuing education measures required for their duties. If necessary, they are supported by HENSOLDT to an appropriate extent. In the past 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. To support the Supervisory Board in the induction of any new members, an induction process has been established in which the members of the Supervisory Board are familiarized with the main characteristics of HENSOLDT and its business activities as well as the legal requirements and internal processes relevant to their work on the Supervisory Board.

Details of the Supervisory Board's activities, including the number of meetings and information on the attendance of Supervisory Board members at meetings in the fiscal year 2021, are provided within the "Report of the Supervisory Board".

Composition of the Supervisory Board

The Supervisory Board has 12 members and, in accordance with the requirements of the German Codetermination Act (MitbestG), is composed of an equal number of shareholder and employee representatives. The rules of procedure of the Supervisory Board stipulate that the Supervisory Board shall be composed in such a way that its members as a whole possess the knowledge, skills and professional experience required to properly perform their duties and that the statutory gender quota is complied with.

In the fiscal year 2021, the Supervisory Board comprised the following members. Their mandates in other supervisory boards or comparable German and foreign supervisory bodies are shown in the following table (mandates within the HENSOLDT Group are marked with an asterisk (*)):

Johannes P. Huth Chairman of the Supervisory Board Partner at KKR and Head of KKR EMEA Born 1960	Member of the Supervisory Board since 2017 Appointed until 2025 **Memberships in other statutory supervisory boards in Germany** • Member of the Supervisory Board of Axel Springer SE **Memberships in other comparable German and foreign control bodies of commercial enterprises** • Member of the Board of Coty Inc. Based on the assessment of the Supervisory Board, the Supervisory Board member is independent of the Company and its Management Board.
Armin Maier-Junker Vice Chairman of the Supervisory Board Chairman of the Works Council of HENSOLDT Sensors GmbH at the site in Ulm; Chairman of the Central Works Council of HENSOLDT Sensors GmbH and Chairman of the Groups Works Council Born 1962	Member of the Supervisory Board since 2017 Appointed by the court as a member of the Supervisory Board of HENSOLDT GmbH in June 2020. Elected by employees during supervisory board elections in May 2021. Appointed until 2026 **Memberships in other statutory supervisory boards in Germany** • Member of the Supervisory Board of HENSOLDT Sensors GmbH* **Memberships in other comparable German and foreign control bodies of commercial enterprises** • None Employee representative
Dr. Jürgen Bestle Head of Engineering Governance in HENSOLDT AG and head of the Design Organization in HENSOLDT Sensors GmbH Born 1966	Member of the Supervisory Board since 2021 Elected by employees during supervisory board elections in May 2021. Appointed until 2026 **Memberships in other statutory supervisory boards in Germany** • Member of the Supervisory Board of HENSOLDT Sensors GmbH* from September 1, 2021 **Member of the Supervisory Board in other comparable German and foreign control bodies of commercial enterprises** • None Employee representative
Jürgen Bühl Head of the Industry Policy Coordination department in the Management Board of IG Metall Born 1969	Member of the Supervisory Board since 2017 Appointed by the court as a member of the Supervisory Board of HENSOLDT GmbH in June 2020. Elected by employees during supervisory board elections in May 2021. Appointed until 2026 **Memberships in other statutory supervisory boards in Germany** • Member of the Supervisory Board of HENSOLDT Sensors GmbH* from March 1, 2020 • Members of the Supervisory Board of Airbus Defence & Space GmbH **Memberships in other comparable German and foreign control bodies of commercial enterprises** • None Employee representative

