Combined Management Report of

HENSOLDT AG

for the year ended

31 December 2022

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

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1 Business model

The HENSOLDT Group (the “Group”, “HENSOLDT”) is a German Champion and specialised provider of defence and security sensor solutions in the defence and security industry. HENSOLDT develops innovative and customised solutions in the fields of radars, electronic warfare, avionics and optronics. The product portfolio as of 31 December 2022, 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 Organisation 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. 30 entities including the parent company (previous year: 33) were fully consolidated.

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

2.2 Locations and employees

HENSOLDT’s headquarters are located in Taufkirchen near Munich, an important innovation centre 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 per 31 December 2022, of the 6,463 employees (previous year: 6,316) of HENSOLDT, among them 611 trainees, interns, etc. (previous year: 587), approx. 4,700 (previous year: approx. 4,600) 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 Services & Aerospace 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, Services & Aerospace 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 this division, the Group develops and manufactures mobile and stationary radar and IFF systems (Identification Friend or Foe) used for surveillance, reconnaissance, civil 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.

Services & Aerospace Solutions

The division "Services & Aerospace Solutions" which was renamed in the fiscal year (formerly: “Customer Services & Space Solutions”) essentially comprises 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. HENSOLDT Space Solutions develops and manufactures components and solutions for space-based sensors that are used, inter alia, in the fields of earth, weather and environmental monitoring, scientific research of space and for laser communication in space.

Elimination/Transversal/Others comprises the other 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.

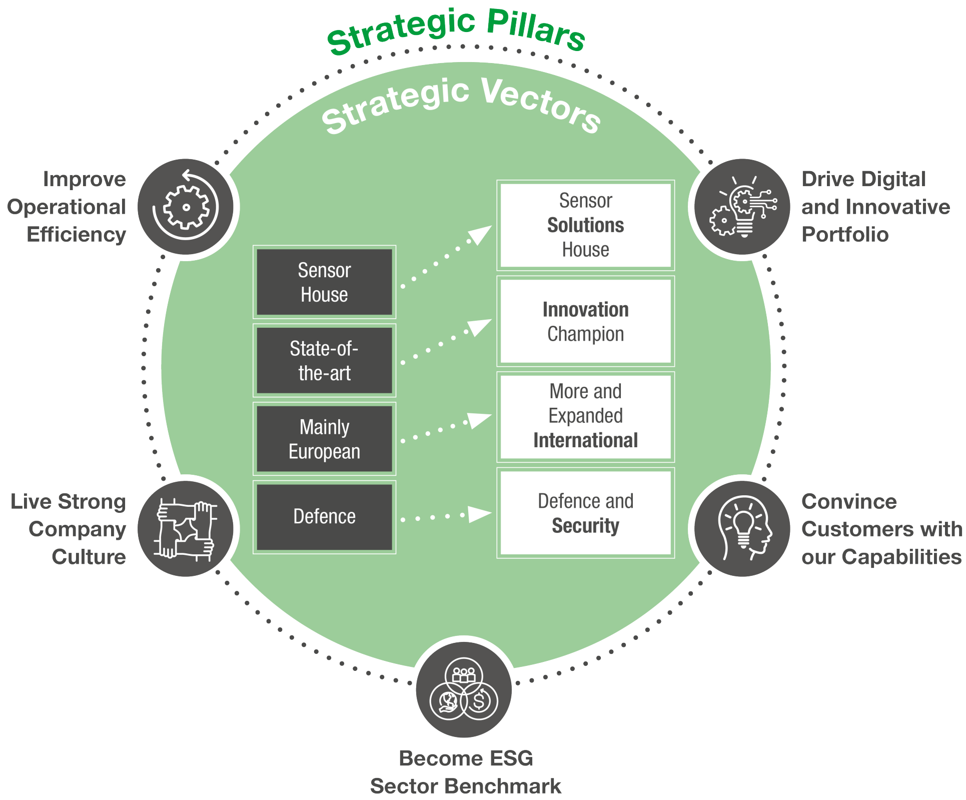
Optronics segment

The Optronics segment comprises the division Optronics and Land solutions and includes optronics as well as optical instruments and precision instruments for military, security relevant 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 armoured vehicles. For use at sea, submarine periscopes, optronic mast systems and other electro-optical systems are offered. In the air, the product portfolio includes stabilised sensor platforms with image stabilisers 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 2022, HENSOLDT made further important progress toward its goal of becoming Europe’s leading platform-independent provider of sensor solutions in the defence and security sector with global reach. Existing growth and efficiency plans were followed up in the fiscal year 2022 and important goals were achieved.

HENSOLDT’s strategy is based on four vectors and five strategic pillars. The vectors describe the objectives which illustrate the strategic pillars that show how such objectives should be achieved.



The four strategic objectives in the form of vectors remained unchanged during the fiscal year 2022:

- HENSOLDT 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 share in the security area

The description of the achievement of the strategic goals through the five strategic pillars also remained unchanged.

- Drive digital and innovative portfolio
- Convince customers with our capabilities
- Become ESG[1] sector benchmark
- Live strong company culture
- Improve operational efficiency

[1] Environmental Social Governance

3.1 Drive digital and innovative portfolio

With its about 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 enhance its competitiveness and to meet the operative challenges and concepts of its customers. For this purpose, HENSOLDT is continuously expanding its self-funded research and development expenditure (“R&D”). Compared to 2021, HENSOLDT increased its self-funded R&D expenditure recognised in expenses in the reporting year by 13.9 % to € 36 million. In total, HENSOLDT’s self-financed R&D expenses in 2022 (consisting of R&D costs recognised as expenses and additions to capitalised development costs) amounted to € 91 million (previous year: € 97 million). In addition, HENSOLDT builds up its own competencies within the framework of customer-financed projects and enters into strategic partnerships to enable its own portfolio additions and expansions. An M&A strategy strongly focused on growth and innovation (with company acquisitions, joint ventures or minority shareholdings) rounds off the strategic portfolio development.

The evolution of products into complete solutions led to a more innovative and competitive portfolio. From the Management Board’s point of view, the further dovetailing of the divisions of the HENSOLDT Group and the intensified orientation according to customer segments once again brought about an increase in innovative strength in the reporting year 2022 through cross-divisional cooperation and intensive exchange between employees.

The success of the further development of the digital and innovative portfolio is reflected in numerous products, such as the newly launched airborne reconnaissance system MissionGrid or the first modular sensor fusion platform (MUV[2]), demonstrated on an IVECO vehicle.

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 programmes 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.

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 Organisation which as of 31 December 2022 has around 200 employees, distributed among the sales centres 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 not only become the benchmark in ESG in the defence and security industry but also to ensure that the company remains committed to its high standards in this area in the long term by continuously adapting and improving HENSOLDT’s ESG performance and strategy. 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, 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 UN Global Compact[3], a United Nations initiative. HENSOLDT is thus committed to the ten universal sustainability principles in the areas of human rights, labour standards, the environment and corruption prevention.

The extensive ESG activities contributed once again significantly to HENSOLDT’s excellent performance in the ESG rating by Sustainalytics. HENSOLDT was again ranked first in the “Aerospace & Defence” sector.

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

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 Remuneration report which can also be found on the website of HENSOLDT at https://investors.hensoldt.net in the “Corporate Governance” section.

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 the 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 programme. Under this programme, 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 Echo programme was once again a great success in the fiscal year 2022 from the Management Board’s point of view with a participation of more than 60 % of all employees eligible to participate. It reflects the already strong and distinctive corporate culture, but above all the commitment and trust of the employees towards HENSOLDT.

HENSOLDT runs an initiative to strengthen the global corporate culture with a focus on HENSOLDT’s mission and leadership development. The aim is to ensure and develop 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 programme 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 establishment of a culture of continuous improvements resulted in the fiscal year to constant improvements in operating and development efficiency as well as in the purchasing organisation.

In the future, HENSOLDT intends to focus on improving production, further increasing its development efficiency through organisational measures and improving supply chain management. Also other measures for efficiency improvements in the general administrative functions will be in focus again. A strong focus is placed on optimising the cash conversion cycle and working capital.

4 Financial performance indicators

HENSOLDT uses certain key performance indicators (“KPIs”) to measure performance, identify trends and make strategic decisions. To make these indicators comparable over a multi-annual period and within the industry, adjusted key performance indicators are used as well. Besides revenue, the most important KPIs are order intake, the book-to-bill ratio[4] and adjusted EBITDA[5]. In addition, HENSOLDT uses another performance indicator, the order backlog and two non-IFRS performance indicators, the adjusted pre-tax unlevered free cash flow[6] and the adjusted EBIT[7]. These are intended to provide a better understanding of the HENSOLDT Group’s financial position by excluding items that are not classified as part of ongoing operations.

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4 Defined as ratio of order intake to revenue in the relevant fiscal year.

5 Defined as EBIT adjusted for depreciation and amortisation (including effects on earnings from purchase price allocations), as well as certain non-recurring effects relating to transaction costs, follow-up expenses in 2021 for the IPO in 2020, OneSAPnow-related non-recurring effects as wells as other non-recurring effects.

6 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.

7 Defined as EBIT, adjusted for certain non-recurring effects relating to effects on earnings from purchase price allocations, transaction costs, follow-up expenses in 2021 for the IPO in 2020, OneSAPnow-related non-recurring effects as wells as other non-recurring effects.

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. 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	2022	2021	% Delta
Performance indicators			
Revenue	1,707	1,474	15.8 %
Adjusted EBITDA	292	261	12.0 %
Adjusted EBIT	224	199	13.0 %
Adjusted pre-tax unlevered free cash flow	219	252	-13.2 %
Order intake	1,993	3,171	-37.2 %
Order backlog	5,366	5,092	5.4 %
Book-to-bill-ratio	1.2x	2.2x	-1.0x

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 € 36 million in fiscal year 2022 (previous year: € 31 million). This corresponds to 2.1 % of revenue (previous year: 2.1 %). The expenses are divided between product lines and basic research.

Not included are additions in the fiscal year for development costs capitalised during the fiscal year of € 55 million (previous year: € 66 million), with the main focus of capitalised development costs in the Sensors segment being on naval and ground radar programmes as well as on the Identification Friend or Foe area. In the Optronics segment, the additions are mainly due to land and sea programmes. This reflects a capitalisation rate of 60.6 % (previous year: 67.8 %) in terms of total research and development spend of € 91 million (previous year: € 97 million). Amortisation of capitalised development costs amounted to € 21 million in the fiscal year (previous year: € 16 million) and are included in this amount in the cost of sales.

6 HENSOLDT on the capital market[8]

The HENSOLDT AG share price rose significantly in the fiscal year 2022 compared to the previous year and reached a new all-time high at € 30.25 in the meantime. At the end of 2022, the share was trading at € 22.10 and thus 76.5 % above the share price at the end of the previous year.

[8] The chapter „HENSOLDT on the capital market” includes voluntary information and is thus unaudited.

6.1 Stock markets and price development of the HENSOLDT share

The 2022 stock market year was generally characterised by various burdening factors. Russia's war against Ukraine, uncertainties in Europe's energy supply, high inflation rates, more restrictive central bank monetary policies, and concerns about a global recession had a decisive influence on stock market developments. Thus, the German indices DAX and SDAX came under great pressure at the beginning of the war in Ukraine and declined noticeably until the beginning of March. In the following months, the price development of the indices remained volatile with rebounds in the meantime. Continued worries about the economy and interest rate hikes by central banks led to further noticeable declines between June and October, particularly in the SDAX. Driven by slightly falling inflation rates, the indices started to recover at the end of the year and thus somewhat contained losses over the year. In the fiscal year 2022, the DAX suffered a price decrease of 12.3 %, the SDAX declined by 28.9 %.

The HENSOLDT AG share started the year 2022 with a price of € 12.42 per share and initially experienced a side-stepping in the first trading days within a very tight range. The low for the year at € 11.56 in the middle of February was only slightly below the opening price. At the end of February, the share price rose sharply. The "watershed" proclaimed by chancellor Scholz in response to the start of the war on Ukraine, the announcement of the creation of a special fund of € 100 billion for the equipment of the German Military ("German Bundeswehr") and the commitment of the German government to invest more than 2 % of the gross domestic product in the defence budget on a sustainable basis, led, according to an estimate by HENSOLDT to a massive increase in the share price within a short period of time. At the end of March HENSOLDT shares reached a new all-time high of € 30.25. Subsequently, the share price developed during the rest of the year mainly in a trading range between around € 20.00 and € 27.00. The HENSOLDT share thus escaped the general, negative market trend and went out of trading at the end of the year at a price of € 22.10. This corresponds to a price increase of 76.5 % compared to the previous year's closing price.

Other relevant milestones for the HENSOLDT share in the fiscal year 2022 were the acquisition of shares in HENSOLDT AG by the Italian aerospace and defence group Leonardo S.p.A. on 3 January 2022 and the complete withdrawal of the investment company KKR as major shareholder of HENSOLDT AG at the beginning of April 2022.

As part of the regular review of the index composition, HENSOLDT AG was included in the SDAX index and the TecDAX index by Deutsche Börse on 20 June 2022. The main reason was the increase in market capitalisation based on free float compared to other companies.

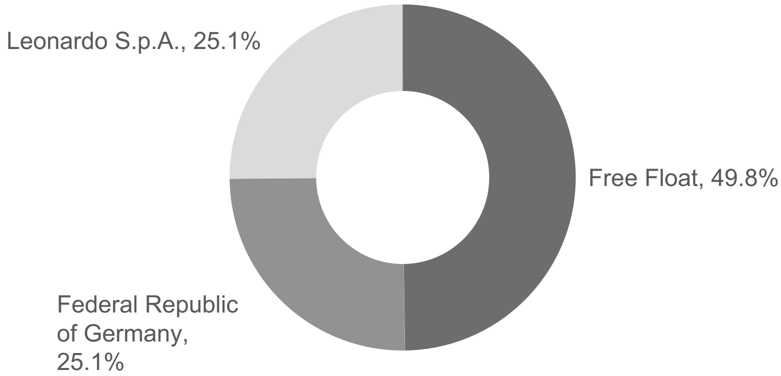
6.2 Shareholder structure

The Federal Republic of Germany is a shareholder of HENSOLDT AG through the Kreditanstalt für Wiederaufbau ("KfW") with a share of 25.1 % on 31 December 2022 as well as Leonardo S.p.A., Italy, which also holds 25.1 % in HENSOLDT AG.

With a share of more than 5.0 %, the institutional investor Wellington Lazard Asset Management (5.5 % as per voting rights notification of 4 April 2022) is one major shareholder of the Company.

Free float was around 49.8 % at the end of the year. The definition of free float refers to the guidelines for the stock indices of Deutsche Börse AG.

Shareholder structure of HENSOLDT AG as of 31 December 2022



In the year 2021, the Italian aerospace and defence group Leonardo S.p.A., Italy, ("Leonardo") and the company Square Lux Holding II S.à. R.l., Luxembourg, ("Square Lux") a portfolio company controlled by funds advised by Kohlberg Kravis & Roberts & Co. L.P. or their affiliated companies ("KKR"), concluded a share purchase agreement to acquire 25.1 % of the shares of HENSOLDT AG. The share purchase agreement dated 24 April 2021 was executed on 3 January 2022 after the conditions precedent had been fulfilled. The corresponding voting rights notifications were published on 4 January 2022. On 2 March 2022, Square Lux reduced its share to about 8.3 %. After the sale of the remaining shares on 1 April 2022, Square Lux completely exited shareholdership of HENSOLDT AG.

6.3 Analyst coverage

At the end of 2022, the following well-known national and international banks and local research houses were monitoring and evaluating the HENSOLDT share:

- Agency Partners
- Bank of America Securities
- Citigroup
- Deutsche Bank
- J.P. Morgan
- Kepler Cheuvreux
- ODDO BHF
- Warburg Research

At the end of 2022, a total of five of the eight analysts issued a "buy" recommendation. Three analysts rated the share a "hold" and none of the analysts issued a "sell" recommendation. The average target price was € 27.29 per share corresponding to a possible price potential of 23.5 % compared with the year-end price of € 22.10 per share. The analysts considered the further growth prospects in the medium and long term as well as the current development of the security and defence industry to be positive.

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.

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 2022, the Management Board held an analyst and investor call following the publication of the preliminary financial figures for the fiscal year 2021, the results for the first quarter, the first half year and the first nine months and presented both the recent strategic developments of the Group, the current business performance and the growth prospects to the capital market participants.

The management of HENSOLDT organised a Capital Markets Day on 14 December 2022. 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 second ordinary general meeting of HENSOLDT AG was held on 13 May 2022. 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. On this occasion, Giovanni Soccodato (Chief Strategic Equity Officer of Leonardo S.p.A.), Letizia Colucci (General Manager of the Med-Or Leonardo Foundation) and Reiner Winkler (until 31 December 2022 CEO of MTU Aero Engines AG) were elected to the Supervisory Board. They immediately succeed the previous Supervisory Board members Prof. Wolfgang Ischinger, Christian Ollig and Claire Wellby who had each declared their resignation from their mandates at the end of the annual general meeting on 13 May 2022. The shareholders also approved the proposal of the Supervisory Board and Management Board to pay a dividend of € 0.25 per share. All voting results are made available on the website of HENSOLDT at https://investors.hensoldt.net in the “Investors“ section.

6.6 Basic information and key data on the HENSOLDT share in 2022

ISIN:	DE000HAG0005
WKN:	HAG000
Symbol:	HAG
Stock exchange listing:	Frankfurt Stock Exchange
Stock exchange segment:	Regulated market (Prime Standard)
Index membership:	Since June 2022 member of the SDAX and TecDAX share index
Designated Sponsor:	Oddo BHF
Number of shares:	105,000,000
Share type:	Bearer shares without par value (no par value share)
Highest share price in Xetra-trading in €:	30.25 (25 March 2022)
Lowest share price in Xetra-trading in €:	11.56 (22 February 2022)
Closing share price in Xetra-trading (30 December 2022) in €:	22.10
Market capitalisation (30 December 2022) in €:	2,321 billion
Free float (31 December 2022):	49.8 %

II Economic report

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1 Economic conditions

1.1 General economic conditions

In its press release on the economic situation in Germany in January 2023, the German Federal Government published a price-adjusted increase of the German gross domestic product (shortly: “GDP”) of 1.9 % for 2022. Despite Russia’s war against Ukraine and the energy crisis, the German economy continued to recover in the third year of the COVID-19 pandemic. GDP growth in 2022 was almost sufficient to reach pre-COVID-19 pandemic levels in 2019. The economic development in 2022 was mainly characterised by Russia’s war against Ukraine and the associated extreme energy price increases. This was compounded by material and supply bottlenecks, massively rising prices for other goods such as food, as well as the shortage of skilled workers and the ongoing, albeit weakening, COVID-19 pandemic. Based on the knowledge available to date, the GDP has declined again in 4th quarter of 2022 compared to the previous quarter. The supply and transport bottlenecks also continued to be reflected in sharp price increases in production and imports of intermediate goods.

In 2022, added value increased in almost all economic sectors compared to the previous year. On the demand side, price-adjusted private consumer spending in 2022 was significantly above the low level of the previous year and thus the most important growth support of the German economy. Government consumption expenditure increased comparatively moderately in 2022 after two years marked by the COVID-19 pandemic. Investments in equipment also went up compared to the previous year. Foreign trade increased compared to the previous year, with both exports and imports of goods and services increasing. At the same time, a positive development in the labour market could be recorded in 2022. Compensation of employees increased significantly in 2022, whereas corporate and property income declined slightly.

In an international comparison, the growth of the German economy was probably lower than in the other European countries. Overall, economic growth in 2022 was more resilient than expected, given the large negative shock from Russia’s war against Ukraine. The global measures to curb inflation and Russia’s war against Ukraine will continue to be decisive factors for further economic development in 2023. Despite these factors, real GDP was surprisingly strong in many economies. This is mainly due to stronger than expected growth in private consumption, investment in the face of tight labour markets and high government support. In addition, the partial decline of bottlenecks and of transport costs reduced the pressure on commodity prices.

The International Monetary Fund’s (“IMF”) World Economic Outlook from January 2023 projects the global economy to grow by 2.9 % in 2023 (2022: 3.4 %), an increase of 0.2 percentage points compared to the October 2022 forecast.

The decline in global growth in 2023 is likely to be influenced by advanced economies, mainly in the wake of fighting inflation and the Ukraine war. While a slight increase is expected for emerging and developing countries in the medium term, a decline in growth is forecast for advanced economies in 2023. The growth in the USA is expected to be at 1.4 % in 2023 (2022: 2.0 %). A rise by 0.7 % (2022: 3.5 %) is expected for the Euro zone in 2023. In China, the growth is assumed to rise to 5.2 % (2022: 3.0 %).

1.2 Conditions in the defence and security sector

Russia’s war of aggression against Ukraine continues to determine the security policy environment in Germany, of the EU and NATO. For the future equipment of the German Military ("German Bundeswehr") the necessary derivations and conclusions are drawn and in the current and the following planning cycles a special focus will be placed on the targeted use of the findings from the Ukrainian war. In accordance with the NATO planning objectives, the capability planning of the German Bundeswehr is once again increasingly oriented towards the national and the alliance defence. In order to fulfil the planning objectives, the “Bundeswehr Special Fund” and other comprehensive measures to increase the combat readiness were approved and the focus was placed on the national and the alliance defence in the context of a critical stock-taking.

For 2023, the German Bundestag approved the defence budget of approximately € 50.1 billion in November 2022. In 2023, an additional € 8.4 billion will flow from the special fund. In the subsequent years, more funds from the special fund will be spent and a large number of projects will be released by the budget committee of the German Bundestag. The defence budget has been set at € 50.1 billion for the next years up to 2026 as part of the medium-term financial planning. In his press statement during his visit to HENSOLDT on 16 January 2023, Chancellor Olaf Scholz confirmed that long-term cooperation with the defence industry should be established for the consistent implementation of the turnaround. The new Federal Minister of Defence, Boris Pistorius, has also spoken out in favour of strengthening the national defence industry, in a concerted effort in Europe.

After lengthy negotiations, the Future Combat Air System (FCAS) programme involving three nations achieved an important milestone in December 2022 with the launch of Phase 1B. Overall, cooperation with the European partners France, Great Britain, the Netherlands and Norway was continued within the framework of the ongoing armament projects. Arms relations with Finland and Sweden have been intensified. Both countries continue planning to become members of the NATO.

In view of the security situation, bilateral and multilateral arms cooperation has received an additional boost. The “European Sky Shield Initiative” was established under German coordination on 13 October 2022 for the area of ground-based air defence. Objective of the initiative is to strengthen the European pillar in NATO’s common air defence. To this end, existing abilities should be expanded and existing capability gaps closed. 15 countries have joined forces for this purpose. Sweden also acceded the initiative in January 2023. These countries want to procure, use and maintain the corresponding systems together.

The Federal Republic of Germany continues to support Ukraine militarily. The total value of the individual licenses for the export of arms issued by the German Federal Government in the period from January to 5 December 2022 amounts to just under € 2 billion. At the Berlin Security Conference on 30 November 2022, Chancellor Olaf Scholz had promised to continue providing economic, financial, humanitarian and military assistance to Ukraine. The funds for the upgrading initiative are to total € 2.2 billion for the year 2023. Shortly after the decision to deliver battle tanks from German Bundeswehr stocks to Ukraine, the new Federal Minister of Defence, Boris Pistorius, announced his intention to fill the gaps in the German Bundeswehr caused by all deliveries as quickly as possible and to hold talks with the defence industry to this end.

For HENSOLDT, the security policy situation, the special assets and the investment resources of section 14 offer a wide range of business opportunities in all military dimensions. Nevertheless, current conditions such as limited production capacities, unstable supply chains, high international demand with limited supply, high inflation and significant exchange rate changes have a potentially negative impact on the procurement of armaments.

2 Business development

Russia’s war on Ukraine represents a turning point the likes of which we have not seen in Europe since the Cold War. This upheaval in the global order will leave a lasting mark – on the worlds of politics and business and on the people. The ‘watershed’ in security policy proclaimed by the government of the Federal Republic of Germany, the main customer of HENSOLDT Group, holds extensive opportunities for HENSOLDT.

For the year 2022, there were no significant effects for HENSOLDT’s project business. Of the “focus areas”[9] defined by HENSOLDT and based on initiatives of the German Federal Government, orders from “focus area 1” have already been recorded insofar as in the second half of 2022, among other things, the first deliveries of, for example, TRML-4D radars for the IRIS-T SLM air defence system to Ukraine were completed at short notice. Further deliveries should be made swiftly in 2023.

The COVID-19 pandemic has still not significantly influenced the business of HENSOLDT as a provider of electronic defence and security solutions.

As part of a long-term succession planning, the Supervisory Board approved the early consensual termination of the appointment of Axel Salzmann (CFO) and Peter Fieser (CHRO) as members of the Management Board in March 2022. Axel Salzmann left the Management Board on 30 June 2022. Christian Ladurner, formerly Head of Group Controlling & Investor Relations has taken over as CFO on 1 July 2022. Peter Fieser resigned from the Management Board on 30 September 2022. Dr. Lars Immisch, the former Executive Vice President HR at the Defence and Space division of the Airbus Group, took over the position as the CHRO with effect from 1 October 2022.