Dr. Frank Döngi Head of product line Airborne, Space & ISR Radars and of product line Eurofighter Radar of HENSOLDT Sensors GmbH Born 1966	Member of the Supervisory Board since: 2020 Appointed by the court as a member of the Supervisory Board of HENSOLDT GmbH in June 2020. Retired from the Board on May 18, 2021 **Memberships in other statutory supervisory boards in Germany** • Member of the Supervisory Board of HENSOLDT Sensors GmbH* from February 15, 2020. Retired from the Board on August 31, 2021. **Memberships in other comparable German and foreign control bodies of commercial enterprises** • None Employee representative
Achim Gruber Chairman of the Works Council of HENSOLDT Optronics GmbH in Oberkochen Born 1963	Member of the Supervisory Board since 2021 Elected by employees during supervisory board elections in May 2021. Appointed until 2026 **Memberships in other statutory supervisory boards in Germany** • None **Memberships in other comparable German and foreign control bodies of commercial enterprises** • None Employee representative
Prof. Wolfgang Ischinger Chairman of the Foundation Munich Security Conference; Senior Professor for security policy and diplomatic practice at the Hertie School of Governance in Berlin; Honorary professor at the University Tübingen Born 1946	Member of the Supervisory Board since 2017 Appointed until 2025 **Memberships in other statutory supervisory boards in Germany** • None **Memberships in other comparable German and foreign control bodies of commercial enterprises** • None Based on the assessment of the Supervisory Board, the Supervisory Board member is independent of the company and its Management Board as well as of the controlling shareholder.
Ingrid Jägering Member of the Management Board, CFO and Labor Director at Leoni AG Born 1966	Member of the Supervisory Board since 2017 Appointed until 2025 **Memberships in other statutory supervisory boards in Germany** • None **Memberships in other comparable German and foreign control bodies of commercial enterprises** • Independent member of the Board of Directors of SAF Holland S.A. • Member of the Advisory Board of Wegmann Group Based on the assessment of the Supervisory Board, the Supervisory Board member is independent of the company and its Management Board as well as of the controlling shareholder.

Marion Koch Member of the Work Council of HENSOLDT Sensors GmbH at the site in Immenstaad and Member of the Group Work Council; Project Manager in the product line Airborne, Space & ISR Radars of HENSOLDT Sensors GmbH Born 1978	Member of the Supervisory Board since 2020 Appointed by the court as a member of the Supervisory Board of HENSOLDT GmbH in June 2020. Elected by employees during supervisory board elections in May 2021. Appointed until 2026 **Memberships in other statutory supervisory boards in Germany** • None **Memberships in other comparable German and foreign control bodies of commercial enterprises** • None Employee representative
Christian Ollig Partner at KKR and Head of KKR in Germany, Executive Director of Traviata B.V. Born 1977	Member of the Supervisory Board since 2017 Appointed until 2025 **Memberships in other statutory supervisory boards in Germany** • Member of the Supervisory Board of ETL AG Steuerberatungsgesellschaft • Member of the Supervisory Board of Rainbow UK BidCo Limited **Memberships in other comparable German and foreign control bodies of commercial enterprises** • Member of the Supervisory Board of Upfield Holdings B.V. Based on the assessment of the Supervisory Board, the Supervisory Board member is independent of the Company and its Management Board.
Prof. Dr. Burkhard Schwenker Senior Fellow of Roland Berger; Academic Co-Director of the HHL Center for Scenario-Planning Born 1958	Member of the Supervisory Board since 2017 Appointed until 2025 **Memberships in other statutory supervisory boards in Germany** • Member of the Supervisory Board of Hamburger Hafen and Logistik AG • Member of the Supervisory Board of Hamburger Sparkasse AG • Member of the Supervisory Board of Flughafen Hamburg GmbH • Member of the Supervisory Board of M.M. Warburg & Co. KGaA **Memberships in other comparable German and foreign control bodies of commercial enterprises** • Member of the Board of Directors of HASPA Finanzholding Based on the assessment of the Supervisory Board, the Supervisory Board member is independent of the company and its Management Board as well as of the controlling shareholder.

Julia Wahl Personal assistant to the district manager of the IG Metall Baden-Württemberg Born 1987	Member of the Supervisory Board since 2019 Appointed by the court as a member of the Supervisory Board of HENSOLDT GmbH in June 2020. Elected by employees during supervisory board elections in May 2021. Appointed until 2026 **Memberships in other statutory supervisory boards in Germany** • Member of the Supervisory Board of HENSOLDT Sensors GmbH* from January 15, 2019 **Memberships in other comparable German and foreign control bodies of commercial enterprises** • None Employee representative
Claire Wellby Member of the Private-Equity-Team of KKR, Vice President of the KKR Show Aggregator GP Limited Born 1988	Member of the Supervisory Board since 2020 Appointed until 2025 **Memberships in other statutory supervisory boards in Germany** • Member of the Supervisory Board of LEONINE Licensing AG **Memberships in other comparable German and foreign control bodies of commercial enterprises** • None Based on the assessment of the Supervisory Board, the Supervisory Board member is independent of the Company and its Management Board.
Ingo Zeeh Member of the Works Council of HENSOLDT Optronics GmbH in Oberkochen and state certified engineer specialising in mechanical engineering and team manager in the field of integration and service of ground systems of HENSOLDT Optronics GmbH Born 1983	Member of the Supervisory Board since 2021 Appointed by court in January 2021 to the end of the employee elections which were held in May 2021 Retired from the Board on May 18, 2021. **Memberships in other statutory supervisory boards in Germany** • None **Memberships in other comparable German and foreign control bodies of commercial enterprises** • None Employee representative

The time of initial appointment mentioned above is disclosed on the basis of the first appointment to the Supervisory Board of the HENSOLDT Holding GmbH respectively HENSOLDT GmbH, which means before the change of the legal form of the company into a public limited company (AG) as of August 17, 2020. The following changes occurred in the composition of the Supervisory Board during the fiscal year: 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. Mr. Dr. Jürgen Bestle and Mr. Achim Gruber were newly elected as employee representatives. Mr. Armin Maier-Junker, Mrs. Marion Koch, Mr. Jürgen Bühl and Mrs. Julia Wahl were re-elected to the Supervisory Board as employee representatives.

According to the competence profile drawn up by the Supervisory Board, in view of the areas of activity of HENSOLDT Group, the essential competences of the Supervisory Board members include knowledge, experience or skills in the following areas: Industry, markets and regions in which HENSOLDT AG operates, accounting and auditing, corporate governance, compliance and regulatory requirements, capital market and risk management. At least one member of the Supervisory Board should have in-depth experience and knowledge in the management of an international company, in the area of digitalization and information technology, in the area of human resources management and recruitment, in accounting and financial reporting, in controlling / risk management as well as in the area of corporate governance and compliance, including the regulatory requirements relevant to HENSOLDT. In addition, the Supervisory Board shall have knowledge and experience in the area of international security policy. Besides the appropriate representation of all gender identities and age groups, proposals for elections to the Supervisory Board will also take into account different educational and professional backgrounds and the most diverse possible cultural and regional origins of the members of the Supervisory Board.

The competence profile also provides rules on the independence of Supervisory Board members and on the limitation of other mandates held in line with the relevant recommendations and suggestions of the Code. A standard length of service of twelve years has been included.

Based on its work up to date, the Supervisory Board has gained the impression that, on an overall basis, the competencies which are considered essential for the board’s work relating to HENSOLDT AG and the HENSOLDT Group are represented on the Supervisory Board. The Supervisory Board members as a whole are familiar with the industry in which HENSOLDT operates. On the shareholder side in particular, a significant number of members have many years of international experience in the management of an internationally operating company, Corporate Governance, risk management and Compliance, as well as capital market and human resources issues. With the Chairwoman of the Audit Committee, Ms. Ingrid Jägering, at least one member of the Supervisory Board has proven expertise in the fields of accounting or auditing. In addition, the Chairman of the Supervisory Board as well as Mr. Ollig and Ms. Wellby have in-depth knowledge in this area. HENSOLDT AG thus meets the requirements under section 100 (5) AktG, already now. Several members have experience in implementing digital processes. Mr. Prof. Ischinger supports the Supervisory Board, in particular, with his in-depth knowledge of the international security policy. Mr. Prof. Dr. Schwenker also contributes considerable experience in the area of committee work and thus also governance. In addition, from the Supervisory Board's point of view, the employee side in particular ensures that the interests of numerous stakeholders are adequately taken into account within the work of the Supervisory Board.

The rules of procedure of the Supervisory Board contain a flexible provision on age limits. Accordingly, only persons who are not older than 70 should be proposed for election. This standard age limit is currently exceeded by only one Supervisory Board member, namely Mr. Prof. Ischinger, whose experience, skills and network are of considerable value to the Company. In this case, exceeding the standard age limit when proposing the election was and continues to be irrelevant from the Supervisory Board’s point of view.

For further information on the representation of women in the Boards of HENSOLDT AG, please refer to the chapter ”5.4 Disclosure on the representation of women in the Management Board and Supervisory Board and at the top management levels of HENSOLDT AG”.

In future proposals to the annual general meeting for the election of shareholder representatives, the Supervisory Board will take into account its competence profile and the objectives for the composition of the Supervisory Board, which are included in this profile, the requirements of the Financial Market Integrity Strengthening Act (FISG) in relation to the composition of the Audit Committee as well as diversity aspects. In addition, the Supervisory Board will take the time commitment of the proposed persons into account when making proposals to the general meeting for the election of shareholder representatives.