[9] “Focus Area 1”: Continuous support of Ukraine by the German Federal Government in coordination with EU initiatives and the “Ukraine Defence Contact Group”
“Focus Area 2”: Specific procurement projects and upcoming projects in the context of NATO/European initiatives
“Focus Area 3”: Bundeswehr special fund

HENSOLDT Nexeya France S.A.S. (“Nexeya”), a French subsidiary of HENSOLDT AG, and part of its subsidiaries were the target of a serious cyber-attack on its IT infrastructure in mid-August 2022. A comprehensive investigation of the incident was launched immediately, in close cooperation with the relevant authorities. Nexeya was largely able to return to its normal day-to-day business operations at the beginning of September. This attack affected neither the IT infrastructure nor any data of other HENSOLDT Group companies.

Overall, HENSOLDT’s operating business continued its positive development in the fiscal year 2022 and strong order intakes were recorded. The Sensors segment benefited in particular from orders relating to the Eurofighter (C3 service contract), with a total contract value of € 270 million as well as orders in the context of the Eurofighter Halcon programme (€ 175 million), orders for equipping the F126 multi-purpose frigates with four TRS-4D radar systems having a total value of € 168 million and incoming orders for the FCAS programme with a total volume of € 96 million. In the Optronics segment, orders for lasers for the M1 Abrams, among others, were booked in the amount of € 29 million. On a year-on-year basis, revenue increased significantly by 15.8 % (€ 1,707 million; previous year: € 1,474 million). The Group was able to ramp up key projects as expected and to achieve significant milestones as planned. The increase in adjusted EBITDA (€ 292 million; previous year: € 261 million) mainly resulted from volume and project mix effects. These effects were partly compensated by lower project margins from increased pass-through revenue. As expected, the book-to-bill ratio was below the previous year's value due to the excellent order intake in the 2021 fiscal year, but at 1.2 it remained at a high level.

Given the positive development, the revolving credit facility, which had been utilised in 2020, was repaid by another € 150 million and thus in full in the fiscal year 2022.

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			31 Dec.	31 Dec.	
in € million	2022	2021	% Delta	2022	2021	% Delta	2022	2021	% Delta	2022	2021	% Delta
Sensors	1,675	2,774	-39.6 %	1,404	1,148	22.3 %	1.2x	2.4x	-1.2x	4,688	4,420	6.0 %
Optronics	333	405	-17.8 %	310	332	-6.7 %	1.1x	1.2x	-0.1x	692	676	2.3 %
Elimination/ Transversal/ Others	-15	-8		-7	-5					-13	-4	
HENSOLDT	**1,993**	**3,171**	**-37.2 %**	**1,707**	**1,474**	**15.8 %**	**1.2x**	**2.2x**	**-1.0x**	**5,366**	**5,092**	**5.4 %**

Order intake

Order intake remained at a very high level. Further significant orders were received in the fiscal year 2022. Given the outstanding order intake in the previous year, especially through the key project PEGASUS, the order intake of the HENSOLDT Group in 2022 was behind the previous year.

The order intake in the Sensors segment was characterised by the service contract C3 for the Eurofighter in the Services & Aerospace Solutions division and by orders in the context of the Eurofighter Halcon programme in the Radar & Naval Solutions and the Spectrum Dominance & Airborne Solutions divisions. The Radar & Naval Solutions division also made a significant contribution with orders for the equipment of the frigate 126. In addition, orders were received in connection with Demonstrator Phase 1B in the FCAS (Future Combat Air System) programme, in which all Divisions are involved. The previous year included record orders relating to the airborne electronic signals intelligence system PEGASUS with a contract value of € 1.25 billion in the Spectrum Dominance & Airborne Solutions division and the Eurofighter Quadriga programme in the Radar & Naval Solutions and the Spectrum Dominance & Airborne Solutions divisions. Within the Sensors segment, the Radar & Naval Solutions accounted for 44.0 % (previous year: 29.2 %). The Spectrum Dominance & Airborne Solutions division accounted for 21.4 % (previous year: 60.0 %) of order intake and 34.6 % (previous year: 10.8 %) was attributable to the Services & Aerospace Solutions division.

The order intake in the Optronics segments in the fiscal year 2022 was characterised by order intakes in the Ground Based Systems, Naval and Industrial Commercial Solutions product lines and in the South African unit. The previous year period included high order intake levels in the Ground Based Systems and Naval product lines which, in total, resulted in a decline of the order intake year-on-year.

Revenue

Revenue increased significantly, mainly due to the key project PEGASUS and the increased core business in the Sensors segment.

The strong growth in the Sensors segment was achieved in all divisions. The main drivers were the PEGASUS airborne electronic signals intelligence system in the Spectrum Dominance & Airborne Solutions division and the Eurofighter radars in the Radar & Naval Solutions division. In these key projects significant milestones could be achieved as planned. The Radar & Naval Solutions division contributed 38.3 % (previous year: 41.6 %) and the Spectrum Dominance & Airborne Solutions division contributed 40.4% (previous year: 33.2%) to revenue. The Services & Aerospace Solutions division accounted for 21.3 % (previous year: 25.2 %) of revenue.

In the Optronics segment, the main drivers in revenue were the Ground Based Systems and Industrial Commercial Solutions product lines and the South African unit. The decrease compared to the previous year is mainly due to temporary restrictions in the supply chains and time delays in the supply of production material, especially for ground-based systems. This resulted in a shift in revenue recognition.

Book-to-bill ratio

As expected, the book-to-bill ratio was below the previous year's value due to the excellent order intake in the 2021 business year, but at 1.2 it remained at a high level.

In the Sensors segment, a book-to-bill ratio of 1.2 was achieved. A decrease in the Spectrum Dominance & Airborne Solutions and Radar & Naval Solutions divisions was partly compensated by increases in the Services & Aerospace Solutions division. The high book-to-bill ratio in the previous year period was characterised by orders relating to the airborne electronic signals intelligence system PEGASUS in the Spectrum Dominance & Airborne Solutions division.

The book-to-bill ratio in the Optronics segment was 1.1, albeit at a lower order intake and revenue level. The slight decline compared to the previous year resulted in particular from high order intakes in the fiscal year 2021 in the Ground Based Systems and Naval product lines.

Order backlog

Order backlog at group level increased due to a book-to-bill ratio of 1.2 in the Sensors segment and 1.1 in the Optronics segment.

In the Sensors segment further growth compared to 31 December 2021 was mainly driven by the order intakes in the Radar & Naval Solutions and the Services & Aerospace Solutions divisions. Within the Sensors segment, 54.4 % (previous year: 53.0 %) of order backlog was attributable to the Radar & Naval Solutions division. Approx. 32.3 % (previous year: 39.0 %) relate to the Spectrum Dominance & Airborne Solutions division. The Services & Aerospace Solutions division accounted for about 13.3 % (previous year: 8.0 %).

The increase in the Optronics segment compared to 31 December 2021 resulted primarily from the order intake in the product lines Ground Based Systems, Naval, Industrial Commercial Solutions and the South African unit.

Income[10]

	Profit			Profit margin	
	Fiscal year			Fiscal year	
in € million	2022	2021	% Delta	2022	2021
Sensors	233	194	20.0 %	16.6 %	16.9 %
Optronics	59	68	-14.2 %	18.9 %	20.5 %
Elimination/Transversal/Others	–	-2			
Adjusted EBITDA	**292**	**261**	**12.0 %**	**17.1 %**	**17.7 %**
Depreciation and amortisation	-103	-126	17.9 %		
Non-recurring effects	-22	-9	-146.8 %		
Earnings before finance result and income taxes (EBIT)	**166**	**126**	**32.2 %**	**9.7 %**	**8.5 %**
Finance result	-37	-41	10.2 %		
Income taxes	-49	-22	-122.6 %		
Group result	**80**	**63**	**27.8 %**	**4.7 %**	**4.3 %**
Earnings per share (in €; basic/diluted)	**0.75**	**0.60**	**24.3 %**		

Adjusted EBITDA

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

The Sensors segment had a significant impact on the development of adjusted EBITDA of the Group. The volume effects in the Sensors segment were the result of higher revenues for PEGASUS and the increased baseline business. At the same time, the key project PEGASUS showed an increase in pass-through business in the fiscal year 2022. The favourable project mix was mainly reported in the Radar & Naval Solutions division.

The Optronics segment experienced a decline compared to the previous year. This was due, among other aspects, to time delays in material supply. These delays resulted in time shifts in revenue recognition, which had a corresponding impact on adjusted EBITDA. Furthermore, the decline was due to the development of new business areas and the corresponding higher functional costs.

Earnings before finance result and income taxes (EBIT)

Depreciation and amortisation experienced a decrease, mainly related to lower amortisation of acquired intangible assets compared to the previous year. This decrease was partly offset by higher amortisation of capitalised development costs.

The increase of non-recurring effects[11] resulted mainly from expenses in the context of the long-term succession planning for the Management Board and expenses for coping with the cyber-attack on the French subsidiary Nexeya.

Group result

The improvement in the finance result was mainly due to lower interest expenses thanks to improvements in the capital structure. This was partly offset by the reversal of deferred transaction costs for the revolving credit facility as part of the adjustment to the credit agreement.

[10] The profit margins are calculated in relation to the corresponding revenue.
[11] Defined as “transaction costs, follow-up expenses in 2021 for the IPO in 2020, OneSAPnow-related non-recurring effects as well as other non-recurring effects”.

This was offset by an increase in income tax expense of € 27 million to € 49 million as at 31 December 2022 (previous year: € 22 million). It includes current income tax expenses of € 13 million (previous year: € 20 million) and an increase in deferred tax expenses of € 34 million (previous year: € 2 million). Main drivers for deferred taxes were the reversal of deferred tax assets on loss carryforwards and respectively the addition to deferred tax liabilities in connection with intangible assets as well as further valuation differences. The lower current tax expense is due to the use of loss carry forwards and the different results within the tax group.

Earnings per share

Earnings per share improved from € 0.60 to € 0.75 compared to the previous year, mainly due to the increased EBITDA, lower amortisation/depreciation and a slightly improved finance result.

The Management Board intends to propose to the Supervisory Board the distribution of a dividend of € 0.30 per share to shareholders entitled to such dividends. This corresponds to an expected total payment of around € 31.5 million. The payment of the proposed dividend is subject to the approval of the general meeting.

3.2 Net assets

	31 Dec.	31 Dec.	
in € million	2022	2021	% Delta
Non-current assets	1,335	1,326	0.6 %
therein: Goodwill[1]	*658*	*658*	*0.0 %*
therein: Intangible assets	*384*	*385*	*-0.1 %*
therein: Property, plant and equipment	*121*	*108*	*12.0 %*
therein: Deferred tax assets	*6*	*11*	*-43.7 %*
Current assets	1,644	1,629	0.9 %
therein: Inventories	*516*	*444*	*16.1 %*
therein: Contract assets	*182*	*170*	*7.3 %*
therein: Trade receivables	*323*	*309*	*4.5 %*
therein: Other current financial assets	*20*	*7*	*163.5 %*
therein: Other current assets	*133*	*167*	*-20.1 %*
therein: Cash and cash equivalents	*460*	*529*	*-13.1 %*
Total assets	**2,979**	**2,956**	**0.8 %**

[1] Adjustment of previous year's figures due to a purchase price adjustment after the measurement period by €+6 million

As at 31 December 2022, the Group’s assets remained almost unchanged with a slight increase by 0.8 % to € 2,979 million. The slight increase resulted in particular from the rise in inventories by € 72 million or 16.1 % and was compensated to a large extent by the decline of cash and cash equivalents of € 69 million and the other current assets by € 33 million.

The slight increase in non-current assets from € 1,326 million as at 31 December 2021 to € 1,335 million as at 31 December 2022 was largely due to an increase of property, plant and equipment, in particular investments in test, simulation and demonstration devices. Intangible assets remained almost unchanged since the increases in the fiscal year 2022 which comprised mainly capitalised development costs of € 55 million (previous year: € 66 million) were slightly overcompensated by the amortisation of assets from acquisitions and capitalised development costs totalling € 59 million (previous year: € 82 million).

Current assets rose in the fiscal year 2022 by € 15 million from € 1,629 million as of 31 December 2021 to € 1,644 million as of 31 December 2022.

The increase in inventories, contract assets, trade receivable and other current financial assets was partly offset by the decline in cash and cash equivalents and other current assets. The increase in contract assets and trade receivables resulted mainly from the scheduled achievement of milestones in key projects and the associated realisation of a significant volume of business in the fourth quarter of the fiscal year. Likewise, inventories were built up especially against the backdrop of the high order backlog as well as the current, temporary supply chain disruptions. The increase in other current financial assets is due in particular to loans granted to non-consolidated companies as well as further foreign currency derivatives concluded in connection with ongoing key projects. Other current assets amounting to € 133 million compared to € 167 million as of 31 December 2021, fell mainly due to lower advance payments to suppliers. The decline in cash and cash equivalents of € 69 million was, on the one hand, primarily due to the full repayment of the revolving credit facility raised in 2020 by € 150 million, the dividend payment to shareholders of HENSOLDT AG of € 26 million and scheduled payments from the passing on of due amounts from factoring agreements to the factor of € 5 million. This effect was compensated, on the other hand, partly by the positive free cash flow of € 143 million.

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 manoeuvre in order to take advantages of business and investment opportunities.

Capital structure of the Group

In connection with the IPO, HENSOLDT replaced its existing debt financing with a new facilities agreement comprising a long-term loan of € 600 million and a revolving credit facility of € 350 million. In the fiscal year 2021, both the long-term loan and the revolving credit facility were increased by € 20 million each. The revolving credit facility was repaid by a total of € 150 million in the fiscal year 2022 and was therefore no longer utilised at the reporting date. In 2022, the credit conditions were adjusted selectively, see note “36.2 Financing liabilities” in the consolidated financial statement.

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 2022, 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.

in € million	31 Dec. 2022	31 Dec. 2021	% Delta
Equity	616	417	48.0 %
therein: Share capital / Capital reserve[3]	*577*	*642*	*-10.1 %*
therein: Other reserves[1]	*82*	*-65*	*> 200 %*
therein: Retained earnings[1,2,3]	*-55*	*-171*	*67.7 %*
Non-current liabilities	1,160	1,284	-9.7 %
therein: Non-current provisions	*282*	*497*	*-43.2 %*
therein: Non-current financing liabilities	*619*	*622*	*-0.6 %*
therein: Non-current lease liabilities	*140*	*139*	*0.3 %*
therein: Deferred tax liabilities	*94*	*4*	*> 200 %*
Current liabilities	1,203	1,255	-4.1 %
therein: Current provisions	*181*	*188*	*-4.0 %*
therein: Current financing liabilities	*12*	*166*	*-92.6 %*
therein: Current contract liabilities	*488*	*500*	*-2.3 %*
therein: Trade payables	*379*	*269*	*40.9 %*
therein: Other current financial liabilities	*4*	*10*	*-64.1 %*
therein: Other current liabilities	*101*	*94*	*7.3 %*
Total equity and liabilities	**2,979**	**2,956**	**0.8 %**

1 Adjustment of previous year's figures: Cash flow-hedges by €+5 million in other reserves and by €-5 million in retained earnings
2 Adjustment of previous year's figures due to a purchase price adjustment after the measurement period by €+6 million
3 Adjustment of previous year's figures: Release of Capital reserves €- 60 million and addition to retained earnings €+ 60 million. In contrast to previous year, the dividend payment of € 14 million is expensed to retained earnings

As of 31 December 2022, equity and liabilities increased only slightly by € 23 million or 0.8 % to € 2,979 million compared to € 2,956 million as of 31 December 2021.

This rise was primarily due to an increase in equity by € 200 million to € 616 million. The main reason for this increase was the increase in other reserves by € 148 million, which was mainly due to the adjustment of the provisions for post-employment benefits on the reporting date in accordance with the actuarial calculations. In addition, the negative retained earnings were reduced as a result of the positive group result attributable to HENSOLDT AG in the amount of € 78 million and by € 65 million from the release of the capital reserve. This was partly offset by the dividend payment of € 26 million.

Non-current liabilities decreased by € 125 million from € 1,284 million as of 31 December 2021 to € 1,160 million as of 31 December 2022, which is mainly attributable to the reduction in non-current provisions. The main driver consisted in the reduction of the provisions for post-employment by € 204 million to € 241 million due to higher interest rates. This was associated with a contrary development – the increase in deferred tax liabilities by € 90 million to € 94 million resulting in particular from the reversal of deferred tax assets and the resulting lower offsetting potential.

Current liabilities decreased by € 52 million from € 1,255 million as of 31 December 2021 to € 1,203 million as of 31 December 2022. The main reason for this decline was the full repayment of the revolving credit facility of € 150 million. In addition, current contract liabilities, current provisions and other current financial liabilities decreased. These decreases were partly offset by an increase in trade payables in the amount of € 110 million.

Investment and liquidity analysis

	Fiscal Year		
in € million	2022	2021	Delta
Cash flows from operating activities	244	299	-55
therein: Group result	*80*	*63*	*17*
therein: Financial expenses (net)	*27*	*33*	*-6*
therein: Income tax expense (+) / income (-)	*49*	*22*	*27*
therein: Inventories	*-75*	*-44*	*-31*
therein: Contract balances	*-25*	*111*	*-136*
therein: Trade receivables	*-13*	*-22*	*9*
therein: Trade payables	*110*	*107*	*3*
therein: Other assets and liabilities	*42*	*-83*	*124*
Cash flows from investing activities	-101	-117	16
therein: Acquisition / addition of intangible assets and property, plant and equipment	*-95*	*-102*	*7*
therein: Acquisition of subsidiaries net of cash acquired	*-1*	*-12*	*11*
Free cash flow	**143**	**182**	**-39**
Non-recurring effects	35	12	23
Interest, income taxes and M&A activities	41	58	-17
Adjusted pre-tax unlevered free cash flow	**219**	**252**	**-33**
Cash flows from financing activities	**-214**	**-297**	**83**
therein: Repayment from financing liabilities to banks	*-150*	*-210*	*60*
therein: Change in other financing liabilities	*-19*	*-84*	*65*
therein: Dividend payments	*-26*	*-14*	*-13*
Cash and cash equivalents	**460**	**529**	**-69**

Free cash flow

The cash flows from operating activities were once again at a very high level due to the operating performance. The main effects in working capital due to the change in the balance of contract assets and contract liabilities and an increase in other assets and liabilities are mainly related to the scheduled execution of the key projects PEGASUS and Eurofighter Common Radar System Mk1. Significant milestones were achieved in the fiscal year 2022, which led to customer payments and corresponding payments to suppliers. Furthermore, preparations were made to handle the increased business volume.

Regarding cash flows from investing activities, there was a decline of cash outflows year-on-year. Lower payments for M&A activities and lower investments in intangible assets were compensated, in part, by higher investments in property, plant and equipment.

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, investments include development costs which were capitalised as internally generated intangible assets. The decrease in investments was mainly caused by lower capitalised 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 was once again at a very high level with € 219 million. Compared to the exceptionally strong cash performance of the previous year, there was a decrease of € 33 million. The non-recurring effects[12] were mainly connected with the allocation to plan assets as well as payments in the context of long-term succession planning for the Management Board. The decrease in the items for interest[13], income tax[14] and M&A activities[15] was mainly related to lower outflows from M&A activities and lower interest rate payments which were partly compensated by higher income tax in the current reporting period.

Cash flows from financing activities

Cash flows from financing activities were characterised by the full repayment of the revolving credit facility in the amount of € 150 million and improved compared to the previous year. The comparative period of the previous year included the partial repayment of the revolving credit facility in the amount of € 200 million as well as cash outflows due to the reduction of other financing liabilities. The latter related mainly to scheduled payments of € 86 million to a factoring company for payments received from factoring contracts that were not yet due for forwarding to the factor as of 31 December 2020. Furthermore, the dividend payment to the shareholders of HENSOLDT AG at € 0.25 per share during the fiscal year 2022 exceeded the dividend payment of the previous year period at € 0.13 per share.

Cash and cash equivalents

As of 31 December 2022, cash and cash equivalents were composed of bank balances amounting to € 310 million (previous year: € 529 million) and short-term time deposits of € 150 million (previous year: € 0 million). The decrease compared with the previous year resulted mainly from the full repayment of the revolving credit facility and dividend payments to the shareholders of HENSOLDT AG. This decline was partly compensated by the positive free cash flow.

3.4 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 consequences of the Ukraine war, revenue targets were fully achieved. Order intake remained at a very high level. The Group's order intake is below the order intake of the comparative period due to the outstanding order intake in the previous year. Due to the achieved increase in business volume and the consequent implementation of efficiency improvement measures, adjusted EBITDA fully met the expectations.

The forecasted key performance indicators order intake, revenue and adjusted EBITDA were achieved in the Group as well as in the Sensors segment. In the Optronics segment, temporary supply chain limitations resulted in time shifts in revenue recognition, which had a corresponding impact on adjusted EBITDA, with the result that the forecasted key performance indicators were not achieved. There were also time shifts in order intake to the following year.

The Management Board assesses the net assets and the financial position of the HENSOLDT Group as being overall positive. The liquidity of the Group was ensured at all times during the fiscal year.

[12] Defined as "transaction costs, follow-up expenses in 2021 for the IPO in 2020, OneSAPnow-related non-recurring effects as well as other non-recurring effects".
[13] Defined as "Interest paid" (including interest on leases), as disclosed in the consolidated statement of cash flows.
[14] Defined as "payments/repayments of income tax" as disclosed in the consolidated statement of cash flows.
[15] Defined as sum of "Share of profit in entities recognised according to the equity method", "Payments received from the sale of intangible assets and 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 flows.

III Forecast

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1 Development of overall economic conditions

The IMF still expects an increase of the global economic performance of 3.4 % in the fiscal year 2022. For 2023, the IMF forecasts a global economic growth of 2.9 %. This forecast, which has been revised upwards by 0.2 percentage points compared to October 2022, reflects in particular the reopening of the economy in China. The IMF's latest World Economic Outlook predicts that the fight against inflation and the war in Ukraine will continue to weigh on economic activity in 2023.

For the Euro area, the IMF projects a declining growth compared to previous years of 0.7 % on average. Compared to the last forecast, there was an upward revision of 0.2 percentage points, due in particular to faster interest rate hikes by the European Central Bank and additional announcements of measures to support purchasing power in the form of energy price controls. For 2024, the IMF expects a growth of 1.6 % on average.

The existing risk balance is still on the downside, but the adverse risks have decreased since the last forecast in October 2022. A stronger stimulus from pent-up demand in many economies or a faster decline in inflation is conceivable. On the other hand, serious health problems in China could slow down the recovery, an escalation of the war in Ukraine as well as a change in global financial conditions could exacerbate the debt problem. Capital markets could be reassessed in response to negative inflation news and economic progress could be affected by further geopolitical fragmentation.

In most economies, sustained disinflation remains a priority in the face of the cost-of-living crisis. With restrictive monetary conditions and lower economic growth potentially affecting financial and debt stability, there is a need to use tools to stabilize the financial system as a whole and strengthen the debt restructuring framework. Closer multilateral cooperation is essential to preserve the achievements of the rules-based multilateral system, mitigate climate change by limiting emissions and promote green investment.

2 Development in the defence and security sector

Global military spending rose for the seventh year in a row in 2021, reaching more than 2 trillion US-Dollar ("USD") for the first time. That corresponded to 2.2 % of the global GDP. According to information provided by NATO, all NATO member states have increased their defence spending further in 2022 as a result of the Russian war of aggression. At the NATO summit in Madrid in June 2022, the Heads of State and Government agreed to reach the NATO 2 % target as early as 2024. For 2022, NATO states that only 9 out of the 29 members will reach this level.

In its Defence Data Report 2020/2021, published on 8 December 2022, the European Defence Agency (EDA) also confirmed the long-term trend of higher defence expenditure in its 26 Member States even before Russia's war against Ukraine. The total expenditure of the members exceeded € 200 billion for the first time in 2021. In 2021, defence spending grew by almost € 52 billion, an increase of about 32 % compared to the historic low of 2014. This trend is expected to be further reinforced with Russia's war against Ukraine. The European Commission itself also wants to discuss with the Member States a possible increase in the EVF budget as part of the mid-term review of the European Defence Fund (EDF) 2023/2024.

Like in Germany, other NATO and EU Member States have derived their future military equipment from NATO planning objectives and the existing war scenario. The new strategic concept adopted by NATO at the 2022 NATO summit identifies Russia as the greatest threat to the security of the Allies, addresses the threat from China for the first time and continues to include challenges such as organised transnational terrorism, cyber-attacks and hybrid conflicts. NATO will also play a stronger role in the field of innovation with the establishment of the NATO Innovation Fund and will invest € 1 billion in start-ups with a focus on dual use over the next 15 years.

Chinas hegemonic claims in the Indo-Pacific region have increased security provision and cooperation among states in the region. At the same time, the states are looking for cooperation with NATO members in the defence industry. Australia plans to gradually increase its defence spending from approximately 48.6 billion AUS-Dollar ("AUD") in 2022/23 to approximately AUD 55.5 billion in the years to 2025/26. The investment portion increases from approximately AUD 16.2 billion to AUD 19.4 billion. Australia has also provided significant military support to Ukraine.

Japan, too, began opening up to defence industrial cooperation even before Russia's war against Ukraine. This opening has reached a climax with the cooperation officially announced in December 2022 in the trilateral Global Combat Air Program together with Great Britain and Italy. The aim is to develop a sixth-generation fighter aircraft by 2035 in parallel to the current FCAS programme. In addition, the defence budget in Japan is expected to increase from 5.2 trillion JPN-Yen ("JPY") to around JPY 6.5 trillion in 2023. The Japanese government plans to increase defence spending to a total of JPY 43 trillion by 2027 and to increase the annual budget to around JPY 9 trillion, which is about 2 % of GDP.

The trilateral fighter programme will continue to receive significant funding from Italy. Approximately € 220 million is expected to be spent on the project in 2022 and € 345 million in 2023, all from the Italian defence budget. Up to 50 % of the system components should be based on electronic components.

France and the UK announced a significant defence budget increase in their long-term budget plans even before Russia's war against Ukraine.

In France, plans for the new military planning law for the period from 2023 to 2030 have started. The law is to be presented to parliament in March 2023 and will include a significant increase in defence spending to a total of € 413 billion for the entire period. Here, too, the derivations from Russia's war against Ukraine for the considerations of future focus are in the foreground besides ammunition supplies and a focus on strengthening the defence industrial base and the deterrence capability. Procurement processes are also to be accelerated. Britain's new Prime Minister Rishi Sunak has announced that he will review the "integrated review" of previous governments before the next budget approval. Nevertheless, he committed to meeting the NATO 2 % target.

In addition to conventional elements, the significance of digitised weapons systems as well as data-driven information superiority and electronic warfare is evident in the Ukrainian war. In addition to the nearly worldwide increasing defence budgets, HENSOLDT's portfolio meets current and future requirements for modern armed forces. Future developments in the above mentioned segments, including space, coupled with the closing of elementary capability gaps in the field of air defence, personal equipment with e.g. night vision goggles and the purchase of additional units in all military dimensions – in particular ships, submarines, armoured vehicles, helicopters, fighter planes – will result in extraordinary growth potential for HENSOLDT in line with its global strategy. The global security situation and new industrial and political cooperation, especially in the Indo-Pacific region, and in the European region provide for additional market opportunities.

The EU Member States have implemented further measures to strengthen the defence industrial base. As an immediate measure, the EU Commission, the European Defence Agency and the European External Action Service established the "Defence Joint Procurement Task Force" (DJPTF) to assist member states in procuring short-term equipment in selected product categories. This is complemented by the EU draft regulation "European Defence Industry Reinforcement through common Procurement Act" (EDIRPA), which aims at promoting joint procurement by EU member states with EU funds of up to € 500 million. The EDIRPA Regulation is due to be adopted in January 2023 and the draft European "Defence Investment Programme" (EDIP) Regulation is due to be presented in the first half of 2023.

The German Federal Government plans to introduce an arms export control law in 2023. This could entail risks of increased restrictions on exports to certain third countries. At the same time, however, it is also planned to include third countries such as e.g. South Korea, Singapore or Chile in the privileged countries of the EU/NATO states, which would lead to simplified and faster approval decisions.

3 Outlook

For the fiscal year 2023, the management expects moderate growth in order intake due to budget increases and initial orders from the special fund.

In the business planning for the Group, the management expects a moderate organic growth in revenue for the fiscal year 2023 between 7 % and 10 % mainly due to the order backlog which remains still on a high level.

The management expects a total book-to-bill ratio on the previous year's level of between 1.1 and 1.2.

Adjusted EBITDA is expected to increase moderately in the fiscal year 2023.

For the Optronics segment, the management expects stronger percentage growth in revenue, order intake and adjusted EBITDA in relation to the Sensors segment due to catch-up effects resulting from temporary supply chain disruptions in the fiscal year 2022.

This assumes that geopolitical tensions from Russia's war against Ukraine will not increase further and that challenges due to temporary supply chain limitations and the COVID-19 pandemic will continue to recede.

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 $1.13/€1.00 and an average inflation rate of 2.5 % in Germany and France for the planning period. Furthermore, a 4.0 % increase in personnel costs is forecast for Germany, a 4.0 % increase for France and 4.5 % for Great Britain. In addition, the forecast volumes for revenue and order intake highly depend on the reliability and stability of the political situation.

Overall, the Management Board is confident that HENSOLDT can build on the successful fiscal year 2022 and expects another positive development for 2023.

IV Opportunities and risks report

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1 Risk report

1.1 Essential principles of the risk and control management

At HENSOLDT Group, measures and systems have been implemented with the objective to enable stable business processes and allow an early identification of risks. The risk and control management system, applicable to the entire HENSOLDT Group, consists of the Internal Control System (ICS) and the Enterprise Risk Management (ERM). It considers relevant legal requirements and is based on generally accepted principles set out in external frameworks and standards, such as COSO[16]. This also includes sustainability aspects.

The HENSOLDT risk and control 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 to achieve business objectives. 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 ICS and ERM lies with the Management Board. The latter is responsible for implementing, enforcing and maintaining an appropriate and effective ICS and ERM. The overall functional responsibility for the ICS and ERM lies with the Head of “Internal Audit, Risk Management & ICS”.

Internal Control System (ICS)

HENSOLDT has established an Internal Control System (ICS). The HENSOLDT risk management team permanently monitors the HENSOLDT risk management system to support a continuous improvement process and communicates principles and their changes. HENSOLDT has an extensive, integrated methodology with a standardized procedure according to which risks are identified at an early stage, necessary controls are defined and documented according to consistent requirements.

The scope of the ICS is determined centrally using a risk-based top-down approach on an annual basis. The aim is to ensure that the implemented ICS covers all relevant HENSOLDT entities, processes and IT systems and that changes in the business, process or IT system landscape are taken into account accordingly. Due to changes in the organization or acquisitions, new processes may become part of the scope of the ICS or existing processes may fall out of the scope.

The ICS is reviewed by Internal Audit as part of planned and special audits. The results are reported to the audited units, the Management Board and the Supervisory Board. The Management Board regularly convinces itself the appropriateness of the processes, identifies potential weaknesses and initiates appropriate measures to resolve them.

Enterprise Risk Management (ERM)

The Group policy “Enterprise Risk Management (ERM)” issued by the Management Board defines the methodical and organisational standards dealing with risks and opportunities. This Group policy also takes into account the requirements for risk-bearing capacity, risk appetite and the requirements of the revised version of the audit standard IDW PS 340. The risk management system remained unchanged during the fiscal year.

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 identifies, manages and reports risks and opportunities on a group- and segment specific-basis and thus differentiates between the two segments, Sensors and Optronics.

[16] Committee of Sponsoring Organizations of the Treadway Commission

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.

Probability (%)	**Min**	**Max**	**Risk Matrix (Chapter IV 1.3)**
Very unlikely	– %	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 (€ million)	**Min**	**Max**	**Risk Matrix (Chapter IV 1.3)**
Low	0	1	Low
Medium	1	2	Medium
High	2	5	High
Very high	5	10	High
Critical	10	200	Critical

As a scale for assessing the financial impact of risk, adjusted EBIT is used at a group level. In addition to the risks with a financial impact on adjusted EBIT, other financial risks are considered, in particular liquidity, interest rate and tax risks. 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 realisation 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 realise 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 realised through proactive measures.

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 risk information related to health and safety (HSE[17]) must also be submitted in time for the reporting.

[17] Health, Safety, Environment

The ERM officer at group level prepares the quarterly ERM report for the Management Board and the Supervisory Board by consolidating and aggregating the existing individual risks accordingly, taking into account the interactions between the risks. Risk contingencies are independently of the above valuation matrix calculated and secured accordingly for operative risks with a probability of occurrence of up to and including 50.0 %. If the likelihood exceeds 50.0 %, for accounting purposes, the expected costs in relation to these risks are fully taken into account. These risks with a probability of occurrence above 50.0 % are subject to monitoring and risk reporting.

1.2 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.

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 unauthorised access, unauthorised 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.

1.3 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 categorisation of risks and opportunities is applied in the same way for the two segments Sensors and Optronics.

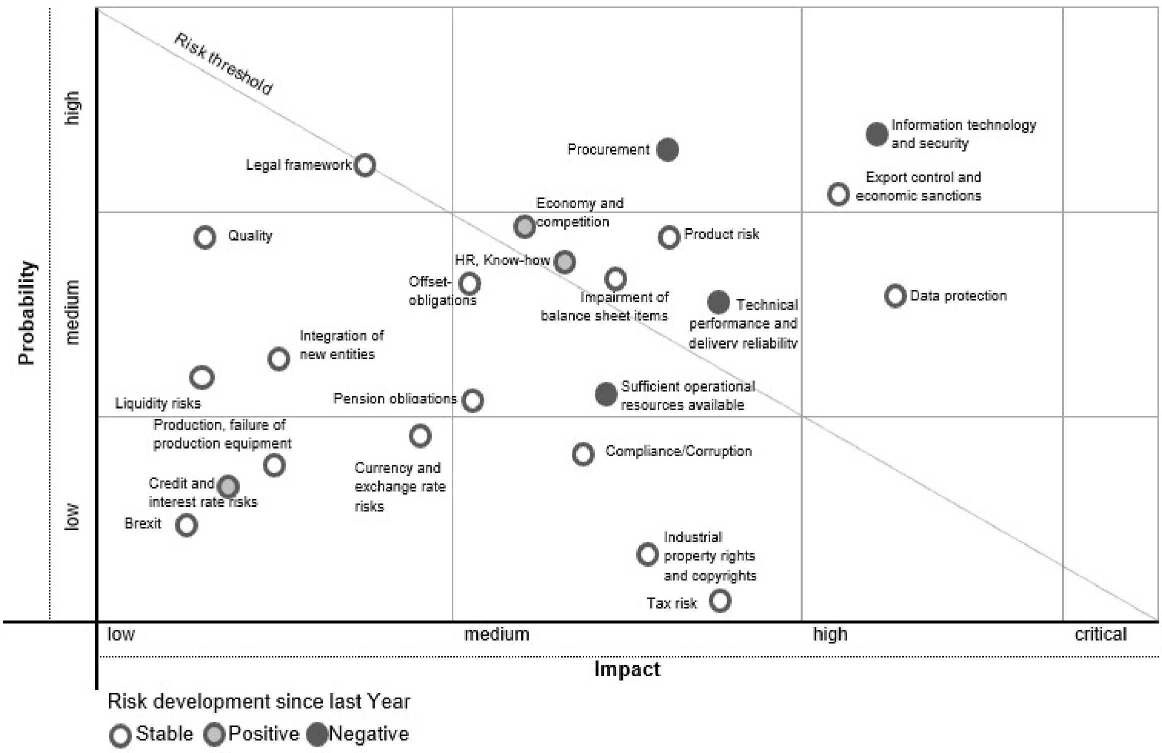
All those risks that are not directly project-related are summarised under functional risks for the HENSOLDT Group. Risk categories within the group of functional risks such as strategic risks and compliance risks are independent from HENSOLDT's operational activities.

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 analysed 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	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 and as interactions exist additionally between individual risks and opportunities, 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.

The result of the aggregation of all functional and operational risks existing in the individual companies is presented at group level, inter alia, in the following risk matrix:



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.

Risks related to strategy

As in any industry, the business activities of HENSOLDT entails risks that arise from global trade and cannot be influenced sustainably. The economic environment of HENSOLDT is characterised by legal, regulatory and economic factors of influence which are complex and can have a direct impact on the revenue and earnings development of the entire HENSOLDT Group. The international geopolitical situation as well as the national policies affect the entire supply chain and distribution structure of HENSOLDT, which can inevitably lead to uncertainties and obstacles for the business activities of HENSOLDT in the form of fluctuations in prices, sales volumes and margins.

Geopolitical conditions as well as legal and regulatory factors influence the impact from the risk export controls and economic sanctions. The geopolitical situation, particularly in 2022, also has a major impact on export control requirements and economic sanctions. This may result in financial impacts if, for example, an export license is not granted contrary to expectations or potential customers cannot be supplied due to sanctions.

In order to anticipate risks in the best possible way and to take appropriate measures, a strategy workshop is held annually. The aim is to identify growth options and to recognise the relevant influencing factors as well as resulting risks beforehand through a comprehensive PESTEL analysis[18] and to counteract with adequate measures. Given the increased political complexity, the strategy workshop with the Management Board of HENSOLDT AG took place twice in the reporting year. This was explicitly a result of the rapidly changing global political situation, in particular due to the war in Ukraine.

Innovative power and technical progress in the industry are fundamental for the opening up of new sales opportunities and customers or markets. For this reason, the HENSOLDT Group considers research and development as fundamental to its business and sales opportunities and makes considerable resources available for this area. The consequent expansion of the service business in the context of operational project execution enables the realisation of additional revenue potential.

For HENSOLDT, progress plays a crucial role, not only to fulfil its role as a leading technology provider for military and civilian applications, but also to adequately address competitive risks within the sector. In Germany, its key market, HENSOLDT competes for the award of contracts with a number of international competitors purely on market terms, which is not always the case for procurements on certain competitors' domestic markets and therefore may result in competitive restrictions for HENSOLDT. Besides small and mid-sized competitors that are typically specialised in certain market niches, HENSOLDT also competes with large defence companies, which might have more financial opportunities, and may therefore be better positioned to develop and market new products and take advantage of economies of scale. In addition, national support measures and state support can give competitors a competitive edge.

The HENSOLDT Group counters these competitive risks on the market with partnerships and M&A activities, which are always implemented in compliance with the legal framework. For this purpose, the management conducts cross-industry surveys of the market for leading technology providers and evaluates the extent to which companies offer strategic added value. M&A transactions may entail further risks. These are adequately controlled by a professional and standardised process within the HENSOLDT Group.

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

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 in general can have a number of severe consequences for HENSOLDT and its staff, such as damages in reputation, loss of customers, exclusions from orders, sanctions, skimming of profits 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 organisation 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 misconduct is identified despite all measures, this will result in both consequences for those involved and a review of the processes.

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, evaluated and necessary measures can be taken. In relation to this, there are also regular training and Q&A sessions. HENSOLDT also issued a Code of Conduct which implements the "Standards of Business Conduct". This Code of Conduct addresses the most important ethical and compliance issues. All employees receive regular training on this. To further minimise 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, conflicts of interest, compliance with export controls provisions 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 reporting, also anonymously, violations to the "OpenLine" (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 sensitises 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 requirements and high volumes. 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. Utilising experienced employees, technical know-how, and professional project, quality and contract management, these risks can be minimised but not totally avoided.

In its role as general contractor, HENSOLDT integrates various products and assumes overall responsibility for the delivery of a complete system toward its customer. This includes, among other things, the overall technical, economic and temporal coordination and coordination of the in-house and third-party contributions with several suppliers, partners and the customer. The resulting risks are managed in particular through contract management and extensive coordination of interfaces with suppliers, partners and customers.

As a company dependent on the sales of innovative and complex technological products to a relatively small number of customers, the success 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 offers employees a mobile working environment based on a group agreement for German sites, flexible working hours without core working hours, childcare during school holidays and, depending on the location, kindergarten places or child care subsidies, special regulations on sabbaticals and family and care times or various incentive programmes. Against the background of the current labour 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 as well as clear requirements to the provision of conformity certificates. 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”.

Risks related to production, such as e.g. failure of production facilities or equipment are addressed through regular maintenance and investments. This ensures consistent product quality. A continuous improvement process in production is established for the continuous development of production. This includes employees and managers trained in lean methods, as well as the organisation of improvement workshops along the value chain. In these workshops, optimisations are systematically identified, measures and goals for increasing efficiency in production are derived and then implemented, with the aim of improving production costs and times.

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 characterises 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 customised 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. Compliance with the Supply Chain Sourcing Obligations Act is essential for HENSOLDT. A crucial part of complying with the law is engaging our suppliers via a web-based IT platform to continuously query and identify the relevant data from suppliers to ensure compliance and manage and avoid potential risks. The measures for mitigating the procurement risk have been further strengthened and focused under the continuous monitoring and analysis of global pandemic- and crisis-related shortages of certain materials in the fiscal year 2022. A dedicated process for the efficient handling of brokerware, including the necessary technical evaluation, has been defined and introduced. Potential effects for HENSOLDT are regularly assessed in purchasing and the operational business units in order to counteract them with appropriate measures. At this point in time, there is therefore a moderately increasing risk for the Sensors segment in terms of impact and a medium risk for the Optronics segment as well as the possibility of time-related revenue shifts.

As a company in the security and defence industry, HENSOLDT is particularly vulnerable to cyberattacks in the area of information technologies and security, as well as the misappropriation or compromise of its intellectual property 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. In order to deal with the increased risk of cyber-attacks worldwide due to the war in Ukraine and the associated sanctions against Russia, a task force has been set up and is defining and implementing appropriate measures. Furthermore, the HENSOLDT Group expanded its cyber security measures, including by expanding its cybersecurity team and their budget, by security monitoring, a group-wide security operations team, penetration testing, and regular internal IT audits as well as external assessments. HENSOLDT Nexeya France S.A.S. ("Nexeya"), a French subsidiary of HENSOLDT AG, and part of its subsidiaries was the target of a serious cyberattack on its IT infrastructure in mid-August 2022. Nexeya was largely able to return to its normal day-to-day business operations at the beginning of September. As a result of these events and the much higher global frequency of attacks on IT networks to be expected due to the deteriorating geopolitical situation, particularly between Russia, China, the United States and Europe, the likeliness of successful cyber-attacks is generally estimated to be higher than in the past.

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 commitments 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 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. Exchange rate risks which arise from various customer or supplier contracts are concluded centrally as a matter of principle. 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. For this purpose, interest rate hedges were concluded in the fiscal year 2022 to the extent of existing long-term loan amounting to € 620 million (nominal value) for the period from the first quarter of 2023 to the first quarter of 2027.

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 million in the fourth quarter of 2021 under the aspect of diversifying the banking landscape. In the second quarter of 2022, the debt financing was adjusted by means of an amendment and a restatement agreement. The long-term syndicated loan is tied to compliance with a financial covenant (see note 36.1). In the event of a breach, the financing partners are authorised 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 million in the context of the IPO. The revolving credit facility was increased by € 20 million in the fourth quarter of 2021 and adjusted for various points in the second quarter of 2022 by means of an amendment and restatement agreement (see note 36.2). The revolving credit facility which had been fully used in 2020 was repaid in the amount of € 150 million in the fiscal year 2022 and was therefore not utilised at the reporting date. In order to plan the required utilisation 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 mainly 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 capitalised 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 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 continuously 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 minimise the potential spread of the virus. The situation around COVID-19 was continued to be monitored also in the fiscal year 2022. The Company provided its employees with recommendations which are adapted to the new version of the German Infection Protection Act and to measures the Company has been consistently implementing in the past. Preparations have been made to be able to react to any potential changes in the situation.

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 2022, 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 been considered.

Risks from current supply chain situation

In addition to the situation regarding COVID-19, HENSOLDT increasingly and consistently monitors the impact of the war in Ukraine. The consequences thereof particularly include delivery bottlenecks of materials, increasing prices of energy products, but also of other goods and services and, not least, inflation. These consequences represent influencing factors for the risk situation of HENSOLDT in the functional and operational area. The procurement risk and possible consequences due to changing circumstances, high energy prices and material shortages on the world market continue to increase. They leave their marks on the supply chains and result in rising cost of production. Since the start of the changed situation, HENSOLDT's established task forces consistently analyse the impact on costs of production, supply chains and contracts with customers at HENSOLDT and reduce or avoid possible effects as early as possible by concrete and detailed measures.

1.4 Overall risk assessment

HENSOLDT is not aware of any single or aggregated risk that could endanger the continuity of its business operations. Due to the changed situation and the tense situation in particular due to price increases for energy products as well as material availability on the world market, there has been an increase in procurement risk and possible consequences. The risks related to supply chain issues and to inflation are moderately increasing for the companies in the Sensors segment, while in the Optronics segment the risks related to supply issues increased in the fiscal year 2022 and are now stable, whereas the risks concerning inflation are increasing. Still, this does not represent a significant risk for HENSOLDT according to the Management Board's point of view. Specially established task forces are continuously analysing and monitoring in detail potential further effects from the risks mentioned above. This includes also the geopolitical situation, which is currently deteriorating further, and possible other consequences for HENSOLDT. These risks are contrasted by opportunities arising from the special fund for the German Bundeswehr and HENSOLDT's contribution to security and sustainability. Therefore, the Management Board currently assesses the overall opportunity and risk situation of HENSOLDT as essentially stable compared to the previous year.

2 Opportunity report

2.1 Opportunities

Despite increasing international competition, HENSOLDT, with its strong market position and product portfolio, is well positioned to take advantage of existing and new business opportunities in all domestic and global markets. HENSOLDT is thus in an increased competitive situation in core markets in Europe, while at the same time increased business potential in other markets, which correspond to the company's globalisation strategy.

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

In addition to conventional elements, the significance of digitised weapons systems as well as data-driven information superiority and electronic warfare is evident in Russia's war against Ukraine. In addition to the nearly worldwide increasing defence budgets, HENSOLDT's portfolio meets current and future requirements for modern armed forces.

Future developments in all military dimensions – land, air, space, sea and cyber – coupled with the closing of elementary capability gaps will result in extraordinary growth potential for HENSOLDT in line with its global strategy. HENSOLDT sees the capability gaps to be closed for example in the field of air defence, personal equipment with night vision goggles and the purchase of additional units in all military dimensions – in particular ships, submarines, armoured vehicles, helicopters, fighter planes. The global security situation and new industrial and political cooperation, especially in the Indo-Pacific region, and in the European region provide for additional market opportunities.

Functional opportunities

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

Given the Russian war of aggression against Ukraine and the dynamic geopolitical security situation, the most important development on a global level is the increase in defence spending by NATO member countries and many other countries. NATO member states are stepping up and accelerating their efforts to spend at least 2.0 % of national GDP on defence – as agreed at the 2022 NATO Summit.

In addition to increasing military budgets and investments in national armed forces, numerous states continue to support Ukraine with military equipment. HENSOLDT supplied several products as part of the German upgrade for Ukraine in 2022. The decision to deliver battle tanks and infantry fighting vehicles from Bundeswehr stocks to Ukraine or to replace material from other supplier states with more modern material from Bundeswehr stocks within the framework of ring exchanges promotes the need to replenish Bundeswehr stocks. That applies to all other supply countries. This results in additional opportunities for HENSOLDT.

More funds are supposed to be spent from the special fund in 2023 and 2024 and a large number of projects will be released by the budget committee of the German Bundestag. The German Federal Government also plans to publish a National Security Strategy. The consideration of a national key technology industry for defence could further strengthen HENSOLDT's position in Germany and Europe. The importance of a strong national security and defence industrial base is also highlighted politically by Russia's war against Ukraine.

In addition to classic military programmes, there are further opportunities in the dual-use sector, for example in the field of unmanned aviation and the defence of critical infrastructure against threats from the air.

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, 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 utilised 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 instalment. 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 individual 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 business units benefit from this. In addition, cooperations with other market participants to exploit operational opportunities are an essential part of the strategy. In the fiscal year, among other things, a partnership was entered into with ELTA Systems Ltd. for a joint maritime long-range radar for a German customer.

2.2 Overall opportunity assessment

Drawings from the war in Ukraine, the focus of NATO in its new strategic concept and changed operational doctrines of armed forces worldwide additionally strengthen the development of HENSOLDT's opportunities in connection with the defence technology. The rapid creation of a comprehensive situational picture, the distribution of information in a network of connected sensors and effectors in a mission-oriented manner and the control over the electromagnetic spectrum are highly demanded capabilities for which HENSOLDT is extremely well positioned with its portfolio.

Increases in defence budgets and growing military investment worldwide are creating significant opportunities for HENSOLDT. What remains is the opportunity of the 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 which will act as multipliers.

V Non-financial group statement

Sustainability (Environment Social Governance or “ESG”) is integral part of HENSOLDT’s business strategy. In 2021, the group-wide ESG Strategy 2026 was rolled out for this purpose, which tangibly defines the goals, measures and 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“.

HENSOLDT prepares a sustainability report, which will be compliant with the requirements for capital market-oriented companies, which describes the sustainability-related activities and extensively deals with the Group’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 2022. 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 subjects of social commitment as well as plant and resources gained in importance.

The sustainability report contains the non-financial declaration pursuant to sections 315b and 315c of the German Commercial Code (HGB). The sustainability report for the fiscal year 2022 is published simultaneously with the annual report and can be found on the website of HENSOLDT at https://investors.hensoldt.net in the “publications” section.

VI Takeover-relevant information and explanatory report

The takeover-relevant information and the explanatory report for the fiscal year 2022 are made in accordance with sections 289a and 315a HGB.

1 Composition of share capital

As of 31 December 2022, 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 annual 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 programmes that are of interest to the Union (cross-sectoral examination, sections 55 et. seq. of the German Foreign Trade and Payments Ordinance).

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 and issued a first tranche of shares to its employees. A second tranche under this programme was issued in October 2022. The shares underlying this programme 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 programme, 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 % of the voting rights

To the Company's knowledge, the following direct or indirect shareholdings in the voting capital of HENSOLDT AG exceeding 10 % the voting rights existed as of the balance sheet date:

In a voting rights notification dated 26 March 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 29 September 2020, entered into a share purchase agreement on 24 March 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 27 May 2021 (date of threshold contact: 26 May 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 26 May 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 14 June 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 German Federal Government, inter alia, to protect the national security and defence industry key technologies defined in the German Federal Government's strategy paper on strengthening the security and defence industry dated 12 February 2020 and that the notification duties intend to influence the filling of administrative, management and mainly supervisory positions in HENSOLDT AG.

With voting rights notification dated 30 April 2021 (date of threshold contact: 24 April 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. The share purchase agreement dated 24 April 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 3 January 2022 after the conditions precedent had been fulfilled. The corresponding voting rights notification was published on 4 January 2022.

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 Climate Action 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. 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 programme 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 annual 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 authorised by resolutions of the shareholders' meeting to amend section 4 of the articles of association in accordance with the respective utilisation of Conditional Capital 2020/I and, in the event of non-utilisation after the expiry of the authorisation period or the expiry of the exercise and fulfilment periods, and in accordance with the utilisation of Authorised Capital 2020/I.