Prevention of conflicts of interest and independence

Each member of the Supervisory Board must disclose conflicts of interest to the Supervisory Board. Information about disclosed conflicts of interest that arose in the previous fiscal year and their handling is provided in the “Report of the Supervisory Board”.

The Supervisory Board assessed by taking into account the ownership structure of HENSOLDT AG, that an appropriate number of shareholder representatives are independent by definition of the Code. On the shareholder representative’s side, the Supervisory Board considers Ingrid Jägering, Prof. Ischinger and Prof. Dr. Burkhard Schwenker to be independent of the Company, its Management Board and of the controlling shareholder, thus three of the total of six shareholder representatives. Consequently recommendation C.9 (1) of the Code is complied with.

The right of delegation of the Federal Republic of Germany provided for in section 8 (2) sentence 3 of the articles of association, which it can exercise jointly with Square Lux (for as long as Square Lux is a shareholder of the company), and the sole right of delegation of the Federal Republic of Germany provided for in section 8 (2) sentence 5 of the articles of association for a further member of the Supervisory Board have not been exercised to date. Moreover, this does not generally affect the independence of a Supervisory Board member, according to the assessment of the Supervisory Board. On the one hand, the articles of association stipulate that such a Supervisory Board member who was delegated pursuant to section 8 (2) sentence 3 of the articles of association, may not be a civil servant or employee of the Federal Republic of Germany, another regional authority or an institution under public law. On the other hand, in the opinion of the Supervisory Board, the Federal Republic of Germany is not a controlling shareholder in line with the meaning of recommendation C.9 of the Code, as no control agreement has been concluded with the Federal Republic of Germany, nor does the Federal Republic of Germany hold an absolute majority of votes or any other sustainable majority at the general meeting.

With regard to recommendation C.9 of the Code, the Supervisory Board does not classify Johannes P. Huth, Christian Ollig and Claire Wellby as independent of the controlling shareholder, because of their status as partner or employees of Kohlberg Kravis Roberts & Co L.P. ("KKR") or companies affiliated with KKR. The Supervisory Board nevertheless assumes that the aforementioned Supervisory Board members are independent of the Management Board and the Company, recommendation C.7 of the Code. The Supervisory Board assumes that the existing business relationships between the HENSOLDT Group on the one hand and companies affiliated with KKR on the other hand were not material for either of the business partners in the previous year.

5.3 Committees of the Supervisory Board

To the extent permitted by law, the Supervisory Board may transfer some of its duties and rights to one of its committees. In particular, the Supervisory Board reserves the right, if necessary, to form a committee for confidentiality matters to deal with classified information. The committees are each responsible for the tasks assigned to them by resolution of the Supervisory Board or by the rules of procedure adopted by the Supervisory Board, which define these tasks in more detail. The Chairpersons of the committees shall report regularly to the Supervisory Board on the activities of the committees. The responsibilities of the Supervisory Board committees are set out in the rules of procedure for the Supervisory Board. The rules of procedure of the committees essentially correspond to those of the Supervisory Board in a plenary session.

In the current fiscal year, the Supervisory Board formed six permanent committees. More details on the work of the committees in the reporting period, including the number of respective meetings and information on the attendance of committee members at meetings, can be found in the "Report of the Supervisory Board".

Executive Committee

The Executive Committee is composed of the Chairman of the Supervisory Board, his deputy and one further member from both the employee and shareholder sides. In the reporting period, Johannes P. Huth (chairman), Jürgen Bühl[21], Prof. Wolfgang Ischinger and Armin Maier-Junker[21] were members of the committee. The Executive Committee prepares proposals to the Supervisory Board for the appointment and dismissal of Management Board members and the extension of their mandates, the handling of service contracts with Management Board members, Management Board succession planning, and corporate governance issues. The Executive Committee is responsible for concluding, amending, extending and terminating service contracts with the members of the Management Board within the framework of the remuneration system determined by the Supervisory Board in a plenary session and the general meeting and within the targets set by the Supervisory Board in a plenary session for the variable remuneration of the individual Management Board members. In addition, the Executive Committee makes proposals to the Supervisory Board for resolutions on existing or anticipated conflicts of interest of members of the Management Board. Furthermore, the Executive Committee makes proposals for the approval of other contracts and transactions between the Company or a subsidiary of the Company on the one hand and a member of the Management Board or persons or companies related to a member of the Management Board on the other hand, unless the Committee for Related Party Transactions is responsible.