According to section 179 (2) AktG, resolutions of the shareholders' 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 authorised 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 shareholders' meeting on 18 August 2020, the Management Board was authorised, 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 € 500.0 million, with or without limited term, on one or more occasions up to 11 August 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 Euro. They may also be issued by a subordinated group company of the Company; in this case, the Management Board is authorised, 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 authorisation 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 authorised, 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 fulfilment of the option or conversion obligation.

The Management Board is also authorised, 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 recognised methods, in particular financial mathematics methods. However, this authorisation 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 authorisation 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 authorisation 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 authorised, 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 authorised, 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 Authorised capital

The Management Board is authorised, subject to the approval of the Supervisory Board, to increase the share capital on or before 11 August 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 (Authorised Capital 2020/I).

When shares are issued from Authorised Capital 2020/I, shareholders must generally be granted subscription rights. However, the Management Board is authorised, 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 authorisation is adopted or – if this value is lower – at the time when the resolution on the initial exercise of this authorisation 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 authorisation 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 authorisation.

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 authorised, 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 shareholders' meeting on 18 August 2020, the Management Board was also authorised until 11 August 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 authorisation becomes effective or at the time this authorisation is exercised. The authorisation 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 authorisation 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 authorisation 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 authorised, subject to the approval of the Supervisory Board, to sell the treasury shares acquired on the basis of the authorisation granted at the shareholders' meeting on 18 August 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 authorisation may not exceed a total of 10.0 % of the share capital, either at the time the resolution is adopted by the shareholders' meeting or at the time this authorisation 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 authorisation 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 authorisation under exclusion of subscription rights in accordance with section 186 (3) sentence 4 AktG.

- The Management Board is authorised, subject to the approval of the Supervisory Board, to transfer the treasury shares acquired on the basis of the authorisation granted by the annual general meeting on 18 August 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 authorised, subject to the approval of the Supervisory Board, to use the treasury shares acquired on the basis of the authorisation granted by the annual general meeting on 18 August 2020 to fulfil 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 authorised, subject to the approval of the Supervisory Board, to use the treasury shares acquired on the basis of the authorisation granted by the annual general meeting on 18 August 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 fulfilment of the conversion or option obligation.

- The Management Board is authorised to offer for purchase the treasury shares acquired on the basis of the authorisation granted by the annual general meeting on 18 August 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 authorisation granted by the annual general meeting on 18 August 2020 may be retired without any further resolution by the annual 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 authorised to adjust the number of shares stated in the articles of association.

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

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

On 7 September 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 2 November 2021 the SFA was increased by € 40 million to a total of € 990 million, € 620 million of which relate to a term loan and € 370 million to a revolving credit facility. On 12 April 2022 the SFA of HENSOLDT AG was again adjusted in respect of various points by means of an “Amendment and Restatement Agreement”. The term was extended from September 2025 to April 2027. The margin grid was changed to the borrower’s benefit and for drawings in USD and GBP, the LIBOR was replaced by so-called risk free rate rules. 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.

VII 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. The statement on corporate governance is therefore unaudited in terms of content.

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 28 April 2022.

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 28 November / 8 December 2022:

„The Management Board and the Supervisory Board declare that since the submission of the last Declaration of Compliance on 8/11 March 2022, the recommendations of the German Corporate Governance Code in the version of 28 April 2022, published in the Federal Gazette on 27 June 2022, have been complied with and will continue to be complied with, with the following exceptions.

Recommendation G.12 and G.13 were not complied with in 2022, as Axel Salzmann and Peter Fieser received compensation payments as part of the mutually agreed premature termination of their Management Board service contracts, each of which exceeded the value of two years' remuneration as defined in the remuneration system. In addition, the compensation payments were paid out immediately in a lump sum in accordance with the respective service contracts. The compensation granted under the termination agreements is presented in detail in the remuneration report for the fiscal year 2022.

Taufkirchen, 28 November / 8 December 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 for the fiscal year 2022 was prepared jointly by the Management Board and the Supervisory Board and will be published together with the auditor's certificate in accordance with Section 162 AktG and the current remuneration systems for the members of the Management Board and the Supervisory Board on the website of HENSOLDT at https://investors.hensoldt.net in the "Corporate Governance" section.

The remuneration report and the note for the remuneration report will be kept publicly available in accordance with the statutory regulations. For more information on the remuneration refer to the notes to the Financial Statements of HENSOLDT Group 2022 and the notes to the Financial Statements 2022 of HENSOLDT AG.

The applicable remuneration system for the members of the Management Board pursuant to section 87a AktG was approved by the annual general meeting on 18 May 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 18 May 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 revolutionised 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 annual meeting at which the shareholders would discuss the takeover bid and, if necessary, decide on measures under company law (suggestion A.8). 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.

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 programme aims to ensure the compatibility of its business activities with applicable law and regulations, but also with internal requirements and ethical principles, and to develop a culture of integrity. To achieve this, HENSOLDT developed and implemented a comprehensive compliance programme 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, directives on the subjects of Gifts and Hospitality, anti-corruption, conflicts of interest, internal investigation, 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 organisation includes twelve employees as of 31 December 2022. The compliance organisation 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, nine Compliance Officers (full-time) are currently employed. Besides, there are compliance contacts in subordinate companies who report to the central compliance organisation. Training courses are held both virtually and in person, IT tools are being used for this purpose as well. In addition, regular Q&A sessions are offered, where various compliance topics are discussed and employees can ask questions about all compliance topics. Other IT tools are used in particular as part of due diligence to screen potential business partners. The Compliance Organisation and Management Board of HENSOLDT regularly communicates on the compliance organisation via internal communication media.

More information on the compliance organisation 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 persons responsible 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. Likewise, HENSOLDT Group has a group-wide adequate and effective risk management system which describes and regulates functions, processes and responsibilities in a binding manner. The internal risk control management system also covers sustainability-related objectives, unless already required by law, and includes processes and systems for recording and processing sustainability-related data. The internal control system and the risk management system also include a compliance system based on the risk situation of the company. Key features of the entire internal control and risk management system are explained in chapter “IV Opportunities and risks report”.

The Management Board has no indications or information that the internal control system and the risk management system were inadequate in any material respect in the fiscal year. Various analyses and checks were carried out in the fiscal year without calling into question this assessment by the Management Board. Nevertheless, further measures to optimize documentation will also be initiated in the future.

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. HENSOLDT has defined seven categories in its ESG Strategy 2026. These include our Corporate Integrity, Product Responsibility, Health and Safety, Human Potential, Social Engagement, Responsible Sourcing, as well as Planet and Resources. 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 annual general meeting. The annual 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 annual general meeting also elects the Supervisory Board members representing the shareholders.

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

The third ordinary general meeting of HENSOLDT AG will take place on 12 May 2023. The Management Board and the Supervisory Board decided to conduct this in presence early in 2022.

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 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 organises 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 characterised 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 Management Board identifies and assesses the opportunities and risks for the Company associated with the social and environmental factors, as well as the environmental and social impact of the Company’s activities. In addition to long-term economic objectives, it also takes due account of environmental and social objectives. Its business planning includes financial and sustainability-related goals. For this purpose, HENSOLDT has developed an ESG Strategy 2026, which defines the sustainability topics that are essential for the company in seven categories. 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), the Chief Strategy Officer (CStO) and Chief Human Resources Officer (CHRO), with the CHRO also serving as Labour 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 Services & Aerospace Solutions division. The CEO is also responsible for Corporate Sections (Corp. Sec.)/Chief Legal Officer (CLO), Communication, Governmental Relation, Supply Chain management (Production, Procurement and Quality). The CFO is primarily responsible for the departments Central Finance & Controlling, Finance & Control Divisions, Investor Relations, Commercial & Offset, Internal Audit, Information Management, Treasury as well as other related programmes 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 30 June 2022, the Management Board comprised four members: Thomas Müller as Chairman (CEO), Axel Salzmann as CFO, Peter Fieser as CHRO and Celia Pelaz as CStO. Axel Salzmann resigned as member of the Management Board and CFO with effect from 30 June 2022. Christian Ladurner, formerly Head of Central Controlling & Investor Relations, was appointed as a member of the Management Board and CFO effective 1 July 2022. Peter Fieser resigned as a member of the Management Board and CHRO with effect from 30 September 2022. Dr. Lars Immisch, formerly Executive Vice President HR Airbus Defence & Space, was appointed as his successor and member of the Management Board and CHRO effective 1 October 2022. The appointments of Christian Ladurner and Dr. Lars Immisch to the Management Board were made by resolution of the Supervisory Board dated 16 March 2022.

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. The Supervisory Board’s monitoring and advice of the Management Board also includes sustainability issues. 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 16 March 2022 that required the Supervisory Board to meet without the Management Board being present, including the resolution on the variable remuneration of the Management Board for 2021 and the targets for variable remuneration in the year 2022. Furthermore, the Supervisory Board held a meeting on 22 March 2022 without the Management Board to propose a replacement candidate for election to the Supervisory Board by the Annual General Meeting in May 2022. On 13 May 2022, the Supervisory Board met to pass a resolution on the appointment of members of the standing committees without the presence of the Management Board.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 regularly review of the effectiveness of the Supervisory Board’s work in accordance with recommendation D.12 of the Code as an important component of good corporate governance. In October and November 2022, the members of the Audit Committee, the Compliance Committee and the Executive Committee assessed the effectiveness of the committees’ work. The assessment was made using an anonymised questionnaire. The competence profile was expanded to include expertise on sustainability issues that are significant for the company.

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 news in supervisory board law as well as innovations in the German Corporate Governance Code and current developments in the area of risk management and the internal control system.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 familiarised 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 2022, 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 2022, the Supervisory Board comprised the following members:

Name	Born	Member since	Appoin-ted until	Profession
Johannes P. Huth (Chairman)	1960	2017	2025	Partner at KKR and Head of KKR in EMEA
Armin Maier-Junker[1] (Vice Chairman)	1962	2017	2026	Chairman of the Works Council of HENSOLDT Sensors GmbH, Ulm; Chairman of the General Works Council of HENSOLDT Sensors GmbH and Chairman of the Group Works Council
Dr. Jürgen Bestle[1]	1966	2021	2026	Head of Engineering Governance of HENSOLDT AG and Head of Design Organisation of HENSOLDT Sensors GmbH
Jürgen Bühl[1]	1969	2017	2026	Head of Sector Policy Coordination in the Executive Board of IG Metall
Letizia Colucci (since 13 May 2022)	1962	2022	2025	General Manager at the Med-Or Leonardo-Foundation
Achim Gruber[1]	1963	2021	2026	Chairman of the Works Council of HENSOLDT Optronics GmbH, Oberkochen
Prof. Wolfgang Ischinger (until 13 May 2022)	1946	2017	2022	Chairman of the Munich Security Conference Foundation; Senior Professor of Security Policy and Diplomatic Practice at the Hertie School of Governance in Berlin; Honorary Professor at the University of Tübingen
Ingrid Jägering	1966	2017	2025	Member of the management board, CFO of Stihl AG
Marion Koch[1]	1978	2020	2026	Member of the Works Council of HENSOLDT Sensors GmbH, Immenstaad, and member of the Group Works Council; Project Manager in the Airborne, Space & ISR Radars business unit of HENSOLDT Sensors GmbH
Christian Ollig (until 13 May 2022)	1977	2017	2022	Partner at KKR and Head of KKR in Germany; Managing Director of Traviata B.V.
Prof. Dr. Burkhard Schwenker (until 21 September 2022)	1958	2017	2022	Senior Fellow at Roland Berger; Academic Co-Director of the HHL Center for Scenario-Planning
Giovanni Soccodato (since 13 May 2022)	1961	2022	2025	Chief Strategic Equity Officer at Leonardo S.p.A.
Julia Wahl[1]	1987	2019	2026	Press Officer at IG Metall Baden-Württemberg
Claire Wellby (until 13 May 2022)	1988	2020	2022	Member of KKR's private equity team; Vice President of KKR Show Aggregator GP Limited
Hiltrud Werner (since 22 September 2022)	1966	2022	2025	Management Consultant
Reiner Winkler (since 13 May 2022)	1961	2022	2025	CEO at MTU Aero Engines AG

[1] Representative of the employees

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 (*)):

Name	Position
Johannes P. Huth	• Member of the Supervisory Board of Axel Springer SE • Member of the Board of Coty Inc.
Armin Maier-Junker	• Member of the Supervisory Board of HENSOLDT Sensors GmbH* until 31 August 2022
Dr. Jürgen Bestle	• Member of the Supervisory Board of HENSOLDT Sensors GmbH* since 1 September 2021
Jürgen Bühl	• Member of the Supervisory Board of HENSOLDT Sensors GmbH* • Member of the Supervisory Board of Airbus Defence & Space GmbH
Letizia Colucci	• Member of the Board of Directors of Avio S.p.A. • Chairwoman of the Board of Directors of MBDA Italia S.p.A. • Member of the Board of Directors of e-GEOS S.p.A.
Achim Gruber	• Member of the Supervisory Board of HENSOLDT Optronics GmbH* since 1 September 2022
Ingrid Jägering	• Independent member of the Board of Directors of SAF Holland SE • Member of the Advisory Board of Wegmann Group
Christian Ollig	• Member of the Supervisory Board of ETL AG Steuerberatungsgesellschaft • Member of the Supervisory Board of Rainbow UK BidCo Limited • Member of the Supervisory Board of Upfield Holdings B.V.
Prof. Dr. Burkhard Schwenker	• Member of the Supervisory Board of Hamburger Hafen und 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 • Member of the Administrative Board of HASPA Finanzholding
Giovanni Soccodato	• Chairman of the Supervisory Board of Thales Alenia Space • Deputy Chairman of the Board of Directors of Telespazio S.p.A. • Deputy Chairman of the Management Board of MBDA B.V.. • Member of the Board of Directors of GEM Elettronica S.r.l. • Member of the Board of Directors of Elettronica S.p.A. • Member of the Board of AIAD • Member of the Management Board of AMSH B.V. • Member of the Board of G.I.E. Avions de Transport Regional (ATR)
Julia Wahl	• Member of the Supervisory Board of HENSOLDT Sensors GmbH*
Claire Wellby	• Member of the Supervisory Board of LEONINE Licensing AG
Hiltrud Werner	• Chairwoman of the Supervisory Board of Mitteldeutsche Flughafen AG
Reiner Winkler	• Chairman of the Supervisory Board of MTU Maintenance Hannover GmbH (Group Company)

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 17 August 2020. The following changes occurred in the composition of the Supervisory Board during the fiscal year: With effect from the end of the General Meeting on 13 May 2022, Prof. Wolfgang Ischinger, Christian Ollig and Claire Wellby resigned as shareholder representatives on the Supervisory Board. In their place, Reiner Winkler, Giovanni Soccodato and Letizia Colucci were elected to the Supervisory Board as shareholder representatives by election of the General Meeting on 13 May 2022. With effect from the end of 21 September 2022, Prof. Dr. Burkhard Schwenker resigned as shareholder representative on the Supervisory Board. As of 22 September 2022, Hiltrud Werner was appointed as shareholder representative by the Federal Republic of Germany to the Supervisory Board in accordance with Sec. 8 (2) sentence 5 and 6 of the articles of association of HENSOLDT.

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. In 2022, the Supervisory Board expanded the competence profile to include expertise in sustainability issues that are significant for the company. 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.

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 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 and Compliance, and Human Resources issues.

With the Chairwoman of the Audit Committee, 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 Giovanni Soccodato have in-depth knowledge in these areas. 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 implementation of the competence profile is disclosed below in the form of a qualification matrix:

	Johannes P. Huth	Armin Maier-Junker	Dr. Jürgen Bestle	Jürgen Bühl	Letizia Colucci	Achim Gruber
Representative of the employees		●	●	●		●
Independence[1]	●				●	
Industry Expertise		●	●	●	●	●
Accounting	●			●	●	●
Audit	●	●		●	●	●
Corporate Governance, Compliance	●	●	●	●	●	●
Capital Markets	●			●	●	
Risk Management	●	●	●	●	●	●
International Security Policy			●	●	●	
Antitrust law					●	
International Experience	●		●	●	●	●
Leadership international company					●	
Digitalisation / IT		●	●	●	●	●
Human Resource Management	●		●	●	●	●
Sustainability	●	●	●	●	●	●

	Ingrid Jägering	Marion Koch	Giovanni Soccodato	Julia Wahl	Hiltrud D. Werner	Reiner Winkler
Representative of the employees		●		●		
Independence[1]	●		●		●	●
Industry Expertise	●	●	●		●	●
Accounting	●	●	●	●	●	●
Audit	●	●	●	●	●	●
Corporate Governance, Compliance	●	●	●	●	●	●
Capital Markets	●	●	●		●	●
Risk Management	●	●	●	●	●	●
International Security Policy	●	●	●			
Antitrust law	●	●	●		●	
International Experience	●	●	●	●	●	●
Leadership international company	●	●	●		●	●
Digitalisation / IT	●	●	●	●	●	●
Human Resource Management	●	●	●	●	●	●
Sustainability	●	●	●	●	●	●

1 In the opinion of the Supervisory Board, the member of the Supervisory Board is independent of the company and its Management Board

● Criterion met, based on self-assessment of the Supervisory Board. One point means a self-assessment of the qualification of at least "50 %".

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 not exceeded by any Supervisory Board member.

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 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 Johannes Huth, Letizia Colucci, Ingrid Jägering, Giovanni Soccodato, Hiltrud Werner and Reiner Winkler to be independent of the Company, its Management Board, thus all 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 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 been exercised. Ingrid Jägering was appointed by the Federal Republic of Germany to the Supervisory Board in accordance with section 8 (2) sentence 1 and 2 of the articles of association effective on 14 April 2022. Prof. Dr. Schwenker was appointed by the Federal Republic of Germany to the Supervisory Board in accordance with section 8 (2) sentence 5 and 6 of the articles of association effective on 14 April 2022. As Prof. Dr. Burkhard Schwenker resigned his office effective at the end of 21 September 2022, Hiltrud Werner was appointed by the Federal Republic of Germany to the Supervisory Board in accordance with section 8 (2) sentence 5 and 6 of the articles of association on 22 September 2022. These appointments do usually not 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 classifies Giovanni Soccodato and Letizia Colucci as employee of Leonardo ("Leonardo") or companies affiliated with Leonardo and as independent. With a 25.1 % shareholding in HENSOLDT, Leonardo does not constitute a controlling shareholder, as neither a control agreement has been concluded nor does Leonardo hold an absolute majority of votes or any other sustainable majority at the general meeting. The Supervisory Board thus assumes that the aforementioned Supervisory Board members are independent of the Management Board and the Company within the meaning of 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 Leonardo on the other hand were not material for either of the business partners in the previous year. In addition, the Supervisory Board assumes that Giovanni Soccodato does not exercise any board function or advisory duties at Leonardo within the meaning of recommendation C.12 of the Code. There is also no personal relation of Giovanni Soccodato to Leonardo in terms of recommendation C. 12 of the Code. Of the other companies in which Giovanni Soccodato was a member of a governing body in the reporting year 2022, only the mandate at Elettronica S.p.A. would have been classified as a function on the executive body of a significant competitor. However, the mandate ended in June 2022. Here, too, it is to be assumed that, despite the membership in a body of Elettronica S.p.A., which formally continues for a few weeks, there is no function in a body of a significant competitor within the meaning of recommendation C. 12 of the Code.

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[19], Prof. Wolfgang Ischinger (until the end of the general meeting on 13 May 2022), Reiner Winkler (from the end of the general meeting 13 May 2022) as well Armin Maier-Junker[19] 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.

Audit Committee

The Audit Committee is composed of two shareholder representatives and two employee representatives. In the reporting period, Ingrid Jägering (chairwoman), Marion Koch[19], Christian Ollig (until the end of the general meeting on 13. Mai 2022), Giovanni Soccodato (from the end of the general meeting on 13 May 2022) as well as Julia Wahl[19] were members of 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 due to her long years of work as CFO in different companies. Giovanni Soccodato has managed projects and programmes with responsibility for accounting, controlling and profitability. His role in M&A projects not only included this responsibility, but also the evaluation of targets or companies to be acquired or sold by Leonardo. This included the assessment and analysis of business plans and business activities. In his various functions, he has acquired skills in balance sheet and P&L analysis as well as in various accounting standards and is familiar with the different positions. He has a clear understanding of all positions of the asset, financial situation and result of operations of any company. Giovanni Soccodato is familiar with financial matters in the broadest sense and, due to his many years of experience with mergers and acquisitions, is also able to interpret audit reports, expert opinions and similar reports. HENSOLDT AG thus meets the requirements of section 100 (5) AktG in conjunction with section 107 (4) sentence 3 AktG in the audit committee.

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 annual 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.

[19] Employee representative

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[19], Armin Maier-Junker[19] and Christian Ollig (until the end of the general meeting on 13 May, 2022) and Reiner Winkler (from the end of the general meeting on May 13, 2022) 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. In the reporting period, Prof. Dr. Burkhard Schwenker (chairman until 21 September 2022), Hiltrud Werner (member from 21 September 2022 chairwoman from 27 September 2022), Christian Ollig (until the end of the general meeting on 13 May 2022), Letizia Colucci (from the end of the general meeting on 13 May 2022), Dr. Jürgen Bestle[19] and Achim Gruber[19] were members of this committee. 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 until 21 September 2022), Reiner Winkler (member from the end of the general meeting on 13 May, 2022 and chairman from 27 September 2022), Jürgen Bühl[19], Prof. Wolfgang Ischinger (until the end of the general meeting on 13 May 2022), Hiltrud Werner (from 27 September 2022) as well as Armin Maier-Junker[19] were members of this 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 (until the end of the general meeting on 13 May 2022), Reiner Winkler (form the end of the general meeting on 13 May 2022), Ingrid Jägering as well as Christian Ollig (until the end of the general meeting on 13 May 2022) and Giovanni Soccodato (from the end of the general meeting on 13 May 2022) 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 fulfilment 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 three women on both shareholder side and two women on employee side. 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 11 August 2025. The proportion of women in the Management Board was 0 % at the time the target was set for the first time. Since the appointment of Celia Pelaz as the fourth member of the Management Board in 2021, the proportion of women is 25.0 %.

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 12 August 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 31 December 2020, HENSOLDT AG, as an individual entity, did not have any management levels below the Management Board. After this changed during fiscal year 2021, the Management Board has now set the following quotas for women’s participation to be achieved by 8 December 2026:

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

VIII Final declaration on the dependency report

Until 3 January 2022, 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:

“No events liable to be reported occurred in the reporting period.”

IX HENSOLDT AG

The annual financial statements of HENSOLDT AG, Taufkirchen, (Local Court of Munich, HRB 258711) 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 31 December 2022, HENSOLDT AG was the parent company of the HENSOLDT Group.

1 Result of operations of HENSOLDT AG

For the fiscal year 2022, the income statement for HENSOLDT AG was as follows.

	Fiscal year		
in million €	2022	2021	% Delta
Revenue	41.5	36.7	13.2 %
Cost of sales	-41.8	-36.7	-13.8 %
Gross profit	**-0.2**	**-0.0**	**> 200 %**
Selling expenses	-2.0	-0.4	> 200 %
General administrative expenses	-28.3	-13.9	103.4 %
Other operating income	5.4	5.3	0.6 %
Other operating expenses	-5.2	-5.3	**0.3 %**
Operating result	**-30.4**	**-14.2**	**113.8 %**
Finance result	**-22.0**	**-21.6**	**-1.9 %**
Income taxes	-0.0	–	n/a
Result after taxes	**-52.5**	**-35.8**	**46.5 %**
Other taxes	-0.0	-0.0	-25.1 %
Net loss for the fiscal year	**-52.5**	**-35.9**	**46.4 %**
Profit carry-forward	6.0	3.1	-92.7 %
Withdrawal from the capital reserve	85.0	65.0	30.8 %
Balance sheet profit	**38.5**	**32.3**	**19.4 %**

Revenue consisted exclusively of internal recharges and were slightly overcompensated by cost of sales which is reflected accordingly in the gross profit. The increase of revenue compared to the previous year resulted from higher charges passed on to subsidiaries and affiliated companies. 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 not recharged to the operating companies of the HENSOLDT Group. The significant increase was mainly due to expenses for the premature termination of Management Board activities and higher consulting fees, amongst others, within the scope of efficiency improvement and IT-related projects. 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. The finance result consisted predominantly of interest paid for the syndicated loan, interest expenses and income of affiliated companies from cash pooling, interest expenses from the revaluation of the pension provisions as well as bank commissions and charges.

The balance sheet profit mainly results from the withdrawal from the capital reserve made in the context of the preparation of the annual financial statements. As of 31 December 2022, HENSOLDT AG had 118 employees.

Overall assessment

In the forecast for the fiscal year 2022, the Management Board assumed for the most important financial key performance indicators of HENSOLDT AG a slight increase in revenue and a moderate reduction in the net loss for the fiscal year. Due to the transfer of group functions to HENSOLDT AG and the resulting increase in internal recharges, the revenue forecast was exceeded with a strong increase in revenue. Contrary to the forecast, the net loss for the fiscal year recorded a strong increase, which was mainly the result of one-off effects.

2 Net assets and financial position of HENSOLDT AG

The net assets and the financial position of HENSOLDT AG on 31 December 2021 were as follows:

in million €	31 Dec. 2022	31 Dec. 2021	% Delta
Property, plant and equipment and intangible assets	0.4	0.2	143.8 %
Financial assets	2,670.0	2,670.0	– %
Fixed assets	**2,670.4**	**2,670.2**	**– %**
Accounts receivable, other assets and advance payments made	88.8	36.3	144.4 %
Cash and cash equivalents	168.1	43.7	> 200 %
Current assets	**256.9**	**80.0**	**> 200 %**
Prepaid expenses and deferred charges	7.2	7.6	-5.4 %
Total assets	**2,934.5**	**2,757.8**	**6.4 %**
Share capital	105.0	105.0	– %
Capital reserve	1,635.0	1,720.0	-4.9 %
Balance sheet profit	38.5	32.3	19.4 %
Equity	**1,778.5**	**1,857.3**	**-4.2 %**
Provisions	27.2	19.3	41.0 %
Liabilities	1,128.7	881.2	28.1 %
Total equity and liabilities	**2,934.5**	**2,757.8**	**6.4 %**

The financial assets primarily included the investment in HENSOLDT Holding GmbH. Accounts receivable and other assets mainly included accounts receivable from affiliated companies. The increase compared to the previous year is mainly due to higher accounts receivable from cash pooling. Bank balances consist of a short-term time deposit of € 100 million and cash balances of € 68 million resulting from the strong increase of cash pooling. Prepaid expenses mainly included directly attributable transaction costs in connection with the first-time raising of a long-term syndicated loan ("Term Loan") in the amount of € 5 million (previous year: € 5 million) and a revolving credit facility ("RCF") of € 1 million (previous year: € 3 million).

As of 31 December 2022, the share capital of HENSOLDT AG amounted to € 105 million, divided into 105 million ordinary bearer shares with no nominal value (no-par value shares). Net loss as of 31 December 2022 amounted to € 52 million. In connection with the preparation of the annual financial statements, an amount of € 85 million (previous year: € 65 million) was withdrawn from the capital reserve and allocated to balance sheet profit. The provisions mainly comprised provisions for pension obligations and provisions for personnel expenses. The increase compared to the previous year resulted mainly from the increase of pension provisions due to a partial adjustment of the calculation assumptions used as well as the increase of the provision for non-current variable remuneration components relating to the issue of further tranches (Long-Term Incentive Bonus). Liabilities mainly included liabilities to banks and liabilities from cash pooling. The significant increase compared to the previous year is mainly due to higher liabilities from cash pooling. The revolving credit facility, which had been utilised in 2020 by € 350 million, was repaid in the fiscal year 2021 by € 200 million and was fully repaid in the fiscal year 2022 by another € 150 million. The long-term loan amounts to € 620 million nominal on the reporting date.

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 any individual or aggregated risks which might endanger the continuity of its business activity. The most meaningful opportunities for HENSOLDT AG result from the current increase of defence budgets and a higher earnings power of the operating subsidiaries which might result from that. 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 present further opportunities.

4 Forecast

Within the Company's operational planning, the Management Board assumes a moderate increase in revenue and a moderate rise of the net loss for the fiscal year 2023. The moderate increase in revenue will be driven by further planned growth in the HENSOLDT Group's business and the associated increase in future charges of group services to the subsidiaries, which also includes OneSAPnow-related non-recurring effects in connection with the business-transformation for S/4HANA. The moderate increase in the net loss for the fiscal year 2023 is based on rising financing costs, which are partly offset by declining non-recurring effects.

This assumes that geopolitical tensions from Russia's war against Ukraine will not increase further and that challenges due to temporary supply chain limitations and the COVID-19 pandemic will continue to recede.

IFRS Consolidated Financial Statements of

HENSOLDT AG

for the year ended

31 December 2022

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

Furthermore the English report is not provided in the European Single Electronic Format (ESEF). The legally required rendering in ESEF-format is filed in German language with the operator of the German Federal Gazette and published in the German Federal Gazette.

CONSOLIDATED INCOME STATEMENT

		Fiscal year	
in € million	Note	2022	2021
Revenue	11	1,707	1,474
Cost of sales	11	-1,314	-1,144
Gross profit		**393**	**330**
Selling and distribution expenses		-107	-99
General administrative expenses		-92	-83
Research and development costs	12	-36	-31
Other operating income	13	21	29
Other operating expenses	13	-21	-18
Share of profit / loss from investment accounted for using the equity method	8	–	-2
Other result from investments	9.2	8	–
Earnings before finance result and income taxes (EBIT)		**166**	**126**
Interest income	14	9	4
Interest expense	14	-44	-42
Other finance income / costs	14	-1	-3
Finance result		**-37**	**-41**
Earnings before income taxes (EBT)		**130**	**85**
Income taxes	15	-49	-22
Group result		**80**	**63**
thereof attributable to the owners of HENSOLDT AG		*78*	*63*
thereof attributable to non-controlling interests		*2*	*-0*
Earnings per share			
Basic and diluted earnings per share (EUR)	16	0.75	0.60

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Fiscal year	
in € million	Note	2022	2021
Group result		**80**	**63**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Measurement of defined benefit plans / plan assets	33	206	23
Tax on items that will not be reclassified to profit or loss		-58	-8
Subtotal		**147**	**15**
Items that will be reclassified to profit or loss			
Difference from currency translation of financial statements		0	1
Cash flow-hedge - unrealised gains / losses	37.3	–	-1
Cash flow-hedge - reclassification to profit or loss		-0	1
Tax effect on unrealised gains / losses		-0	0
Subtotal		**0**	**1**
Other comprehensive income net of tax		**147**	**16**
Total comprehensive income in the fiscal year		**227**	**79**
thereof attributable to the owners of HENSOLDT AG		*226*	*79*
thereof attributable to non-controlling interest		*2*	*-0*

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS		31 Dec.	31 Dec.
in € million	Note	2022	2021
Non-current assets		**1,335**	**1,326**
Goodwill[1]	17	658	658
Intangible assets	17	384	385
Property, plant and equipment	18	121	108
Right-of-use assets	28	140	141
Other investments and other non-current financial assets	19	22	21
Non-current other financial assets	26	1	1
Other non-current assets	27	2	3
Deferred tax assets	15	6	11
Current assets		**1,644**	**1,629**
Other non-current financial assets, due on short-notice	19	0	1
Inventories	20	516	444
Contract assets	11	182	170
Trade receivables	21	323	309
Other current financial assets	26	20	7
Other current assets	27	133	167
Income tax receivables	15	10	2
Cash and cash equivalents	36.1	460	529
Total assets		**2,979**	**2,956**

[1] Adjustment of previous year's figures due to a purchase price adjustment after the measurement period by €+6 million

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

EQUITY AND LIABILITIES		31 Dec.	31 Dec.
in € million	Note	2022	2021
Share capital	34.1	105	105
Capital reserve[3]		472	537
Other reserves[1]		82	-65
Retained earnings[1,2,3]		-55	-171
Equity held by shareholders of HENSOLDT AG		**604**	**406**
Non-controlling interests		13	11
Equity, total	**34**	**616**	**417**
Non-current liabilities		**1,160**	**1,284**
Non-current provisions	23	282	497
Non-current financing liabilities	36.2	619	622
Non-current contract liabilities	11	11	12
Non-current lease liabilities	28	140	139
Other non-current financial liabilities	26	3	0
Other non-current liabilities	27	11	10
Deferred tax liabilities	15	94	4
Current liabilities		**1,203**	**1,255**
Current provisions	23	181	188
Current financing liabilities	36.2	12	166
Current contract liabilities	11	488	500
Current lease liabilities	28	18	16
Trade payables	22	379	269
Other current financial liabilities	26	4	10
Other current liabilities	27	101	94
Tax liabilities	15	19	11
Total equity and liabilities		**2,979**	**2,956**

1 Adjustment of previous year's figures: Cash flow-hedges by €+5 million in other reserves and by €-5 million in retained earnings
2 Adjustment of previous year's figures due to a purchase price adjustment after the measurement period by €+6 million
3 Adjustment of previous year's figures: Release of Capital reserves €- 60 million and addition to Retained earnings €+ 60 million. In contrast to previous year, the dividend payment of € 14 million is expensed to retained earnings.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

		Fiscal year	
in € million	Note	2022	2021
Group result		**80**	**63**
Depreciation and amortisation	17/18/28	103	126
Impairments (+) / reversals of impairments (-) of inventories, trade receivables and contract assets		2	3
Profit / loss from disposals of non-current assets		0	-1
Share of profit in entities recognised according to the equity method		–	2
Financial expenses (net)		27	33
Other non-cash expense / income		1	-4
Change in			
Provisions		-22	31
Inventories		-75	-44
Contract balances		-25	111
Trade receivables		-13	-22
Trade payables		110	107
Other assets and liabilities		42	-83
Interest paid		-24	-36
Income tax expense (+) / income (-)		49	22
Income tax payments (-) / refunds (+)		-11	-9
Cash flows from operating activities		**244**	**299**
Acquisition / addition of intangible assets and property, plant and equipment	17/18	-95	-102
Proceeds from sale of intangible assets and property, plant and equipment	17/18	0	3
Acquisition of associates, other investments and other non-current financial assets	19	-5	-7
Disposal of associates, other investments and other non-current financial assets		-0	–
Acquisition of subsidiaries net of cash acquired	7	-1	-12
Other		0	1
Cash flows from investing activities		**-101**	**-117**

		Fiscal year	
in € million	Note	2022	2021
Repayment from financing liabilities to banks	36.3	-150	-210
Proceeds from financing liabilities to banks	36.3	–	30
Change in other financing liabilities	36.3	-19	-84
Payment of lease liabilities	36.3	-19	-16
Dividend payments	36.3	-26	-14
Dividends on non-controlling interests	36.3	-0	-0
Transaction costs paid on issue of equity	36.3	–	-3
Others		0	–
Cash flows from financing activities		**-214**	**-297**
Effects of changes in exchange rates on cash and cash equivalents		2	-1
Net changes in cash and cash equivalents		**-69**	**-116**
Cash and cash equivalents			
Cash and cash equivalents on 1 January		**529**	**645**
Cash and cash equivalents on 31 December		**460**	**529**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the owners of the HENSOLDT AG								
				Other reserves					
in € million	Share capital	Capital reserve[3]	Retained earnings[1,3]	Remeasurement of pensions	Cash flow-hedge[1]	Currency translation	Subtotal	Non-controlling interests	Equity
As of 1 Jan. 2021	**105**	**597**	**-286**	**-67**	**–**	**-15**	**334**	**13**	**347**
Group Result	–	–	63	–	–	–	**63**	-0	**63**
Other comprehensive income	–	–	–	15	-0	1	**16**	-0	**16**
Total comprehensive income	**–**	**–**	**63**	**15**	**-0**	**1**	**79**	**-0**	**79**
Transactions with non-controlling interests and acquisitions through business combinations	–	–	0	–	–	–	**0**	-2	**-1**
Employee share program	–	3	–	–	–	–	**3**	–	**3**
Settlement of employee share program	–	-3	–	–	–	–	**-3**	–	**-3**
Release Capital reserve	–	-60	60	–	–	–	**–**	–	**–**
Dividend payments	–	–	-14	–	–	–	**-14**	–	**-14**
Dividends on non-controlling interests	–	–	–	–	–	–	**–**	-0	**-0**
Other[2]	–	0	6	–	0	–	**6**	–	**6**
As of 31 Dec. 2021	**105**	**537**	**-171**	**-51**	**–**	**-14**	**406**	**11**	**417**
Group Result	–	–	78	–	–	–	**78**	2	**80**
Other comprehensive income	–	–	–	147	–	0	**148**	-0	**147**
Total comprehensive income	**–**	**–**	**78**	**147**	**–**	**0**	**226**	**2**	**227**
Transactions with non-controlling interests and acquisitions through business combinations	–	–	–	–	–	–	**–**	-0	**-0**
Employee share program	–	3	–	–	–	–	**3**	–	**3**
Settlement of employee share program	–	-3	–	–	–	–	**-3**	–	**-3**
Release Capital reserve	–	-65	65	–	–	–	**–**	–	**–**
Dividend payments	–	–	-26	–	–	–	**-26**	–	**-26**
Dividends on non-controlling interests	–	–	–	–	–	–	**–**	-0	**-0**
Other	–	–	-1	–	–	–	**-1**	–	**-1**
As of 31 Dec. 2022	**105**	**472**	**-55**	**96**	**–**	**-14**	**604**	**13**	**616**

[1] Adjustment of previous year's figures: Cash flow-hedges by €+5 million in other reserves and by €-5 million in retained earnings as per 1 Jan. 2021
[2] Addition due to a purchase price adjustment after the measurement period by €+6 million
[3] Adjustment of previous year's figures: Release of Capital reserves €- 60 million and addition to Retained earnings €+ 60 million. In contrast to previous year, the dividend payment of € 14 million is expensed to retained earnings

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

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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).

Changes in important accounting policies are described in note 4.

These Consolidated Financial Statements were prepared by the Management Board on 10 March 2023 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 million €. Amounts below € 500,000 and greater than zero € are represented as 0.

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 recognised 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 recognised 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 recognised in the consolidated income statement.

Any contingent considerations are measured at fair value on the date when control is obtained. If the contingent consideration is classified as equity, it is not remeasured and any settlement is recognised 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 recognised 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.

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 recognised 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 recognised 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 unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains on transactions with equity-accounted investees are derecognised against the investment according to the Group's share in the investment. Unrealised losses are eliminated in the same way as unrealised gains, but only if there are no indications of impairment.

2.3 Revenue from contracts with customers

Revenue recognition

The Group recognises 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, 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 utilised 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 recognised 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); or
- 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 recognises 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 recognising revenue over time are met, revenue is recognised 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.

Standardised products and systems with limited customer-specific adjustments

When manufacturing and installing standardised products and systems or delivering spare parts, customer-specific adjustments are only made to a limited extent. Customers obtain control of standardised 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 recognised either once the goods are delivered or once the goods or services are accepted by the customers at their premises.

Customised 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 customised. 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 recognised 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 recognised 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 recognised to the extent that it is highly probable that a significant cancellation of the amount of cumulatively recognised revenue will not be required. Accordingly, positive variable consideration components (e.g. price escalations) are recognised as an increase of the transaction price if there is an estimated probability of at least 80.0 % that they will be realised. Conversely, negative variable consideration components (e.g. contractual penalties or price audit reimbursements) are recognised 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 recognised.

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 recognises a contract asset to the amount of the satisfied performance less any amounts recognised as receivable.

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

A contract liability is recognised 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 recognised 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 amortised 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 amortised 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. Amortisation costs for intangible assets are recognised 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 recognised in the consolidated income statement as incurred.

Development costs are capitalised 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 recognised in the consolidated income statement as research and development costs as soon as it is incurred. Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses. HENSOLDT reviews capitalised 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. Capitalised development expenditure is generally amortised on a straight-line-basis over the estimated useful life (between 5 and 7 years) of the internally generated intangible asset. Amortisation and impairment losses of the capitalised development expenditure is recognised 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 realisable value. Net realisable 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, labour 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 recognised. Write-downs on inventories are recognised 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 recognises 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 amortised 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 recognise 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 recognises 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 recognised as an expense once the employee rendered the corresponding service. If the Group has a legal or constructive obligation to make a payment, it recognises a liability for the expected amount to be paid, when and only when a liable estimate of the obligation can be made.

Defined contribution plans

Obligations for contributions to defined contribution plans are recognised 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 recognised 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 recognised 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 recognised 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 recognised directly in the consolidated income statement.

Other long-term employee benefits

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

The virtual long-term incentive programme (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 recognised as an expense in the consolidated income statement and as a provision. The fair value of the share-based payment is recognised as an expense on a pro-rata basis over the vesting period. The value of the provision to be accounted is remeasured on each subsequent reporting date. Any changes to its fair value are recognised in the consolidated income statement.

The employee share programme is accounted for as an equity-settled share-based payment transaction according to IFRS 2. The Group recognises 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 rendered by 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 recognised 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 recognises 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 recognised, 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 recognised 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 recognised 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 recognises trade receivables from the date that they arise. All other financial assets and liabilities are recognised for the first time on the trading day 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 amortised 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 amortised 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 was 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 amortised cost, i.e. in subsequent periods receivables are recognised net of principal repayments, instalments 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 amortised 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 amortised 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 recognised 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 amortised cost are measured at amortised cost using the effective interest method. Amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses as well as impairment losses are recognised in the consolidated income statement, likewise. Similarly, gains or losses from derecognition are also recognised 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 amortised 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 recognised in the consolidated income statement. Other net gains or losses are recognised 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 recognised 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 recognised in other comprehensive income and are never reclassified to the consolidated income statement.

Financial liabilities

Financial liabilities are classified and measured at amortised 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 amortised cost using the effective interest method. Interest expenses and foreign currency translation differences as well as gains or losses arising from derebcognition are recognised in the consolidated income statement.

Derecognition

The Group derecognises 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 derecognised and the Group assesses whether a continuing involvement exists and if so, a separate item must be recognised.

Financial liabilities are derecognised when the contractual obligations are discharged, cancelled or expire. The Group also derecognises 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 recognised 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 recognised 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 realise 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 recognised in the consolidated income statement when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised 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 recognised through profit or loss. In contrast, changes in the value of derivative contracts are recognised in total comprehensive income if the hedged items or transactions have not yet been recognised 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.

The fair value of derivative financial instruments, that are designated in a hedge accounting relationship as well as the development of the hedging reserve are shown in 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 recognised 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 recognised 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 recognised in the consolidated income statement.

2.11 Income taxes

Income taxes comprise current income taxes 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 realised 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 recognised 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 recognised are reviewed at each reporting date and recognised to the extent to which it has become likely that future taxable earnings will permit the realisation 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 recognised directly in equity are also posted directly in equity. Deferred taxes are recognised 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 recognised in the consolidated income statement of the period.

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

- An investment in equity securities designated at FVtOCI (except on impairment, in which case foreign currency differences that have been recognised 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 recognised 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 flows

Under the indirect determination of the cash flows 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 recognises allowances for expected credit losses (“ECL“) for:

- financial assets measured at amortised cost;
- 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 recognised 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 recognised 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 amortised 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 amortised 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 realised in full or in part. The Group does not necessarily assume that there is a significant increase in credit risk even if the overdue amount is more than 30 days due to the (end) customer structure.

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 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 recognised in the consolidated income statement. Impairment losses recognised 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 amortisation, would have been determined if no impairment had been recognised.

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 recognised 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 at the balance sheet date. 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 realise them during its normal business cycle.

Cash and cash equivalents

These comprise cash on hand and cash including short-term deposits 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) that are considered plan assets according to IAS 19. The limited partnerships essentially hold real estate assets, which are evaluated based on current market parameters. 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 recognised 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 seen 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 the 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 reviewed on an ongoing basis. Changes of estimates are recognised prospectively.

3.1 Revenue recognition over time

Revenue from the rendering of performance obligations over a certain period of time is usually recognised 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 please refer to note 2.3).

3.2 Capitalisation of development cost

When capitalising 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 recognises 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, such as, in particular due to the current interest rate and inflation developments, 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 behaviour when exercising the pay-out 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	
	31 Dec.	31 Dec.
Assumptions in %	2022	2021
Discount rate	4.2 %	1.5 %
Wage increase rate (until age 35)	3.0 %	3.0 %
Wage increase rate (until age 36)	2.0 %	2.0 %
Pension increase rate	2.0 %	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. For the years 2023, 2024 and 2025, a wage increase rate for employees aged 36 and over was applied on a staggered basis of 4.0 %, 3.0 % and 3.0 %. From 2026 onwards, a linear wage increase rate of 2.0 % has been included in the calculation. Payments for pension growth rates are derived from the respective inflation rate for the plan. An adjustment guarantee of 2.0 % p.a. is assured for the most important pension plans in Germany for the pension increase rate. In addition, higher pension increase rates were used as a basis for the valuation for the next three years as follows: 2023: 4.0 %, 2024: 4.0 %, 2025: 3.0 %.

Moreover, an assumption is made as to what extent the employees choose a one-off payment, instalment payment or pension when the benefit falls due. In light of the exercise of the payout options upon retirement that has actually been observed, management once again adapted its demographic assumptions regarding the payout behaviour of the beneficiaries in the fiscal year 2022. 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 analyses current information on these issues and recognises 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 unfavourable 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 whether deferred tax assets are recoverable depends on the management’s estimate of the utilisation 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 utilised. 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 realised within the next four years on the basis of sufficient, future taxable income. The factors for the origination of loss carry-forwards 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 are within its control and affect 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
Amendments to IAS 37: Onerous contracts	1 January 2022	Confirmed	No
Amendments to IFRS 3: Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2022	Confirmed	No
Amendments to IAS 16: Property, Plant and Equipment, Proceeds before intended use	1 January 2022	Confirmed	No
Amendments to IFRS 1 / IFRS 9 / IFRS 16 / IAS 41: Annual improvement project 2018-2020	1 January 2022	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 31 December 2022, and were not applied when preparing these Consolidated Financial Statements. Premature application is not intended. 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 1 and IFRS Practice Statement: Disclosure of accounting policies	1 January 2023	Confirmed	No
Amendments to IAS 8: Definition of accounting estimates	1 January 2023	Confirmed	No
Amendments to IAS 12: Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023	Confirmed	No
Amendments to IAS 1: Classification of Liabilities as current or non-current	1 January 2024	Not yet confirmed	No
Amendments to IFRS 16: Lease liability in a Sale and Leaseback	1 January 2024	Not yet confirmed	No

II Group structure

6 Consolidated group

The shareholdings as of 31 December 2022, 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 %[1]	FC
HENSOLDT Holding Germany GmbH	Taufkirchen / Germany	<100.0 %[1]	FC
HENSOLDT Sensors GmbH	Taufkirchen / Germany	<100.0 %[1]	FC
HENSOLDT Optronics GmbH	Oberkochen / Germany	<100.0 %[1]	FC
HENSOLDT Avionics Holding GmbH	Pforzheim / Germany	100.0 %	FC
HENSOLDT Avionics GmbH	Pforzheim / Germany	100.0 %	FC
HENSOLDT Cyber GmbH	Taufkirchen / Germany	90.6 %	FC
EuroAvionics UK Ltd.	Slinfold / United Kingdom	100.0 %	FC
EuroAvionics Schweiz AG[2]	Sissach / Switzerland	100.0 %	FC
HENSOLDT Avionics US HoldCo. Inc.	Sarasota / USA	100.0 %	FC
HENSOLDT Avionics USA LLC	Sarasota / USA	100.0 %	FC
GEW Integrated Systems (Pty) Ltd.	Brummeria / South Africa	100.0 %	FC
GEW Technologies (Pty) Ltd.	Brummeria / South Africa	93.3 %	FC
HENSOLDT South Africa (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
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.[3]	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
HENSOLDT Australia Pty Ltd.	Hobart / Australia	100.0 %	FC

PC = parent company; FC = fully consolidated affiliated company
1 Interest of Federal Republic of Germany with a nominal value of € 1 each
2 in liquidation
3 In the fiscal year, Antycip Technologies S.A.S., Massy / France and Penser Maitriser Technicité Logistique - P.M.T.L S.A.S., Cologne / France, were merged into HENSOLDT Nexeya France S.A.S

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. 30 (previous year: 33) were fully consolidated. Two companies were merged in the reporting year, and Kelvin Hughes LLC/USA was deconsolidated.

The 21 (previous year: 16) 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	3.6	0.2	25.0 %	AC
LnZ Optronics Co. Ltd.[1]	Seoul / South Korea	1.4	-0.1	50.0 %	AC
PMTL-Peinture Composite S.A.S.[3]	L'Isle-Jourdain / France	0.1	0.0	49.8 %	AC
Deutsche Elektronik Gesellschaft für Algerien mbH[1]	Ulm / Germany	11.1	0.1	66.7 %	JV
J.A.M.E.S. GmbH[1]	Taufkirchen / Germany	1.3	-0.1	50.0 %	JV
Société Commune Algérienne de Fabrication de Systèmes Electroniques SPA[1]	Sidi Bel Abbès / Algeria	24.4	1.0	49.0 %	JV
Antycip Iberia SL[1]	Barcelona / Spain	0.0	0.0	100.0 %	NC
HENSOLDT Analytics GmbH[1]	Vienna / Austria	-2.4	-1.0	100.0 %	NC
HENSOLDT do Brasil Segurança e Defesa Electrónica e Optica Ltda[1]	São Paulo/ Brazil	-0.1	-0.0	99.9 %	NC
HENSOLDT Inc.[1]	Wilmington / USA	-6.0	0.5	100.0 %	NC
HENSOLDT Private Ltd.[4]	Bangalore / India	0.4	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
HENSOLDT Nexeya Belgium[5]	Mouscron / Belgium	n/a	n/a	100.0 %	NC
Kelvin Hughes LLC[1]	Alexandria / USA	0.0	0.0	100.0 %	NC
HENSOLDT Middle East Limited Company[5]	Riad / KSA	n/a	n/a	100.0 %	NC
HENSOLDT Theon NightVision GmbH[5]	Wetzlar / Germany	n/a	n/a	100.0 %	NC
21strategies GmbH[1]	Hallbergmoos / Germany	0.2	-0.3	11.4 %	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
n/a: no financial data available
[1] Equity and result 31/12/2021
[2] Equity and result 30/09/2021
[3] Equity and result 30/06/2021
[4] Equity and result 31/03/2022
[5] New establishment in the fiscal year 2022, annual financial statements not yet prepared

7 Acquisitions

7.1 Company acquisitions and other changes during the fiscal year

HENSOLDT Cyber GmbH

With effect from June 2021, HENSOLDT gained control over HENSOLDT Cyber GmbH (“HENSOLDT Cyber”) which had been consolidated using the equity method, so that it is now included in the Consolidated Financial Statements as a fully consolidated company.