[21] Employee representative

Audit Committee

The Audit Committee is composed of two shareholder representatives and two employee representatives. In the reporting period, Ingrid Jägering (Chairwoman), Marion Koch[21], Christian Ollig and Julia Wahl[21] belonged to the committee. The Chairwoman of the Audit Committee, Ingrid Jägering, is independent in the assessment of the Supervisory Board. She has not been a member of the Management Board of HENSOLDT AG in the past, nor does she have any other personal or business relationship with HENSOLDT AG or its institutions, which could constitute a material and not only temporary conflict of interest. She is not simultaneously Chairwoman of the Supervisory Board and has expertise in the fields of accounting and auditing. HENSOLDT AG thus meets the requirements of section 100 (5) AktG in conjunction with section 107 (4) sentence 3 AktG in the audit committee already now.

The Audit Committee is tasked with reviewing the financial statements and with monitoring the accounting process. In connection with the adoption of the annual financial statements by the Supervisory Board, the Audit Committee undertakes the preliminary review of the annual and consolidated financial statements, the combined management report of HENSOLDT AG and the Group, the sustainability report, the report of the Management Board on relations with affiliated companies (dependency report) and the proposal of the Management Board for the appropriation of the balance sheet profit. In addition, the Audit Committee discusses significant changes in audit and accounting methods. The Audit Committee prepares the report of the Supervisory Board to the general meeting in accordance with section 171 (2) AktG.

The Audit Committee also reviews the effectiveness of the internal control system, the risk management system and the internal auditing system. For this purpose, the Committee discusses the principles of risk identification and risk management with the Management Board and deals with the Company's risk monitoring system. The Audit Committee monitors the Company's compliance with legal provisions, official regulations and the Company's internal policies, where these do not relate to transactions and regulations concerning anti-corruption, antitrust (competition law), data protection and export control, which are duties of the Compliance Committee of the Supervisory Board.

The Audit Committee prepares the resolution proposal to the general meeting regarding the election of the auditor for the annual financial statements and the consolidated financial statements as well as any quarterly and half-yearly reports. The Audit Committee monitors the selection and the independence of the auditor. It also oversees the work of the auditor, including the additional services provided by the auditor.

Conciliation Committee

The Conciliation Committee consists of the chairman of the Supervisory Board as chairman of the committee, his deputy elected in accordance with the German Codetermination Act, and one additional representative for each shareholders and employees. In the reporting period, Johannes P. Huth (Chairman), Jürgen Bühl[21], Armin Maier-Junker[21] and Christian Ollig were members of the Committee. In the cases set out in section 31 (3) and (5) MitbestG, the Conciliation Committee shall submit proposals to the Supervisory Board for the appointment or withdrawal of the appointment of members of the Management Board.

Compliance Committee

The Compliance Committee is composed of two shareholder representatives and two employee representatives. During the reporting period, the members of the Committee were Prof. Dr. Burkhard Schwenker (Chairman), Christian Ollig, Dr. Frank Doengi[21] (until May 18, 2021), Ingo Zeeh[21] (until May 18, 2021), Dr. Jürgen Bestle[21] (from May 19, 2021) and Achim Gruber[21] (from May 19, 2021) The Compliance Committee's task is to monitor the Company's compliance with legal provisions, official regulations and internal Company policies relating to anti-corruption, antitrust (competition law), data protection and export control.

Related Party Transactions Committee

The Related Party Transactions Committee shall be composed of two shareholder representatives and two employee representatives, taking into account that the majority of the Committee shall be composed of members for which no concern of a conflict of interest exists due to their relationship with a related party. In the reporting period, Prof. Dr. Burkhard Schwenker (Chairman), Jürgen Bühl[21], Prof. Wolfgang Ischinger and Armin Maier-Junker[21] were members of the Committee. Task of the Related Party Transactions Committee is to monitor the Company's internal procedure for the ordinary course of business and the arm's length nature of related party transactions within the meaning of section 111a (1) AktG. Furthermore, the Committee is responsible for the approval of related party transactions in accordance with section 111b AktG. For such transactions, the decision-making authority of the committee takes precedence over the decision-making authority of other committees.