Agreements made with the joint venture partner 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 held 70.0 % of the voting rights of HENSOLDT Cyber as at 31 December 2021.

With the implementation of the conversion rights under civil law, the shares from which the potential voting rights resulted were acquired in September 2022. In the further course of the fiscal year, the share in HENSOLDT Cyber was increased again so that the interest amounts to 90.6 % as of 31 December 2022.

In addition, the preliminary valuation underlying the existing shares was finalised after the valuation period. The goodwill of € 14 million reported in the previous year was increased by € 6 million after the end of the reporting period, increasing the profit reserves reported in the previous year.

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 recognised in connection with the acquisition, the accounting of such company acquisition will be adjusted.

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 previous year comprises the period from 1 January 2021 until 30 May 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 as well as with entities that are controlled by them. Significant influence in this context can be based on a shareholding in HENSOLDT AG of 20.0 % or more or a key management position.

Key management personnel

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 persons of HENSOLDT AG.

Members of the Management Board

- Thomas Müller, CEO
- Christian Ladurner, CFO (since 1 July 2022)
- Axel Albert Hans Salzmann, CFO (until 30 June 2022)
- Dr. Lars Immisch, CHRO (since 1 October 2022)
- Peter Fieser, CHRO (until 30 September 2022)
- Celia Pelaz, CStO

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
- Jürgen Bühl, Trade Union Secretary of the IGM Management Board
- Letizia Colucci (since 13 May 2022)
- Achim Gruber, Chairman of the Works Council of HENSOLDT Optronics GmbH
- Prof. Wolfgang Ischinger (until 13 May 2022)
- Ingrid Jägering
- Marion Koch, Member of the Works Council of HENSOLDT Sensors GmbH
- Christian Ollig (until 13 May 2022)
- Prof. Dr. Burkhard Schwenker (until 21 September 2022)
- Giovanni Soccodato (since 13 May 2022)
- Julia Wahl, Union Secretary of IGM
- Claire Wellby (until 13 May 2022)
- Hiltrud D. Werner (since 22 September 2022)
- Reiner Winkler (since 13 May 2022)

Related entities

Square Lux Holding II S.à r.l., Luxembourg, (hereinafter also: “Square Lux”) held a share of approx. 42.94 % of the voting rights in HENSOLDT AG from the beginning of the reporting period until 3 January 2022. Based on an attendance during the annual general meeting of 74.07 % and a shareholding of 42.94 %, Square Lux had a de facto majority in the annual general meeting and is thus considered a controlling company in this period. 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.

The share purchase agreement concluded in the previous year to purchase 25.1 % of the shares in HENSOLDT AG from KKR’s holdings by the Italian aerospace and defence group Leonardo S.p.a., Italy, (“Leonardo”) was executed on 3 January 2022 after the fulfilment of the conditions precedent. That makes Leonardo and the companies controlled by Leonardo related parties of HENSOLDT AG with significant influence. HENSOLDT and Leonardo as well as the companies controlled by Leonardo have various business relationships and collaborate in a series of programmes. Leonardo and the companies controlled by Leonardo are, on the one hand, customers of HENSOLDT who purchase or use products and services of HENSOLDT. HENSOLDT is, on the other hand, in a business relationship with Leonardo and the companies controlled by Leonardo.

Kreditanstalt für Wiederaufbau (“KfW”), executing the acquisition rights of the Federal Republic of Germany (“Federal Government”), holds 25.1 % of HENSOLDT AG’s shares. 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.

HENSOLDT AG prepares the Consolidated Financial Statements for the smallest and largest group of companies.

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	2022	2021
Revenue		
Entities with significant influence	688	283
Joint ventures	15	30
Associated companies	24	20
Non-consolidated companies	31	34
Other income and cost reimbursements		
Parent company	–	0
Entities with significant influence	1	–
Joint ventures	0	0
Associated companies	8	–
Non-consolidated companies	0	0
Other related parties	14	12

in € million	Fiscal year 2022	Fiscal year 2021
Goods and services received		
Entities with significant influence	61	4
Joint ventures	0	0
Associated companies	3	3
Non-consolidated companies	3	2
Other related parties	16	15

in € million	31 Dec. 2022	31 Dec. 2021
Receivables		
Entities with significant influence	87	54
Joint ventures	54	84
Associated companies	10	10
Non-consolidated companies	13	12
Other related parties	0	0
Liabilities		
Entities with significant influence	6	4
Joint ventures	4	0
Associated companies	6	7
Non-consolidated companies	5	6
Other related parties	3	4

In the previous year, in the context of the cost sharing and compensation agreement concluded with Square Lux in the context of HENSOLDT AG's IPO, HENSOLDT AG has charged pro-rated expenses in an amount of € 53 thousand to Square Lux – after having set off opposing claims.

In the reporting year, the Group received a share of profits amounting to € 8 million from an associated company, which was recognised in other income from investments.

Goods and services received from other related parties include expenses related to rents for buildings of € 16 million (previous year: € 15 million).

Receivables from and liabilities to related entities in the fiscal year 2022 mainly relate to trade receivables and trade liabilities.

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) totalling € 4.0 million for the fiscal year (previous year: € 4.5 million). Expenses associated with share-based remunerations recognised in the consolidated income statement during the reporting year amounted to € 1.5 million (previous year: € 0.3 million). Past-service cost of € 0.2 million (previous year: € 0.3 million) arose as benefits after the employment for pension obligations of active members of the Management Board. Payments to former Management Board members on the occasion of termination of employment amounted to € 4.9 million. The total expenses recognised for the members of the Management Board in the reporting year (according to IAS 24.17) were thus a total of € 10.6 million (previous year: € 5.1 million).

The committed present value of the pension commitments to former members of the Management Board and their surviving dependants amounted to € 2.6 million.

The total remuneration of the Management Board pursuant to Section 314 (1) No. 6a, sentence 1 to 3 HGB amounted to € 6.6 million in the fiscal year 2022 (previous year: € 6.5 million). This figure includes the fair value at grant for share-based compensation of € 2.6 million (previous year: € 2.0 million) for the award of 117,092 (previous year: 142,754) virtual shares. For the performance targets linked to these awards, we refer to the remuneration report published on the website of HENSOLDT at https://investors.hensoldt.net in the “Corporate Governance” section. Former members of the Management Board received total compensation pursuant to Section 314 (1) No. 6b HGB amounting to € 4.9 million.

HENSOLDT AG has made pension provisions of € 3.3 million for pension commitments to former members of the Management Board and their surviving dependants according to HGB.

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: € 0.7 million).

Information on the remuneration of individual Management Board and Supervisory Board members is presented in the remuneration report published on the website of HENSOLDT at https://investors.hensoldt.net.

Management participation

The Management Board members of HENSOLDT AG as well as other executives and executive board members of HENSOLDT Group held indirect shares issued by Square Lux Midco 1 & Co S.C.A. until Square Lux Holding II S.à r.l. retired as shareholder of HENSOLDT AG at the beginning of April 2022 and were 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 was recognised 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.

III Group performance

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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 Services & Aerospace 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, Services & Aerospace 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 Radar & Naval Solutions division, the Group develops and manufactures mobile and stationary radar and IFF systems (Identification Friend or Foe) used for civil 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.

Services & Aerospace Solutions

The division “Services & Aerospace Solutions”, which was renamed in the second quarter of 2022 (formerly: “Customer Services & Space Solutions”), 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 as well as HENSOLDT Space Solutions are part of this division. 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 other 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 the Optronics & Land Solutions division and includes 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 armoured vehicles. For use at sea, submarine periscopes, optronic mast systems and other electro-optical systems are offered. In the air, the product portfolio includes stabilised 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 items 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.

				Fiscal year 2022
in € million	Sensors	Optronics	Elimination/ Transversal/ Others	Group
Order intake	1,675	333	-15	**1,993**
Order backlog	4,688	692	-13	**5,366**
Book-to-bill-ratio	1.2x	1.1x		**1.2x**
Revenue from external customers	1,400	308	–	**1,707**
Intersegment revenue	4	2	-7	**–**
Segment revenue	**1,404**	**310**	**-7**	1,707

				Fiscal year 2022
in € million	Sensors	Optronics	Elimination/ Transversal/ Others	Group
Material non-cash items other than depreciation and amortisation:				
Additions to other provisions	-84	-37	–	**-121**
Reversals of other provisions	11	7	0	**18**

in € million	Sensors	Optronics	Elimination/ Transversal/ Others	Fiscal year 2022 Group
EBITDA	**230**	**58**	**-18**	**270**
Transaction cost	0	–	–	**0**
OneSAPnow-related non-recurring effects	–	–	1	**1**
Other non-recurring effects	3	1	18	**21**
Adjusted EBITDA	**233**	**59**	**–**	**292**
Adjusted EBITDA margin¹	*16.6 %*	*18.9 %*		***17.1 %***
Depreciation and amortisation	-82	-21	0	**-103**
EBIT	**148**	**36**	**-18**	**166**
Effect on earnings from purchase price allocations	32	4	–	**36**
Transaction cost	0	–	–	**0**
OneSAPnow-related non-recurring effects[2]	–	–	1	**1**
Other non-recurring effects[3]	3	1	18	**21**
Adjusted EBIT	**183**	**41**	**–**	**224**
Adjusted EBIT margin¹	*13.0 %*	*13.4 %*		***13.1 %***

1 Based on segment revenues
2 OneSAPnow-related non-recurring effects comprise expenses in connection with the business-transformation for SAP S/4HANA.
3 Non-recurring effects in the fiscal year 2022 include mainly expenses in the context with the efficiency programmes ("HENSOLDT GO!"), expenses in the context of long-term succession planning for the Management Board and expenses for counteracting the cyber-attack on the French subsidiary Nexeya.

in € million	Sensors	Optronics	Elimination/ Transversal/ Others	Fiscal year 2022 Group
EBIT	**148**	**36**	**-18**	**166**
Finance result				**-37**
EBT				**130**

				Fiscal year 2021
in € million	Sensors	Optronics	Elimination/ Transversal/ Others	Group
Order intake	2,774	405	-8	**3,171**
Order backlog	4,420	676	-4	**5,092**
Book-to-bill-ratio	2.4x	1.2x		**2.2x**
Revenue from external customers	1,145	329	–	**1,474**
Intersegment revenue	2	3	-5	**–**
Segment revenue	**1,148**	**332**	**-5**	**1,474**

				Fiscal year 2021
in € million	Sensors	Optronics	Elimination/ Transversal/ Others	Group
Material non-cash items other than depreciation and amortisation:				
Additions to other provisions	-79	-57	-1	**-137**
Reversals of other provisions	11	22	0	**33**
Adjustments to the fair value of existing shares in entities now subject to consolidation	10	–	–	**10**
Interest in the profit or loss of associated entities and joint ventures accounted for using the equity method	–	–	-2	**-2**

				Fiscal year 2021
in € million	Sensors	Optronics	Elimination/ Transversal/ Others	Group
EBITDA	**194**	**68**	**-10**	**252**
Transaction cost	0	–	0	**0**
IPO related cost	–	–	1	**1**
Other non-recurring effects	0	0	8	**8**
Adjusted EBITDA	**194**	**68**	**-2**	**261**
Adjusted EBITDA margin[1]	*16.9 %*	*20.5 %*		***17.7 %***
Depreciation and Amortisation	-97	-29	–	**-126**
EBIT	**97**	**39**	**-10**	**126**
Effect on earnings from purchase price allocations	54	10	–	**64**
Transaction cost	0	–	0	**0**
IPO related cost	–	–	1	**1**
Other non-recurring effects[2]	0	0	7	**8**
Adjusted EBIT	**151**	**50**	**-2**	**199**
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 connection with efficiency programmes ("HENSOLDT GO!"), post-merger-integration and structural development of the HENSOLDT Group.

in € million	Sensors	Optronics	Elimination/ Transversal/ Others	Fiscal year 2021 Group
EBIT	**97**	**39**	**-10**	**126**
Finance result				**-41**
EBT				**85**

10.3 Geographical information

	Fiscal year	
in € million	2022	2021
Revenue		
Europe	1,452	1,191
thereof Germany	*1,016*	*861*
Middle East	135	136
APAC	82	58
North America	39	45
Africa	22	57
LATAM	6	16
Other regions/consolidation	-28	-29
Total	**1,707**	**1,474**

in € million	31 Dec. 2022	31 Dec. 2021
Non-current assets[1]		
Germany[2]	1,172	1,159
Other regions	131	132
Total	**1,304**	**1,291**

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

[2] Adjustment of the previous year's values due to a purchase price adjustment after the valuation period by € +6 million

10.4 Major customers

Within its two segments, the HENSOLDT Group has two (previous year: two) customers that each generate more than 10.0 % of its total revenue. The first customer generated a revenue of € 544 million (previous year: € 314 million), the revenue with the second customer amounted to € 306 million (previous year: € 319 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).

			Fiscal year
in € million	Sensors	Optronics	2022
Revenue from contracts with customers			
Sales	1,111	280	**1,391**
Aftersales	305	28	**334**
Exchange rate differences	-17	-0	**-17**
Total	**1,399**	**308**	**1,707**

			Fiscal year
in € million	Sensors	Optronics	2022
Timing of revenue recognition			
Revenue recognition at a point in time	580	267	**847**
Revenue recognition over time	836	42	**878**
Exchange rate differences	-17	-0	**-17**
Total	**1,399**	**308**	**1,707**

			Fiscal year
in € million	Sensors	Optronics	2021
Revenue from contracts with customers			
Sales	865	292	**1,157**
Aftersales	283	36	**319**
Exchange rate differences	-3	1	**-2**
Total	**1,145**	**329**	**1,474**

			Fiscal year
in € million	Sensors	Optronics	2021
Timing of revenue recognition			
Revenue recognition at a point in time	530	301	**830**
Revenue recognition over time	619	27	**646**
Exchange rate differences	-3	1	**-2**
Total	**1,145**	**329**	**1,474**

11.2 Contract assets and contract liabilities

in € million	Contract assets	Contract liabilities
As of 1 Jan. 2021	**204**	**433**
Revenue recognised in the reporting period included in the contract liability balance at the beginning of the period	–	-233
Increases due to cash received, except amounts recognised as revenue during the reporting period	–	311
Reclassifications from contract assets, recognised at the beginning of the period, to receivables	-65	–
Increases due to changes in the determination of stage of completion	30	–
Changes in the estimate of the transaction price or contract modification	–	1
Other	0	0
As of 31 Dec. 2021	**170**	**512**
Revenue recognised in the reporting period included in the contract liability balance at the beginning of the period	–	-185
Increases due to cash received, except amounts recognised as revenue during the reporting period	–	172
Reclassifications from contract assets, recognised at the beginning of the period, to receivables	-61	–
Increases due to changes in the determination of stage of completion	69	–
Changes in the estimate of the transaction price or contract modification	–	1
Other	5	-0
As of 31 Dec. 2022	**182**	**500**

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 million (previous year: € 1 million) were recognised in the fiscal year.

11.3 Transaction price for remaining performance obligations

As of 31 December 2022, the total amount of the transaction price allocated to remaining performance obligations amounted to € 5,366 million (previous year: € 5,092 million). Management expects that 26.3 % (previous year: 24.7 %) of this transaction price will be recognised as revenue in the next fiscal year and a further 33.7 % (previous year: 33.2 %) in the period between 2024 and 2025. The remaining 40.0 % (previous year: 42.2 %) will be recognised in fiscal year 2026 and subsequent years.

11.4 Cost of sales

Cost of sales includes amortisation from adjustments to the fair values of assets as part of the purchase price allocations of € 36 million (previous year: € 64 million).

Inventories recognised as an expense in the reporting period amount to € 1,163 million (previous year: € 972 million).

12 Research and development costs

Research and development costs amount to € 36 million (previous year: € 31 million). Regarding the capitalisation of development costs, refer to note 17.

13 Other operating income and expenses

13.1 Other operating income

	Fiscal year	
in € million	2022	2021
Recharged services	20	17
Adjustments to the fair value of existing shares in entities now subject to consolidation	–	10
Others	1	2
Other operating income	**21**	**29**

Other operating income mainly relates to recharged investment costs and maintenance costs to buildings as well as facility- and administrative services. Another component is the energy price flat rate in 2022. In the previous year, income from the adjustment to the fair value of existing shares in HENSOLDT Cyber amounting to € 10 million was included.

13.2 Other operating expenses

	Fiscal year	
in € million	2022	2021
Recharged costs	18	16
Other	2	3
Other operating expenses	**21**	**18**

Other operating expenses mainly relate to facility and administrative services.

14 Finance result

in € million	Fiscal year 2022	2021
Interest income from plan assets	3	3
Other interest income	0	0
Interest income from swap transactions	5	–
Other	1	1
Interest income	**9**	**4**
Loan (Term Loan)	-12	-15
Revolving Credit Facility	-2	-5
Interest expense from swap transactions	-1	-4
Interest expense on provisions for pension benefits	-11	-7
Interest expense on lease liabilities	-9	-10
Other	-9	-1
Interest expense	**-44**	**-42**
Bank fees	-2	-4
Foreign currency translation of monetary items	-2	2
Other	2	-1
Other finance income / costs	**-1**	**-3**
Finance result	**-37**	**-41**

15 Income taxes

Income taxes are broken down as follows:

in € million	Fiscal year 2022	2021
Current tax expense	-13	-20
thereof income tax attributable to the previous year	*1*	*-1*
Deferred taxes	-36	-2
thereof changes in temporary differences	*-26*	*6*
Recognised tax	**-49**	**-22**
Deferred tax recognised directly in equity	-58	-8

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 consolidated profit before tax by the total tax rate of 28.3 % applicable in 2022:

	Fiscal year	
in € million	2022	2021
Earnings before income tax	130	85
Income tax rate	*28.3 %*	*28.3 %*
Expected income taxes	-37	-24
Effects deriving from differences to the expected tax rate	1	2
Change in the tax rate and tax laws	-0	-0
Taxes for previous years	0	1
Non-deductible interest expenses	-1	-1
Other non-deductible expenses and taxes as well as effects from changes from permanent balance sheet differences	-1	2
Tax-exempt income	2	2
Changes in the realisation of deferred tax assets	-14	-3
Other	0	-1
Income tax according to the consolidated income statement	**-49**	**-22**
Effective tax rate in %	*38.2 %*	*26.2 %*

Deferred tax assets and deferred tax liabilities are recognised 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:

	31 Dec.	31 Dec.
in € million	2022	2021
Deferred tax assets		
Assets		
Intangible assets	0	–
Property, plant and equipment	1	1
Financial assets	1	1
Inventories and contract assets	5	2
Receivables and other assets	2	2
Liabilities		
Provisions	24	96
Liabilities	167	167
Loss carryforwards	**11**	**21**
Tax credits and interest carry-forwards	**13**	**14**
Deferred tax assets (gross)	**224**	**303**
Netting	-217	-292
Deferred tax assets (net)	**6**	**11**

in € million	31 Dec. 2022	31 Dec. 2021
Deferred tax liabilities		
Assets		
Intangible Assets	143	137
Property, plant and equipment	3	3
Financial assets	2	4
Inventories and contract assets	60	77
Receivables and other assets	3	0
Liabilities		
Provisions	39	39
Liabilities	61	36
Deferred tax liabilities (gross)	**312**	**296**
Netting	-217	-292
Deferred tax liabilities (net)	**94**	**4**
Excess of deferred tax liabilities (py: tax assets)	**-88**	**7**

The assessment of impairment of deferred tax assets depends on the management's estimate of the utilisation 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 utilised.

As of 31 December 2022 the Company did not recognise any deferred tax liabilities for profits of subsidiaries that were not distributed to the parent company. The Group assumes that, for the time being, the profits of its subsidiaries will not be distributed in the foreseeable future. Temporary differences in connection with investments in subsidiaries for which no deferred tax liabilities were recognised amounted to € 3 million (previous year: € 3 million).

As of 31 December 2022, the following loss and interest carryforwards were recognised (gross):

in € million	31 Dec. 2022	31 Dec. 2021
Corporation tax loss carry-forwards	127	143
Trade tax loss carry-forwards	109	133
Interest carry-forwards	198	180
Tax credits	1	1

No deferred tax assets were recognised 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	31 Dec. 2022	31 Dec. 2021
Corporation tax loss carry-forwards	93	72
Trade tax loss carry-forwards	85	62
Interest carry-forwards	145	126

The tax loss carryforwards for which no deferred tax assets were recognised 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 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	2022	2021
Group result attributable to the owners of HENSOLDT AG	78	63
Weighted average number of ordinary shares (in million)	105	105
Basic and diluted earnings per share (in €)	**0.75**	**0.60**

IV Operating assets and liabilities

17 Intangible assets

Intangible assets (excluding goodwill) consist of the following:

in € million	Licences, patents and other rights	Other intangible assets	Capitalised development cost	Customer relationship, technology, order backlog, brand	Advance payments and construction in progress	**Total**
Acquisition Cost						
As of 1 Jan. 2021	**13**	**0**	**165**	**541**	**3**	**722**
Acquisition through business combinations	–	–	–	9	–	9
Additions	2	0	66	–	3	**71**
Disposals	-0	–	–	–	-0	**-0**
Reclassifications	0	–	–	–	-0	**0**
Currency translation	0	–	1	–	–	**1**
As of 31 Dec. 2021	**15**	**1**	**232**	**550**	**5**	**803**
Additions	3	0	55	–	1	**60**
Disposals	-1	–	–	–	-0	**-1**
Reclassifications	3	–	–	–	-3	**-0**
Currency translation	0	–	-1	-0	–	**-1**
As of 31 Dec. 2022	**21**	**1**	**286**	**550**	**3**	**861**
Accumulated amortisation						
As of 1 Jan. 2021	**-10**	**-0**	**-21**	**-305**	**–**	**-336**
Additions	-3	-0	-16	-63	–	**-82**
Disposals	0	–	–	–	–	**0**
Currency translation	–	–	0	–	–	**-0**
As of 31 Dec. 2021	**-12**	**-1**	**-37**	**-369**	**–**	**-418**
Additions	-2	-0	-21	-36	–	**-59**
Disposals	1	–	–	–	–	**1**
Reclassifications	–	0	–	-0	–	**–**
Currency translation	–	–	0	0	–	**0**
As of 31 Dec. 2022	**-14**	**-1**	**-57**	**-405**	**–**	**-477**
Carrying amount						
As of 31 Dec. 2021	**3**	**0**	**196**	**181**	**5**	**385**
As of 31 Dec. 2022	**7**	**0**	**229**	**145**	**3**	**384**

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 million as of 31 December 2022 (previous year: € 55 million). In the fiscal year 2022, no impairment losses were recognised.

17.1 Development costs

In 2022, the Group capitalised development costs of € 55 million (previous year: € 66 million) as internally generated intangible assets, primarily in the field of navy and ground radar programmes and the Identification Friend/Foe area in the Sensors segment and the ground and navy programmes in the Optronics segment.

In the fiscal year 2022, one (previous year: two) development project(s) worth 1 million (previous year: € 2 million) was fully impaired. The project related to the Sensors segment (previous year: € 1 million). There was no impairment in the fiscal year 2022 in the Optronics segment (previous year: € 1 million). The impairment loss was recognised 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 1 Jan. 2021	**553**	**84**	**637**
Additions HENSOLDT Cyber GmbH	14	–	**14**
Additions Tellumat (Pty) Ltd.	0	–	**0**
As of 31 Dec. 2021	**568**	**84**	**651**
Adjustment due to a purchase price adjustment after the valuation date[1]	6	–	**6**
As of 31 Dec. 2021 after adjustment	**574**	**84**	**658**
As of 31 Dec. 2022	**574**	**84**	**658**

[1] see note 7.1

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 30 September 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 recognised by HENSOLDT.

The following essential assumptions were made when estimating the useful lives:

	31 Dec. 2022		31 Dec. 2021	
Assumptions in %	Sensors	Optronics	Sensors	Optronics
Discount rate (post-tax)	6.0 %	6.1 %	5.5 %	5.5 %
Sustainable growth rate	1.0 %	1.0 %	1.0 %	1.0 %
Projected sustainable EBIT margin	12.2 %	12.2 %	11.9 %	15.1 %

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 8.3 % (previous year: 7.6 %) for the CGU Sensors and 8.3 % (previous year: 7.5 %) 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 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
Acquistion cost					
As of 1 Jan. 2021	**14**	**107**	**43**	**16**	**180**
Acquisition through business combinations	–	0	0	–	**0**
Additions	1	8	8	13	**30**
Disposals	-0	-3	-2	-0	**-4**
Reclassifications	1	10	2	-10	**2**
Currency translation	0	-0	0	-0	**0**
As of 31 Dec. 2021	**16**	**122**	**52**	**18**	**208**
Additions	0	9	9	17	**36**
Disposals	–	-1	-1	-0	**-2**
Reclassifications	1	4	2	-6	**0**
Currency translation	-0	-0	-0	0	**-1**
As of 31 Dec. 2022	**17**	**134**	**61**	**29**	**241**
Accumulated depreciation					
As of 1 Jan. 2021	**-2**	**-52**	**-23**	**–**	**-77**
Additions	-1	-15	-8	–	**-23**
Disposals	0	1	1	–	**2**
Reclassifications	–	-2	-0	–	**-2**
Currency translation	-0	0	-0	–	**-0**
As of 31 Dec. 2021	**-2**	**-67**	**-31**	**–**	**-100**
Additions	-1	-14	-7	–	**-22**
Disposals	–	1	1	–	**2**
Reclassifications	–	–	–	–	**–**
Currency translation	0	0	0	–	**0**
As of 31 Dec. 2022	**-3**	**-80**	**-37**	**–**	**-120**
Carrying amount					
As of 31 Dec. 2021	**14**	**55**	**21**	**18**	**108**
As of 31 Dec. 2022	**14**	**54**	**24**	**29**	**121**

In the fiscal years 2022 and 2021, no impairment losses were recognised.