Nomination Committee

The Nomination Committee consists of up to four Supervisory Board members from the shareholder's side. In the reporting period, Johannes P. Huth (Chairman), Prof. Wolfgang Ischinger, Ingrid Jägering and Christian Ollig were members of the committee. When appointing members to this committee, the Supervisory Board ensures an appropriate representation of women and men. The Nomination Committee proposes suitable candidates to the Supervisory Board for its election proposal to the general meeting. The Nomination Committee is also responsible for preparing a proposal for the competence profile, reviewing the existing competence profile, and recommending any adjustments.

5.4 Disclosures on the representation of women in the Management Board and Supervisory Board and at the top management levels of HENSOLDT AG

Representation of women in the Supervisory Board

The legally required gender quota of 30.0 % in accordance with section 96 (2) AktG applies to the Supervisory Board. To prevent possible unequal treatment of shareholder or employee representatives and to increase planning security in the respective election processes, the shareholder representatives on the Supervisory Board have objected to the overall fulfillment of the quota in accordance with section 96 (2) sentence 2 AktG. This means the shareholder side and the employee side must meet the minimum quota of 30.0 % for each gender separately. The shareholder and employee sides must therefore each include at least two women and at least two men.

In the reporting period, there were two women each on both the shareholder and employee sides. The legally required gender quota was therefore complied with in the previous year.

Representation of women in the Management Board of HENSOLDT AG

The Supervisory Board of HENSOLDT AG has set a target for the proportion of women in the Management Board in accordance with section 111 (5) AktG. When the target was first set, a minimum target of 25.0 % was set until the end of the first implementation period on August 11, 2025. The proportion of women in the Management Board was 0.0 % at the time the target was set for the first time. Due to the appointment of Celia Pelaz as the fourth member of the Management Board, the proportion of women was 25.0 % at the end of the fiscal year.

According to the German Stock Corporation Act (AktG) in the version of the Second Leadership Positions Act (FüPoG II) which has been in force since August 12, 2021, at least one woman and at least one man must be a member of the Management Board (minimum participation requirement) if the Management Board consists of more than three persons, section 76 (3a) AktG. At the end of the reporting year, the Management Board of HENSOLDT AG consisted of four persons, one of whom was a woman, so that the minimum participation requirement is already met.

Determination for the two management levels below the Management Board

In accordance with section 76 (4) AktG, the Management Board also sets targets for the proportion of women in the two management levels below the Management Board. As of December 31, 2020, HENSOLDT AG, as an individual entity, did not have any management levels below the Management Board. After this changed during the reporting period, the Management Board has now set the following quotas for women's participation to be achieved by December 8, 2026:

A quota of 16.6 % is to be achieved at the first management level below the Management Board. This quota was achieved at the end of the reporting period.

A quota of 20.0 % is to be achieved at the second management level below the Management Board. This quota was achieved at the end of the reporting period.

In determining the respective quotas, the Management Board was guided by the following considerations: The Management Board pursues the goal of increasing the proportion of women in management positions at the Group level. HENSOLDT AG is therefore guided by the overriding determination of the proportion of women at Group level, as has already been done.

Even independently of setting targets for the proportion of women, the Management Board pays attention to diversity when filling management positions within the HENSOLDT Group, particularly with regard to the appropriate representation of all gender identities as well as the international experience and origin of employees.

IX Final declaration on the dependency report

In the fiscal year 2021, HENSOLDT AG was a dependent company of KKR Square Aggregator L.P., Canada, and its subsidiaries within the meaning of section 312 AktG. The Management Board of HENSOLDT AG therefore prepared a dependency report according to section 312 (1) AktG, which contains the following final declaration:

"We declare that with regard to the legal transactions and measures listed in the report on relations with affiliated companies, HENSOLDT AG received appropriate consideration for each legal transaction according to the circumstances known to us at the time the legal transactions were carried out; measures subject to reporting requirements were not taken or omitted."

X HENSOLDT AG

The annual financial statements of HENSOLDT AG were prepared in accordance with sections 242 et seq. and 264 et seq. HGB and in accordance with the relevant provisions of the German Stock Corporation Act and the Articles of Association.