19 Other investments and other non-current financial assets

	31 Dec.	31 Dec.
in € million	2022	2021
Other investments	22	21
Other non-current financial assets	0	0
Other investments and other non-current financial assets	**22**	**21**
Other non-current financial assets, due at short-notice	**0**	**1**
Total	**22**	**21**

Other investments relate mainly to the investment in Deutsche Elektronik Gesellschaft für Algerien mbH of € 9 million (previous year: € 9 million) and HENSOLDT Analytics GmbH of € 6 million (previous year: € 6 million). Other investments also include an 11.4 % interest in 21strategies GmbH, Hallbergmoos, acquired by HENSOLDT on 27 December 2022. In connection with the acquisition, there was a cash contribution obligation to the capital reserve in the amount of € 1.5 million, which was paid on 12 January 2023.

20 Inventories

	Gross amount	Impair-ment	Net carrying amount	Net carrying amount
			31 Dec.	31 Dec.
in € million			2022	2021
Raw materials and supplies	284	-47	237	187
Work in progress	285	-37	247	231
Finished goods and parts for resale	45	-14	32	26
Total	**614**	**-98**	**516**	**444**

Expenses associated with impairments recognised in the consolidated income statement during the fiscal year 2022 amount to € 12 million (previous year: € 13 million). No significant reversal of impairment losses was recognised as reduction of material cost in the fiscal year.

21 Trade receivables

	31 Dec.	31 Dec.
in € million	2022	2021
Receivables from sales of goods and services	332	319
Impairment	-9	-10
Total	**323**	**309**

Trade receivables totalling € 59 (previous year: € 100 million) were transferred to a factor on the reporting date and were derecognised (so-called “non-recourse factoring”). Other trade receivables of € 8 million (previous year: € 3 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 recognised.

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

in € million	2022	2021
As of 1 Jan.	**10**	**12**
Addition	2	4
Utilisation	-1	-3
Reversal	-2	-4
Currency translation	-0	-0
As of 31 Dec.	**9**	**10**

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

Contract assets and liabilities are presented in note 11.2.

22 Trade payables

As of 31 December 2022, all trade payables are due within one year, like in the year before.

23 Provisions

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

	31 Dec.	31 Dec.
in € million	2022	2021
Provisions for post-employment benefits (note 33)	241	444
Other provisions	222	240
Total	**463**	**685**
thereof non-current	*282*	*497*
thereof current	*181*	*188*

Other provisions developed as follows:

in € million	Warranties	Personnel -related provisions	Contract losses	Outstan-ding costs	Other risks and costs	Total
As of 1 Jan. 2022	**81**	**57**	**3**	**26**	**74**	**240**
Utilisation	-24	-39	-4	-9	-40	**-115**
Reversal	-10	-2	0	-1	-5	**-18**
Additions	24	47	3	11	36	**121**
Exchange rate differences	-0	-0	–	-0	0	**-0**
Unwinding of discount	-3	–	–	–	-1	**-3**
Reclassifications	–	-2	–	–	–	**-2**
As of 31 Dec. 2022	**68**	**60**	**1**	**27**	**65**	**222**
thereof current	*37*	*38*	*1*	*27*	*54*	***158***
thereof non-current	*31*	*21*	–	–	*11*	***64***

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 costs for fully completed orders.

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 recognised adequate provisions to cover current or potential litigation risks. It is quite possible that the final ruling in some proceedings could lead to expenses beyond those accounted for in the recognised provisions. The term “quite possible” used here means that the 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. The arbitration proceedings mentioned in previous publications were terminated in June 2022 by a confidential arbitration award without further material effects.

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 recognised 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	31 Dec. 2022	31 Dec. 2021
Loan guarantees / sureties	33	33
Contractual guarantees / sureties	530	484
Other guarantees and sureties	37	41
Total	**600**	**558**

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 fulfil such financial obligations. The maximum liability coverage corresponds to the utilisation of the outstanding liability of the credit or – in the event of credit facilities that can be utilised 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 guarantees/sureties.

In addition, the HENSOLDT Group guarantees the fulfilment 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	31 Dec. 2022	31 Dec. 2021
Positive fair values of derivative financial instruments[1]	0	0
Miscellaneous other non-current financial assets	1	1
Total other non-current financial assets	**1**	**1**
Positive fair values of derivative financial instruments[1]	8	2
Receivables from employees	1	1
Loans to non-consolidated companies	8	4
Miscellaneous other current financial assets	2	1
Total other current financial assets	**20**	**7**
Total	**21**	**8**

[1] see note 37

26.2 Other financial liabilities

in € million	31 Dec. 2022	31 Dec. 2021
Liabilities for derivative financial instruments[1]	3	0
Miscellaneous other non-current financial liabilities	0	0
Total other non-current financial liabilities	**3**	**0**
Liabilities for derivative financial instruments[1]	3	4
Liabilities from factoring contracts[2]	0	6
Total other current financial liabilities	**4**	**10**
Total	**6**	**10**

[1] see note 37
[2] Liabilities from factoring contracts result from the fact that the collection of payments by the factoring party was not yet due as of the balance sheet date.

27 Other assets and liabilities

27.1 Other assets

in € million	31 Dec. 2022	31 Dec. 2021
Other	2	3
Total other non-current assets	**2**	**3**
Advance payments	109	147
VAT	20	17
Miscellaneous other current assets	5	3
Total other current assets	**133**	**167**
Total	**135**	**169**

27.2 Other liabilities

in € million	31 Dec. 2022	31 Dec. 2021
Liabilities to employees	11	10
Other	0	0
Total other non-current liabilities	**11**	**10**
Tax liabilities (without income tax)	48	47
Liabilities to employees	33	32
Liabilities to social security agencies	9	7
Other	11	9
Total other current liabilities	**101**	**94**
Total	**112**	**104**

28 Leases

28.1 Amounts recognised in the consolidated statement of financial position

The following table discloses the carrying amounts of the lease contracts accounted for as rights-of-use assets:

in € million	31 Dec. 2022	31 Dec. 2021
Land and buildings	135	135
Technical equipment and machinery	1	3
Other equipment, operating and office equipment	4	3
Total	**140**	**141**

Additions to right-of-use assets in the fiscal year 2022 were 22 million (previous year: € 16 million).

The following table discloses the carrying amounts of lease liabilities:

	31 Dec.	31 Dec.
in € million	2022	2021
Current	18	16
Non-current	140	139
Total	**158**	**156**

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

28.2 Amounts recognised in the consolidated income statement

Depreciation charge for right-of-use assets:

	Fiscal year	
in € million	2022	2021
Land and buildings	19	18
Technical equipment and machinery	1	1
Other equipment, operating and office equipment	2	2
Total depreciation charge	**22**	**21**

Other amounts recognised in the consolidated income statement:

	Fiscal year	
in € million	2022	2021
Interest on lease liabilities	9	10
Income from sub-leasing right-of-use assets presented in other revenue	-0	-0
Expenses related to short-term leases	2	1
Expenses for leases of an asset of low-value that are not short-term leases	4	3
Total other amounts recognised in the consolidated income statement	**15**	**13**

The total cash outflows for lease payments in the fiscal year 2022 amounted to € 28 million (previous year: € 26 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 (see note 3.9).

V Expenses and benefits for employees

29 Number of employees

	Fiscal year 2022	Fiscal year 2021
Production, research and development, service	4,455	4,382
Sales and distribution	226	222
Administration and general services	1,117	1,012
Apprentices, trainees, etc.	608	577
Total[1,2]	**6,406**	**6,193**

[1] Average figures on a per capita basis
[2] Adjusted allocation of previous year's figures

30 Personnel expenses

in € million	Fiscal year 2022	Fiscal year 2021
Wages, salaries	513	466
Social security contributions	80	74
Net periodic pension expenses[1]	17	35
Total	**610**	**575**

[1] Includes past service cost in the amount of € 3 million in the previous year

31 Share-based payment

31.1 Long-Term Incentive Plan (LTIP)

In 2021, a virtual share programme 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 HENSOLDT Group 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 ("Tranche 2021-2024") and the performance period 2022 to 2025 ("Tranche 2022-2025") 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". Further information on the goals underlying the Management Board remuneration, refer to the Remuneration report can be found on the website of HENSOLDT at https://investors.hensoldt.net in the "Corporate Governance" section.

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

Number of virtual shares	Tranche 2021-2024	Tranche 2022-2025	Total
Virtual shares outstanding at the beginning of the reporting period 2022 (1/1/2022)	307,423	–	**307,423**
Virtual shares granted in the reporting period	–	264,290	**264,290**
Virtual shares forfeited in the reporting period	-3,766	–	**-3,766**
Virtual shares settled in the reporting period	-2,618	–	**-2,618**
Virtual shares outstanding at the end of the reporting period (31/12/2022)	301,039	264,290	**565,329**

The following parameters were used as basis of the fair value measurement on 31 December 2022:

	Tranche 2021-2024	Tranche 2022-2025
Remaining term (in years)	2	3
Volatility	41.34 %	45.07 %
Risk-free interest rate	-0.67 %	2.28 %
HENSOLDT share price at the valuation date (€)	12.52	22.25

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 31 December 2022. 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 debt of € 4 million (thereof € 4 million non-current; previous year: € 1 million) was recognised under other provisions as of 31 December 2022 in the context of the LTIPs. The expense for the period from 1 January to 31 December 2022 is € 3 million (previous year: € 1 million).

31.2 Employee share program (Echo)

In the fiscal year 2021, HENSOLDT introduced the employee share programme "Echo" to enable employees of HENSOLDT Group to participate like shareholders in HENSOLDT AG's economic development and to benefit from a favourable 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. In October 2021, a first tranche of shares was issued to employees. A second tranche under this programme was issued in October 2022.

The shares underlying the Echo programme 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 investment.

In order to determine the number of Echo shares a participant receives, the relevant total value of the selected Echo package will be divided by the reference price. The reference price corresponds to the average price at which shares in HENSOLDT AG were acquired within the scope of the respective acquisition period for the employee share programme 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 programme. Echo shares may neither be sold nor transferred during such 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. It is thus not necessary to use an actuarial valuation model.

In the fiscal year 2022, a total of 245,227 shares were acquired by employees at a weighted average price of € 21.54 as part of the employee share programme.

The employer's contribution to the employee share programme for the period from 1 January to 31 December 2022 is € 3 million (previous year: € 3 million).

32 Personnel-related provisions

Several German group entities offer models for lifetime working 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 totalling € 20 million (previous year: € 20 million) are fully offset against the corresponding assets. The regular contributions of employees to their lifetime working accounts lead to corresponding expenses in the fiscal year which will be recognised under personnel expenses.

Personnel-related provisions changed as follows:

in € million	Long service awards/bonuses	Partial retirement	Total
As of 1 Jan. 2022	**54**	**3**	**57**
Utilisation	-35	-4	**-39**
Reversal	-2	–	**-2**
Additions	39	8	**47**
Reclassifications	–	-2	**-2**
As of 31 Dec. 2022	**56**	**4**	**60**

33 Post-employment benefits

in € million	31 Dec. 2022	31 Dec. 2021
Provisions for pension obligations	120	258
Provisions for deferred compensation	121	186
Total	**241**	**444**

33.1 Provisions for pension obligations

Provisions for German pension obligations (defined benefit obligations, "DBO") are recognised based on defined benefit plans 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 instalments 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 significant estimates and assessments, e.g. actuarial assumptions, please 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	2022	2021	2022	2021	2022	2021
As of 1 Jan.	**481**	**488**	**223**	**212**	**258**	**276**
Expenses for pension benefit entitlements	17	26	–	–	**17**	**26**
Interest expenses / income	7	5	3	2	**4**	**3**
Payments	-6	-6	-3	-5	**-3**	**-0**
Contributions to plan assets	–	–	19	–	**-19**	**–**
Actuarial gains / losses deriving from:						
Changes in demographic assumptions	9	-1	–	–	**9**	**-1**
Changes in financial assumptions	-157	-33	–	–	**-157**	**-33**
Experience-based adjustments	7	4	–	–	**7**	**4**
Plan assets	–	–	-6	14	**6**	**-14**
Other changes in consolidation, transfers	-2	-2	–	–	**-2**	**-2**
As of 31 Dec.	**355**	**481**	**235**	**223**	**120**	**258**

The weighted average term of the DBO for pensions and defined benefit obligations under the pension plan (P3) is 16 years.

As of 31 December reported as:

	Pension plans	
	31 Dec.	31 Dec.
in € million	2022	2021
Defined benefit obligation	355	481
Plan assets	-235	-223
Total	**120**	**258**

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:

	31 Dec.	31 Dec.
in %	2022	2021
Active employees	70.0 %	75.9 %
Former employees with vested benefits	6.4 %	5.8 %
Pensioners	23.5 %	18.3 %
Total	**100.0 %**	**100.0 %**

The employer's contribution to state and private pension funds which is mainly made in Germany, is considered as a defined contribution obligation. The contributions made in the fiscal year 2022 amount to € 32 million (previous year: € 31 million).

The expected employer's contribution to defined benefit plans for the fiscal year 2023 amounts to € 17 million (previous year: € 15 million).

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:

Development of the defined benefit obligations and plan assets

	DBO		Plan assets		Total	
in € million	2022	2021	2022	2021	2022	2021
As of 1 Jan.	**201**	**167**	**15**	**14**	**186**	**153**
Expenses for pension benefit entitlements	1	8	–	–	**1**	**8**
Interest expenses / income	3	2	0	0	**3**	**2**
Payments	-2	-2	–	0	**-2**	**-2**
Actuarial gains / losses deriving from						
Changes in demographic assumptions	-0	31	–	–	**-0**	**31**
Changes in financial assumptions	-78	-14	–	–	**-78**	**-14**
Experience-based adjustments	5	4	–	–	**5**	**4**
Plan assets	–	–	-2	1	**2**	**-1**
Other changes in consolidation, transfers	-3	-1	–	–	**-3**	**-1**
Contributions of participants	6	6	–	–	**6**	**6**
As of 31 Dec.	**134**	**201**	**13**	**15**	**121**	**186**

As of 31 December reported as:

	31 Dec.	31 Dec.
in € million	2022	2021
Defined benefit obligation	134	201
Plan assets	-13	-15
Total	**121**	**186**

The weighted average term of the DBOs for defined benefit obligations under the deferred compensation is 16 years.

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:

	31 Dec.	31 Dec.
in %	2022	2021
Active employees	72.7 %	76.7 %
Former employees with vested benefits	8.2 %	8.4 %
Pensioners	19.1 %	14.9 %
Total	**100.0 %**	**100.0 %**

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 used as of 31 December 2022:

		31 Dec. 2022		31 Dec. 2021	
in € million	Change	Increase	Decrease	Increase	Decrease
Discount rate	by 0.5 percentage points	-35	40	-62	72
Wage increase rate	by 0.25 percentage points	0	0	1	-1
Pension increase rate	by 0.25 percentage points	8	-6	10	-0
Life expectancy	by 1 year	10	-10	17	-17
Exercising the pension option	by 10 percentage points	11	-11	32	-32

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 unfavourable 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 optimisation 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	
	31 Dec.		31 Dec.		31 Dec.	
in € million	2022	2021	2022	2021	2022	2021
Other investments	–	–	208	188	**208**	**188**
Pooled investment instruments	41	50	–	–	**41**	**50**
Total	**41**	**50**	**208**	**188**	**249**	**238**

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.

VI Capital structure and financial instruments

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34 Equity

34.1 Equity attributable to owners of the parent company

As of 31 December 2022, the parent company is HENSOLDT AG.

As of 31 December 2022, the subscribed capital of HENSOLDT AG still amounts to € 105 million as in the previous year and is divided into 105,000,000 ordinary bearer shares (no-par value shares).

In accordance with the articles of association, the share capital of the Company may be increased by the Management Board until 11 August 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 million (Authorised Capital 2020/I). The Company has not used the Authorised Capital 2020/I until 31 December 2022. Accordingly, the Authorised Capital 2020/I amounts to € 36 million on 31 December 2022.

In addition, the share capital of the Company has been conditionally increased by up to € 16 million by issuing up to 16,000,000 new no-par value bearer shares on or before 11 August 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, fulfil 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 31 December 2022. Accordingly, the Conditional Capital 2020/I amounts to € 16 million on 31 December 2022.

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. The previous year’s value was increased by € 6 million due to a purchase price adjustment (see note 7.1) and due to the release of the capital reserves of HENSOLDT AG by € 60 million (in fiscal year 2022: € 65 million). In contrast to previous year, the dividend payment of € 26 million (previous year: € 14 million) is expensed to retained earnings. Furthermore, the value for cash flow hedges in other reserves was adjusted by € 5 million at the expense of retained earnings as at 1 January 2021.

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	HEN-SOLDT South Africa (Pty) Ltd.	GEW Tech-nologies (Pty) Ltd.	Midi Ingén-ierie S.A.S.	HEN-SOLDT Cyber GmbH[1]	Total	Intra-group elimina-tions/ adjust-ments	31 Dec. 2022
Percentage of non-controlling interests	**30 %**	**6.7 %**	**15.0 %**	**9.4 %**			
Non-current assets	18	8	0	1	**27**	–	**27**
Current assets	77	48	3	1	**129**	–	**129**
Non-current liabilities	-3	-1	-0	-0	**-4**	–	**-4**
Current liabilities	-48	-26	-1	-1	**-76**	–	**-76**
Net assets	**44**	**29**	**2**	**1**	**76**	**–**	**76**
Net assets of non-controlling interests	**13**	**2**	**0**	**0**	**15**	**-3**	**13**
Revenue	88	33	3	1	**125**	–	**125**
Profit / loss	8	-0	0	-2	**6**	–	**6**
Other comprehensive income / loss	-0	-1	–	0	**-2**	–	**-2**
Total comprehensive income / loss	**7**	**-1**	**0**	**-2**	**4**	**–**	**4**
Profit attributable to non-controlling interests	**2**	**-0**	**0**	**-0**	**2**	**–**	**2**
Other comprehensive income / loss attributable to non-controlling interests	**-0**	**-0**	**–**	**0**	**-0**	**–**	**-0**
Cash flows from operating activities	20	-12	-0	-11	**-3**	–	**-3**
Cash flows from investing activities	-7	-2	-0	0	**-9**	–	**-9**
Cash flows from financing activities	-12	-0	-1	11	**-2**	–	**-2**
thereof dividends of non-controlling interests	–	–	*-0*	–	***-0***	–	***-0***
Effects of movements in exchange rates on cash and cash equivalents	-0	1	–	–	**1**	–	**1**
Net increase (decrease) in cash and cash equivalents	**1**	**-14**	**-1**	**0**	**-13**	**–**	**-13**

[1] HENSOLDT Cyber GmbH 9,4 % from 2 December 2022, 12.2 % from 1 September 2022, previously 30.0 %

in € million	HEN-SOLDT South Africa (Pty) Ltd.	GEW Tech-nologies (Pty) Ltd.	Midi Ingén-ierie S.A.S.	HEN-SOLDT Cyber GmbH[1]	Total	Intra-group elimina-tions/ adjust-ments	31 Dec. 2021
Percentage of non-controlling interests	**30.0 %**	**6.7 %**	**15.0 %**	**30.0 %**			
Non-current assets	15	7	0	1	**24**	–	**24**
Current assets	71	48	3	1	**123**	–	**123**
Non-current liabilities	-3	-0	-0	-13	**-17**	–	**-17**
Current liabilities	-47	-24	-1	-1	**-73**	–	**-73**
Net assets	**36**	**31**	**2**	**-12**	**57**	**–**	**57**
Net assets of non-controlling interests	**11**	**2**	**0**	**-4**	**10**	**1**	**11**
Revenue	63	30	3	4	**100**	–	**100**
Profit / loss	2	-0	0	-3	**-0**	–	**-0**
Other comprehensive income / loss	-0	-0	0	–	**-1**	–	**-1**
Total comprehensive income / loss	**2**	**-1**	**1**	**-3**	**-1**	**–**	**-1**
Profit attributable to non-controlling interests	**1**	**-0**	**0**	**-1**	**-0**	**–**	**-0**
attributable to non-controlling interests	**-0**	**-0**	**0**	**–**	**-0**	**–**	**-0**
Cash flows from operating activities	4	7	2	-1	**12**	–	**12**
Cash flows from investing activities	-9	-2	-0	0	**-10**	–	**-10**
Cash flows from financing activities	6	-0	-1	1	**6**	–	**6**
thereof dividends of non-controlling interests	–	*-0*	*-0*	–	***-0***	–	***-0***
Effects of movements in exchange rates on cash and cash equivalents	-0	-0	–	–	**-0**	–	**-0**
Net increase (decrease) in cash and cash equivalents	**1**	**5**	**1**	**0**	**7**	**–**	**7**

[1] HENSOLDT Cyber GmbH from 1 June 2021

Under corporate law, the non-controlling shareholder of GEW Technologies (Pty) Ltd. has a 6.7 % interest in GEW Technologies (Pty) Ltd. and its subsidiary GEW Integrated Systems (Pty) after having exercised a put option in the fiscal year 2022 in favour of the non-controlling shareholder. Until the put option was exercised, the minority shareholder held a 25.0 % interest, however was treated economically as holding a 6.7 % interest due to outstanding conversion rights.

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 optimises 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 amortisation (consolidated EBITDA) as defined in the syndicated loan (Senior Facility Agreement). In the fiscal year 2022, 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 with the financial covenant, the financing partners are authorised to terminate the syndicated loan. There are no indications that the covenant cannot be fully complied with in the foreseeable future (see 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 on the reporting date to hedge the variable-rate term loan which are, however, only effective for the subsequent interest rate period.

36 Net debt

in € million	31 Dec. 2022	31 Dec. 2021
Cash and cash equivalents	460	529
Non-current financing liabilities	-619	-622
Current financing liabilities	-12	-166
Total	**-171**	**-259**

36.1 Cash and cash equivalents

Cash and cash equivalents consist of the following items:

in € million	31 Dec. 2022	31 Dec. 2021
Cash and cash equivalents	460	529
Total	**460**	**529**

As at 31 December 2022, there were short-term time deposits in the amount of € 150 million. Of this amount, € 50 million were invested for a period of two months until 22 February 2023 at an interest rate of 1.91 %, and a further € 100 million were invested for a period of one month until 20 January 2023 at an interest rate of 1.70 %.

36.2 Financing liabilities

Financing liabilities consist of current and non-current loans.

The conditions and repayment schedules of the loans as of 31 December 2022, 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	30/9/2020	3M Euribor + 1.75 %	variable	3.71 %	14/4/2027
Revolving Credit Facility	–	30/9/2020	3M Euribor + 1.50 %	variable	n/a	14/4/2027
Loan (CM Nexeya)	2.5	30/4/2021	0.71 %	fix	2.09 %	30/4/2026
Loan (BNP Nexeya)	6.4	30/4/2021	0.75 %	fix	0.91 %	23/4/2026
Loan (BPI France)	0.4	12/8/2017	1.31 %	fix	1.64 %	30/6/2025
Loan (HENSOLDT Avionics)	0.0	27/7/2020	2.78 %	fix	4.84 %	30/6/2023
Loan (Nexeya Belgium)	1.2	21/12/2022	3.43 %	fix	3.43 %	31/3/2023
Overdraft Facility (HENSOLDT South Africa)	–	31/10/2018	SARB Prime Rate	variable	n/a	31/7/2023

The conditions and repayment schedules of the loans as of 31 December 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	30/9/2020	3M Euribor + 2.25 %	variable	2.65 %	29/9/2025
Revolving Credit Facility	150.1	30/9/2020	3M Euribor + 2.00 %	variable	2.00 %	29/9/2025
Loan (CM Nexeya)	3.0	30/4/2021	0.71 %	fix	2.09 %	30/4/2026
Loan (BNP Nexeya)	7.3	30/4/2021	0.75 %	fix	0.91 %	23/4/2026
Loan (BPI France)	0.6	12/8/2017	1.31 %	fix	1.64 %	30/6/2025
Loan (HENSOLDT Avionics)	0.1	27/7/2020	2.78 %	fix	4.84 %	30/6/2023
Overdraft Facility (HENSOLDT South Africa)	11.1	31/10/2018	7.00 %	fix	7.00 %	31/3/2022

In connection with the IPO, HENSOLDT AG has restructured its liabilities as of 30 September 2020. For this purpose, a new syndicated loan agreement ("Senior Facility Agreement") consisting of a term loan in the amount of € 600 million and a revolving credit facility ("RCF") in the amount of € 350 million was concluded. In November 2021, the loan and the revolving credit line of the syndicated loan were increased by € 20 million each to a total of € 990 million. In the fiscal year 2022, the original credit agreement was adjusted in terms of various points by means of an amendment and restatement agreement. The maturity was extended from September 2022 to April 2027 and the margin grid was adjusted. For drawing in USD and GBP, the LIBOR has been replaced by so-called risk free rate rules.

At the reporting date, the revolving credit facility, which is repayable at short notice, had not been utilised (previous year: € 150 million).

The post-IPO financing is secured by pledging agreements regarding the 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 which incurred for obtaining the term loan and making the adaptations are allocated to the base contract in the application of the effective interest rate method. The transaction costs for the RCF have been capitalised as other assets and are amortised over the term of the agreement.

For the South African subsidiary HENSOLDT South Africa (Pty) Ltd., the existing credit line was prolonged. It amounts to ZAR 240 million and had not been utilised as at 31 December 2022.