As of December 31, 2021, HENSOLDT AG was the parent company of the HENSOLDT Group. With the entry in the commercial register on August 17, 2020, HENSOLDT GmbH, Taufkirchen, (Local Court of Munich, HRB 252143) was converted into HENSOLDT AG, Taufkirchen (Local Court of Munich, HRB 258711).

1 Result of operations of HENSOLDT AG

For the fiscal year 2021, the income statement for HENSOLDT AG was as follows.

	Fiscal year		
in € million	2021	2020	% Delta
Revenue	36.7	8.3	>200%
Cost of sales	-36.7	-8.5	<-200%
Gross profit	**-0.0**	**-0.2**	**100.0%**
Selling expenses	-0.4	-	-
General administrative expenses	-13.9	-33.6	58.6%
Other operating income	5.3	5.3	0.0%
Other operating expenses	-5.2	-6.0	13.3%
Operating result	**-14.2**	**-34.5**	**58.8%**
Finance result	**-21.6**	**-8.4**	**-157.1%**
Result after taxes	**-35.8**	**-42.9**	**16.6%**
Other taxes	-0.0	-	-
Net loss for the fiscal year	**-35.8**	**-42.9**	**16.6%**
Proft / loss carry-forward	3.1	-0.3	>200%
Withdrawal from the capital reserve	65.0	60.0	8.3%
Balance sheet profit	**32.3**	**16.8**	**92.3%**

Revenue consists exclusively of internal recharges and were almost compensated by cost of sales in the same amount which is reflected accordingly in the gross profit. The increase of revenue compared to the previous year resulted mainly from the further transfer of group functions to HENSOLDT AG. The general administrative expenses include the expenses for the further strategic development of the HENSOLDT Group as well as central administrative expenses of HENSOLDT AG, which were recharged to the operating companies of the HENSOLDT Group. The other operating income and other operating expenses included mainly the costs for the employee share program and their recharging to the participating companies of the HENSOLDT Group. General administrative expenses and other operating income and expenses in the previous year were mainly characterized by expenses and income incurred in connection with the IPO and refinancing. The finance result in the previous year consists predominantly of interest paid for the syndicated loan, bank commissions and fees as well as the interest expense from the revaluation of the pension provisions. The decrease in the finance result in the current fiscal year was due to the fact that HENSOLDT AG in the previous year only had to bear the interest expenses from the time of the refinancing in the context of the IPO in September 2020. The balance sheet profit results mainly from the withdrawal from the capital reserve in the context of the preparation of the annual financial statements.

As of December 31, 2021, HENSOLDT AG had 121 employees.

2 Asset and financial position of HENSOLDT AG

The assets and financial positions of HENSOLDT AG on December 31, 2020, were as follows:

in € million	Dec. 31, 2021	Dec. 31, 2020	% Delta
Property, plant and equipment and intangible assets	0.2	0.1	172.7%
Financial assets	2,670.0	2,670.0	0.0%
Fixed assets	**2,670.2**	**2,670.1**	**0.0%**
Accounts receivable, other assets and advance payments made	36.3	125.9	-71.2%
Cash and cash equivalents	43.7	188.0	-76.7%
Current assets	**80.0**	**313.9**	**-74.5%**
Prepaid expenses and deferred charges	7.6	9.1	-16.0%
Total assets	**2,757.8**	**2,993.1**	**-7.9%**
Share capital	105.0	105.0	0.0%
Capital reserve	1,720.0	1,785.0	-3.6%
Balance sheet profit	32.3	16.8	92.4%
Equity	**1,857.3**	**1,906.8**	**-2.6%**
Provisions	19.3	7.3	162.9%
Liabilities	881.2	1,078.9	-18.3%
Total equity and liabilities	**2,757.8**	**2,993.1**	**-7.9%**

The financial assets primarily included the investment in HENSOLDT Holding GmbH. Accounts receivable and other assets mainly included accounts receivable from affiliated companies. The decrease compared to the previous year is mainly due to the complete reduction of accounts receivable from cash pooling. The decrease in balances with credit institutions resulted mainly from the partial repayment of the revolving credit facility. Prepaid expenses included essentially the transaction costs directly attributable in connection with the first-time taking out of a long-term syndicated loan ("Term Loan") amounting to € 2.5 million (previous year: € 3.8 million) and a revolving credit facility ("RCF") in the amount of € 4.5 million (previous year: € 5.1 million).

As of December 31, 2021, the share capital of HENSOLDT AG amounted to € 105.0 million, divided into 105.0 million ordinary bearer shares (no-par value shares).

Net loss for the fiscal year 2021 amounted to € 35.8 million. In connection with the preparation of the annual financial statements, an amount of € 65.0 million was withdrawn from the capital reserve and allocated to balance sheet profit.

The provisions mainly comprised provisions for pensions obligations and provisions for personnel expenses. The increase compared to the previous year resulted mainly from the further transfer of group functions to HENSOLDT AG and the relating transfer of pension obligations. Liabilities mainly included liabilities to banks. The revolving credit facility, which was fully drawn in the previous year, was reduced by a total of € 200.0 million to € 150.0 million (before interest accruals of € 0.1 million) in the fiscal year 2021. In contrast, the long-term loan was increased by € 20.0 million to € 620.0 million in the fiscal year. Liabilities also included accounts payable to affiliated companies in the amount of € 76.4 million (previous year: € 100.4 million), mainly from cash pooling.

3 Opportunities and risks

The business development of HENSOLDT AG is subject to the same opportunities and risks as the HENSOLDT Group because of its role as a holding company. The most significant risks for the Company are the worsening of operative performance of subsidiaries and the associated impairment risk in the carrying amount of investments as well as the associated liquidity and interest risks. HENSOLDT AG is not aware of an individual or aggregated risk, which could endanger the continuity of its business activity. The most meaningful opportunities for HENSOLDT AG result from the current increase of defence budgets. This is topped by the diversification of the product range and the extension of the service business as well as the ability of the HENSOLDT Group and thus the Group companies to act as the innovation leader in their industry.

4 Forecast

In its forecast for the fiscal year 2021, the Management Board assumed for the most important financial key performance indicators of HENSOLDT AG a strong increase of revenue and a moderate decline of the net loss for the fiscal year. The forecast was achieved since the anticipated development of the influential factors “Transfer of group functions to HENSOLDT AG”, “Omission of expenses for the IPO” and partly “Compensation by higher interest expenses” occurred.

Within the Company’s operational planning, the Management Board assumes a slight increase in revenue and a moderate reduction of the net loss for the fiscal year 2022. The further transfer of group functions to HENSOLDT AG which occurred in the course of the fiscal year 2021 and the associated increasing recharging of group services to subsidiaries is a main driver here. The further net loss for the fiscal year arises from expenses and interest expenses that cannot be recharged and for which no income from distributions or profit transfers of the subsidiary are available. This expectation does not account for possible implications from additional waves of infection or further lockdowns in connection with the global COVID-19 pandemic as well as possible impacts on the defence and security industry from Russia's invasion of Ukraine.

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

in € million	Note	Fiscal year 2021	Fiscal year 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

in € million	Note	Fiscal year 2021	Fiscal year 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

		Fiscal year	
in € million	Note	2021	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**
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

in € million	Share capital	Capital reserve	Retained earnings	Remeasurement of pensions	Cash flow hedge	Currency translation	Subtotal	Non-controlling interests	Equity
	Attributable to the owners of the HENSOLDT AG								
				Other reserves					
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

II Group structure

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	2021 Group
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	2021 Group
EBIT	**96.6**	**39.4**	**-10.3**	**125.7**
Finance income/costs	-	-	-	-40.8
EBT	**-**	**-**	**-**	**84.9**

in € million	Sensors	Optronics	Elimination/ Transveral/ Others	2020 Group
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	2020 Group
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	2020 Group
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	2020 Group
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

	Dec. 31,	Dec. 31,
in € million	2021	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

	Gross amount	Impairment	Net carrying amount	Net carrying amount
			Dec. 31,	Dec. 31,
in € million			2021	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

	Dec. 31,	Dec. 31,
in € million	2021	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.

	Dec. 31,	Dec. 31,
in € million	2021	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	
	Dec. 31,	Dec. 31,
in € million	2021	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:

in Mio. €	Dec. 31, 2021	Dec. 31, 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:

in %	Dec. 31, 2021	Dec. 31, 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 Tech-nologies (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 / participa-tion in %)	*Num-ber*	*in %*	*Number*	*in %*	*Number*	*in %*	*Number*	*in %*
Johannes P. Huth Chairman of the Supervi-sory Board	4/5	80	-	-	-	-	4/4	100
Armin Maier-Junker[1] Vice Chairman of the Super-visory 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

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