In addition, the French subsidiary HENSOLDT Nexeya France S.A.S. repaid the government-guaranteed loans in 2021 with a total value of € 10 million which it had raised in the course of the COVID-19 pandemic and raised, in return, new loans totalling € 10 million. These loans have been repaid on schedule since 2022. A further loan in the amount of € 1 million exists since 2017. The loans are unsecured.

The total amounts of financial liabilities to banks as of 31 December 2022, amount to:

in € million	< 1 year	1 to 5 years	> 5 years	Total
Liabilities to banks	11	619	–	**630**
As of 31 Dec. 2022	**11**	**619**	**–**	**630**

It includes liabilities from recourse factoring amounting to € 8 million (previous year: € 3 million). No essential current other financial liabilities existed on the reporting date from cash receipts for assigned receivables which shall be forwarded to the factor on the due date (previous year: € 6 million). Moreover, there are current liabilities to the non-consolidated subsidiary HENSOLDT Nexeya Belgium amounting to € 1 million (previous year: € 0 million).

in € million	< 1 year	1 to 5 years	> 5 years	Total
Liabilities to banks	166	622	–	**788**
As of 31 Dec. 2021	**166**	**622**	**–**	**788**

36.3 The reconciliation of changes in financing 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	1 Jan. 2022	Net cash changes	Change in Consol. group	Changes in fair value	Other changes	31 Dec. 2022
Non-current borrowing						
Loan (Term Loan)	613	–	–	–	-1	**612**
Bank loans (net)	9	-2	–	–	–	**7**
Current borrowing						
Current borrowing	166	-161	–	–	7	**12**
Other financial liabilities	6	-5	–	–	–	**0**
Change in financing liabilities due to financing activities	**794**	**-169**	**–**	**–**	**6**	**631**
Change in lease liabilities	**156**	**-19**	**–**	**–**	**22**	**158**
Share capital	105	–	–	–	–	**105**
Capital reserve	537	–	–	–	-65	**472**
Other reserves	-65	–	–	–	148	**82**
Retained earnings	-171	-26	–	–	142	**-55**
Non-controlling interests	11	-0	–	–	2	**13**
Change in equity due to financing activities	**417**	**-26**	**–**	**–**	**226**	**616**
Change in assets (-) and liabilities (+) to hedge non-current borrowing	1	–	–	-5	–	**-4**
Cash flows from financing activities		**-214**				

in € million	1 Jan. 2021	Net cash changes	Non-cash changes: Change in Consol. group	Non-cash changes: Changes in fair value	Non-cash changes: Other changes	31 Dec. 2021
Non-current borrowing						
Loan (Term Loan)	592	20	–	–	1	**613**
Bank loans (net)	10	-1	–	–	–	**9**
Current borrowing						
Current borrowing	363	-197	–	–	–	**166**
Other financial liabilities	92	-89	–	–	3	**6**
Change in financing liabilities due to financing activities	**1,056**	**-267**	**–**	**–**	**5**	**794**
Change in lease liabilities	**154**	**-16**	**1**	**–**	**17**	**156**
Share capital	105	–	–	–	–	**105**
Capital reserve[3]	597	–	–	–	-60	**537**
Other reserves[1]	-82	–	–	–	16	**-65**
Retained earnings[1,2,3]	-286	-14	–	–	129	**-171**
Non-controlling interests	13	-0	–	–	-2	**11**
Change in equity due to financing activities	**347**	**-14**	**–**	**–**	**84**	**417**
Change in assets (-) and liabilities (+) to hedge non-current borrowing	6	–	–	-4	–	**1**
Cash flows from financing activities		**-297**				

1 Adjustment of previous year's figures for cash flow-hedges by €+5 million in other reserves and by €-5 million in retained earnings as of 1 January 2021
2 Adjustment of retained earnings due to a purchase price adjustment after the measurement period by €+6 million as of 31 December 2021
3 Adjustment of previous year's figures: Release of capital reserve by €-60 million and addition to retained earnings by €+60 million. In contrast to previous year, the dividend payment of € 14 million is expensed to retained earnings

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 minimising 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”). The Group applies hedge accounting for a minor part of its hedging portfolio which expired during the fiscal year.

Market risk

Foreign exchange risk

The HENSOLDT Group‘s foreign exchange risks result from the fact that the Group has 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 minimise 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 uses mainly forward exchange transactions as hedging instruments.

The cash flow-hedge accounting used by the Group in South Africa to hedge its foreign currency transactions expired in the fiscal year.

In the fiscal year, a loss on foreign currency translation of € 20 million (previous year: gain of € 2 million) was recognised in the consolidated income statement. Income of € 3 million (previous year: € 10 million) were opposed to expenses of € 23 million (previous year: € 8 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 % against the USD, ZAR and GBP as of 31 December 2022 or 2021, the group result would have changed in the manner shown below:

in € million	Changes in the amount of	31 Dec. 2022	Changes in the amount of	31 Dec. 2021
EUR/GBP	+/- 20.0 %	-4.8 / 7.2	+/- 20.0 %	-5.4 / 8.1
EUR/ZAR	+/- 20.0 %	-13.1 / 19.6	+/- 20.0 %	-8.7 / 13.1
EUR/USD	+/- 20.0 %	-2.3 / 3.5	+/- 20.0 %	-8.1 / 12.2

The changes compared to the reported group 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 flows from financing activities. The cash flows 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 flows 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 recognised 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 group result by € -2.3 million or € 0.7 million (previous year: € 0.0 million or € 0.0 million). In the previous year, the Euribor did not exceed -50 basis points, so the interest rate floor was used at 0.0 % in all shock scenarios. 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	630	729	24	705	–
Other	381	381	381	–	–
Derivative financial liabilities					
Interest rate swaps	–	–	–	–	–
Forward exchange transactions	6	6	3	3	–
Lease liabilities	158	213	29	96	88
As of 31 Dec. 2022	**1,175**	**1,328**	**436**	**804**	**88**

in € million	Carrying amount	Contractual cash flows	< 1 year	1 to 5 years	> 5 years
Non-derivative financial liabilities					
Banks	788	836	167	669	–
Other	275	275	275	–	–
Derivative financial liabilities					
Interest rate swaps	1	1	–	1	–
Forward exchange transactions	3	3	3	0	–
Lease liabilities	156	200	26	91	83
As of 31 Dec. 2021	**1,223**	**1,315**	**471**	**762**	**83**

HENSOLDT Group's liquidity risks relate primarily to the compliance with a financial covenant 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, was renegotiated.

The Senior Facility Agreement defines one specified financial covenant. In case of non-compliance with the covenant, 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 covenant will be complied with in future quarters.

The probability of occurrence of the risk of non-compliance with the financial covenant 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 million.

Credit risk

The Group is exposed to credit risk in respect of the default of financial instruments, whether by customers or by counterparties to the financial instruments, provided that they do not fulfil their commitments at the time of conclusion of the contract or only partially at the time of maturity. 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 unfavourable developments on the basis of predefined procedures and escalation levels.

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

The recognised 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 31 December 2022:

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 %	308	-0	No
Rating 7-9: moderate risk	BB- to BB+	0.3 %	206	-1	No
Rating 10: below average	B- to CCC-	6.4 %	1	-0	No
Rating 11: doubtful	C to CC	–	–	–	Yes
Rating 12: loss	D	–	–	–	Yes
Total allowance level 1 and 2				-1	
Specific allowance level 3				-8	Yes
As of 31 Dec. 2022			**514**	**-9**	

The following table includes information on the credit risk and the expected credit losses for trade receivables as well as contract assets as of 31 December 2021:

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 %	230	-0	No
Rating 7-9: moderate risk	BB- to BB+	0.4 %	258	-1	No
Rating 10: below average	B- to CCC-	3.5 %	1	-0	No
Rating 11: doubtful	C to CC	–	–	–	Yes
Rating 12: loss	D	–	–	–	Yes
Total allowance level 1 and 2				-1	
Specific allowance level 3				-9	Yes
As of 31 Dec. 2021			**489**	**-10**	

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.

	31 Dec.	31 Dec.
in € million	2022	2021
Contract assets	182	170
Trade receivables	323	309
Total	**506**	**479**

Expected credit losses for other financial assets in the scope of the IFRS 9 impairment requirements have not been recognised 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 HENSOLDT 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 31 December 2022 and 2021:

		Fiscal year 2022		
in € million	Category	Carrying amount	Fair value	Level
Assets				
Other investments and other non-current financial assets[1]	FVtOCI	22	22	–
Other non-current financial assets, due on short-notice	AC	0	0	–
Trade receivables	AC	265	265	–
Trade receivables (designated for factoring)[1]	FVtOCI	59	59	–
Other financial assets				
Other derivative instruments	FVtPL	9	9	2
Non-derivative instruments[1]	AC	12	12	–
Cash and cash equivalents	AC	460	460	1
Total financial assets		**826**	**826**	
Liabilities				
Financing liabilities				
Liabilities to banks	FLAC	630	549	2
Trade payables	FLAC	379	379	–
Other financial liabilities				
Derivative instruments for cash flow-hedges	FVtOCI	–	–	2
Other derivative instruments	FVtPL	6	6	2
Other miscellaneous financial liabilities	FLAC	2	2	–
Total financial liabilities		**1,017**	**936**	

[1] Fair value corresponds to amortised cost of acquisition for materiality considerations

in € million	Category	Carrying amount	Fair value	Level
				Fiscal year 2021
Assets				
Other investments and other non-current financial assets[1]	FVtOCI	21	21	–
Other non-current financial assets, due on short-notice	AC	1	1	–
Trade receivables	AC	257	257	–
Trade receivables (designated for factoring)[1]	FVtOCI	52	52	–
Other financial assets				
Other derivative instruments	FVtPL	3	3	2
Non-derivative instruments[1]	AC	6	6	–
Cash and cash equivalents	AC	529	529	1
Total financial assets		**868**	**868**	
Liabilities				
Financing liabilities				
Liabilities to banks	FLAC	788	791	2
Trade payables	FLAC	269	269	–
Other financial liabilities				
Derivative instruments for cash flow-hedges	FVtOCI	0	0	2
Other derivative instruments	FVtPL	4	4	2
Liability from put option	FVtPL	–	–	3
Other miscellaneous financial liabilities	FLAC	6	6	–
Total financial liabilities		**1,067**	**1,070**	

[1] Fair value corresponds to amortised cost of acquisition for materiality considerations

One put option (market value 0 €) existed as of 31 December 2021 in favour of the minority shareholder GEW Technologies (Pty) Ltd. (see 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	2022	2021	2022	2021	2022	2021
Interest rate futures						
Swaps	–	920	620	–	**620**	**920**
Forward exchange transactions	178	133	95	50	**273**	**183**
Average EUR:USD forward rate	*1.08*	*1.18*	*1.09*	*1.14*	**–**	**–**
Average EUR:GBP forward rate	*0.87*	*0.86*	*0.86*	–	**–**	**–**
Average EUR:CAD forward rate	–	*1.46*	–	–	**–**	**–**

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

	Assets		Liabilities	
	31 Dec.		31 Dec.	
in € million	2022	2021	2022	2021
Foreign exchange contracts				
Cash flow-hedges	–	–	–	0
not designated in a hedging relationship	5	3	6	3
Interest rate derivatives				
not designated in a hedging relationship	4	–	–	1
Total	**9**	**3**	**6**	**4**

37.3 Disclosures on hedge accounting

The development of hedging instruments for foreign exchange risks recorded in other comprehensive income as of 31 December 2021 and 2022 is as follows:

in € million	Equity attributable to the owners of the HENSOLDT AG	Non-controlling interests	Total
As of 1 Jan. 2021[1]	-0.0	–	**-0.0**
Unrealised valuation gains (+) and losses (-)	**-0.5**	**-0.0**	**-0.5**
Reclassification to consolidated income / loss	0.5	0.0	**0.5**
Deferred taxes on unrealised valuation gains / losses	–	–	**–**
Change	**–**	**–**	**–**
As of 31 Dec. 2021	**-0.0**	**–**	**-0.0**
Reclassification to consolidated income / loss	0.1	0.0	**0.1**
Deferred taxes on unrealised valuation gains / losses	–	–	**–**
Change	**0.1**	**0.0**	**0.1**
As of 31 Dec. 2022	**–**	**–**	**–**

[1] Adjustment of values for cash flow-hedges by +5 Mio. €

As at the balance sheet date, there were no derivatives used as hedges whose change was recognised in other comprehensive income. The carrying amount of the derivatives used as hedging instruments is € -0.3 million and was disclosed in other financial liabilities.

In the fiscal year, an amount of € 0.1 million (previous year: € 0.5 million) under due cash flow hedges was reclassified mainly from equity to revenue. There were no material inefficiencies from hedging relationships in both the fiscal year 2022 and the previous year.

The nominal value of derivative financial instruments used as hedging instruments amounted to € 5.4 million in the previous year and had a maturity 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 recognised in profit or loss in the fiscal year 2022 and the previous year:

	From subsequent valuation				Fiscal year	
in € million	From interest and dividends	Fair value	Impair-ment	Currency transla-tion	2022	2021
Financial assets or liabilities at fair value through profit or loss	–	3	–	-1	2	-5
Financial assets at amortised costs	1	–	0	1	2	-4
Financial liabilities at amortised costs	-25	–	–	-20	-45	-17
Total	**-24**	**3**	**0**	**-20**	**-41**	**-26**

37.5 Impairment losses

The following impairment losses on financial assets were recognised in profit or loss in fiscal year 2022 and in the previous year:

		Fiscal year	
in € million	Category	2022	2021
Impairment losses for other investments and other non-current financial assets	FVtOCI	–	0
Impairment losses for:			
Trade receivables and contract assets (level 1 + 2)	AC	0	0
Trade receivables and contract assets (level 3)	AC	2	4
Impairment losses (gross) on financial assets and contract assets		**2**	**4**
Reversals of impairment losses		-2	-4
Impairment losses (net) on financial assets and contract assets		**-0**	**1**

VII Additional Notes

38 Auditor‘s fees and services

The HENSOLDT Group, its subsidiaries and other companies included in the Consolidated Financial Statements recognised the following expenses for the fees and services of KPMG AG for the fiscal year 2022 and the previous year:

	Partent company		Subsidiaries		Total	
	Fiscal year		Fiscal year		Fiscal year	
in € million	2022	2021	2022	2021	2022	2021
Audit services	0.9	0.8	0.5	0.5	**1.4**	**1.3**
Other assurance services	0.3	0.1	–	–	**0.3**	**0.1**
Tax advisory services	–	0.0	–	–	**–**	**0.0**
Other services	–	0.0	0.1	–	**0.1**	**0.0**
Total	**1.2**	**0.9**	**0.6**	**0.5**	**1.8**	**1.4**

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 and the remuneration report as well as the review of the interim report for the half year and the audit of financial statements of its subsidiaries including statutory extensions of the engagement.

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

Other services relate to the issuance of an expert opinion.

39 Future payment obligations

There were purchase commitments especially for inventories and services in the amount of € 1,418 million as of 31 December 2022 (previous year: € 1,457 million).

40 Events after the reporting date

The Management Board and the Supervisory Board propose the distribution of a dividend of € 0.30 (previous year: € 0.25) per share to holders entitled to dividends. This corresponds to an expected total payment of around € 31.5 million (previous year: € 26.3 million). The payment of the proposed dividend is subject to the approval of the annual general meeting.

There were no other significant events after the reporting date.

HENSOLDT AG

Management Board

Thomas Müller	Christian Ladurner	Dr. Lars Immisch	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, 2022, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2022, 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 Group for the financial year from January 1 to December 31, 2022.

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, 2022, and of its financial performance for the financial year from January 1 to December 31, 2022, 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, 2022. 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.

Cut-off of 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 presentation (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 totaled EUR 1,707 million in the financial year 2022. The Sensors operating segment accounted for EUR 1,399 million of this amount, including EUR 580 million recognized on the basis of a point in time and EUR 836 million recognized over time (before exchange rate effects).

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 the 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 concluded 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 revenue relating to the project business of the Sensors operating segment is appropriate. The assumptions underlying the accounting treatment are appropriate.

Measurement of provisions for post-employment benefits

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

Further information is provided in section “V. Expenses and benefits for employees (note 33. Post-employment benefits)” in the notes to the consolidated financial statements.

RISKS FOR THE FINANCIAL STATEMENTS

Provisions for retirement benefits amounting to EUR 241 million are recognized in the consolidated financial statements as at December 31, 2022, representing the net liability arising by setting off the defined benefit obligation (DBO) relating to pension plans (EUR 355 million) and deferred compensation (EUR 134 million) against the fair value of plan assets amounting to EUR 235 million and EUR 13 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 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.

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 VII. 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.

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 judgment and maintain professional skepticism 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 on the Electronic Rendering of the Consolidated Financial Statements and the Combined Management Report Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB

We have performed assurance work in accordance with Section 317 (3a) HGB to obtain reasonable assurance about whether the rendering of the consolidated financial statements and the combined management report (hereinafter the "ESEF documents") contained in the electronic file "13.03.23_hensoldtag-2022-12-31-de.zip" (SHA256 hash value: c8aedff123d1695fe3be88e4b104e4794bd59222e86094ac8192613755371891) made available 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 work extends only 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 these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the consolidated financial statements and the combined management report contained in the electronic file made available, identified above and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. Beyond this 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, 2022 contained in the “Report on the Audit of the Consolidated Financial Statements and the Combined Management Report” above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

We conducted our assurance work on the rendering of the consolidated financial statements and the combined management report contained in the file made available and identified above in accordance with Section 317 (3a) HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB (IDW AsS 410 (06.2022)) *and the International Standard on Assurance Engagements 3000 (Revised)*. Our responsibility in accordance therewith is further described below. Our audit firm applies 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 rendering 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 such internal control that they have considered 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 process of preparing 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 on 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 file made available containing the ESEF documents meets the requirements of the Delegated Regulation (EU) 2019/815, as amended as at the reporting date, on the technical specification for this electronic file.
- Evaluate whether the ESEF documents provide an XHTML rendering 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 the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, as amended as at the reporting date, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on May 13, 2022. We were engaged by the supervisory board on September 29, 2022. We have been the group auditor of HENSOLDT AG (in its capacity as a capital-market-oriented entity) without interruption since the 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 must always be read together with the audited consolidated financial statements and the audited combined management report as well as the examined ESEF documents. The consolidated financial statements and combined management report converted to the ESEF format – including the versions to be published in the German Federal Gazette – are merely electronic renderings of the audited consolidated financial statements and the audited combined management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the examined ESEF documents made available in electronic form.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Matthias Koeplin.

Munich, March 17, 2023

KPMG AG
Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

Koeplin
Wirtschaftsprüfer
[German Public Auditor]

Schieler
Wirtschaftsprüfer
[German Public Auditor]

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, 10 March 2023

HENSOLDT AG

Management Board

Thomas Müller	Christian Ladurner	Dr. Lars Immisch	Celia Pelaz Perez

REPORT OF THE SUPERVISORY BOARD

on the consolidated financial statements
and the financial statements of

HENSOLDT AG

for the fiscal year 2022

Dear shareholders,

HENSOLDT AG continued its growth course in 2022 and further strengthened its strategic position in the European security and defence industry.

Looking back at 2022, it is clear that we have experienced an incisive, historic year. The peace order in Europe has been shaken. This has fundamentally changed the global geopolitical context - with far-reaching effects also on global economic development and the living conditions of many people. Above all, however, Russia's war of aggression has made many people aware of the task of defending freedom and democracy, and with it the relevance of a vital and innovative defense industry. This is what HENSOLDT stands for as a high-tech company in the field of defense electronics.

Economic stability based on healthy, robust business models - the value of economic resilience is also more evident than ever in crisis-ridden times like these. In 2022, HENSOLDT remained on track for success in a challenging environment characterized by inflation, macroeconomic volatility and dislocations in global supply chains, and once again significantly increased sales and EBITDA while maintaining high profitability.

In the 2022 financial year, the strategic further development of the HENSOLDT Group was the particular focus of the Management Board and Supervisory Board. In particular, we monitored HENSOLDT's steps towards the execution of major projects on the basis of reports from the Management Board and external consultants, and supported the Management Board with our expertise and knowledge in an advisory capacity.

Other focal points of our work were in the areas of technology and innovation as well as in sustainability issues along the dimensions of environment, society and corporate governance and the further development of the corresponding activities in the company. We received regular reports on these issues and obtained an overview of the progress made and the opportunities and risks for the company.

In addition to the large number of topics discussed during the Supervisory Board year, we also keep an eye on the further development of our work as a body and work continuously on increasing the effectiveness and efficiency of our activities and on our contribution to monitoring and advising the Management Board of HENSOLDT AG. Thus, the self-assessment of the committees of the Supervisory Board was on our agenda this year

Cooperation with the Management Board

In the fiscal year 2022, 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 diligently and dutifully. We continuously advised the Management Board on the management of the company and continuously 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 all essential processes: the corporate plans, the course of business, the strategic development and the current situation of the Group were the focus of attention. Cooperation between the Supervisory Board and the Management Board was constructive, open and trusting at all times.

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.

In addition, as Chairwoman of the Audit Committee, Ingrid Jägering regularly exchanged information on current developments with the Chief Financial Officer, the auditor and selected central Group functions.

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 HENSOLDT 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 8 December 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 past fiscal year, the members of the Supervisory Board received further training according to their individual needs on the topics of news in supervisory board law as well as innovations in the German Corporate Governance Code and current developments in the area of risk management and the internal control system.

Deliberations and resolutions in the plenary session of the Supervisory Board

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

The meeting on 16 March 2022 focused on the preparation of the second 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 31 December 2021, the combined management report, the dependency report and the non-financial reporting of HENSOLDT Group. In addition, after receiving reports from the Presidial Committee, the Supervisory Board decided on the target values achieved for the fiscal year 2021 and the determination of the target values for 2022 for the variable remuneration of the Management Board. The Supervisory Board also resolved to appoint Mr Christian Ladurner as Chief Financial Officer with effect from 1 July 2022. Mr Ladurner succeeds Mr Axel Salzmann, who left the Management Board on 30 June 2022. The Supervisory Board also appointed Dr Lars Immisch as Chief Human Resources Officer with effect from 1 October 2022. Dr Immisch succeeds Mr Peter Fieser, who left the Management Board at the end of 30 September 2022. The Supervisory Board also discussed the adjustment of the financing of the HENSOLDT Group and the conclusion of contracts with two Japanese trading houses.

On 22 April 2022, the Supervisory Board dealt with the proposal of a replacement candidate for election to the Supervisory Board by the general meeting in May 2022.

At the Supervisory Board meeting held on 13 May 2022, the Supervisory Board dealt with the appointment of new members to the standing committees of the Supervisory Board following the resignations of Mr Christian Ollig and Prof. Wolfgang Ischinger.

At the Supervisory Board meeting on 28 June 2022, the Supervisory Board also dealt in particular with the planned risk assessment of the major projects in terms of project organisation and project status as part of the usual reporting from the committees. Other topics were the securing of the construction project in Oberkochen and the liquidation of a subsidiary of the HENSOLDT Group in Switzerland. In addition, the Supervisory Board again dealt with the conclusion of a contract with a trading house.

At its meeting on 27 September 2022, the Supervisory Board discussed the appointment of a new member to the Compliance Committee and the Committee for Related Party Transactions after Prof. Burkhard Schwenker's resignation from these committees. The Supervisory Board informed itself about a cyber-attack on a French subsidiary of the HENSOLDT Group, the amendments to the German Corporate Governance Code and discussed the reporting on HENSOLDT in the news magazine "DER SPIEGEL" with the Management Board. Mrs Pelaz also reported to the Supervisory Board on the strategy of the HENSOLDT Group.

At the meeting on 8 December 2022, the Supervisory Board dealt with the approval of the budget (including the annual investment, finance and personnel plan), the planned introduction of S4HANA, cyber security and the mandate to the Executive Committee to prepare the targets for the variable remuneration of the Management Board.

Where necessary, the Supervisory Board also adopted resolutions by written procedure. This mainly concerned the resolution on the remuneration report for the fiscal year 2021 and the declaration of compliance, the referral to the consultancy agreement with Agora Strategy Group AG and the approval of the securities for the construction project in Oberkochen already presented at the meeting on 28 June 2022.

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 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 requiring approval to report in the last fiscal year.

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.

Five meetings of the **Presidial Committee** took place in the last fiscal year.

In its meeting on 16 March 2022, the Presidial Committee assessed the target values achieved for the fiscal year 2021 and prepared a proposal to the Supervisory Board on the Management Board's bonus and the Management Board's targets for 2022. The Presidial Committee discussed the personnel planning of the Management Board, the conditions for the early termination of the Management Board service agreements of Mr Axel Salzmann and Mr Peter Fieser as well as the conditions of the Management Board service agreements of Mr Christian Ladurner and Dr Lars Immisch.

At the meetings on 28 June 2022, 27 September 2022 and 8 December 2022, the Presidial Committee again discussed the long-term succession planning of the Management Board. On 22 April 2022, the security concept for the Management Board was the focus of discussions.

The Presidial Committee also passed a resolution by written procedure on the amendment agreement to the termination agreement of Mr Axel Salzmann.

The **Audit Committee** held eight meetings.

A significant part of its work was the discussion of the preliminary key financial figures for the fiscal year 2021, the dividend proposal and the financials during the year (quarterly announcement 3M2022, half-yearly financial report 6M2022 and quarterly announcement 9M2022). With regard to the key financial figures, the Audit Committee consulted with the CFO and, with regard to the half-yearly financial report, with the auditor to explain the results of the audit review.

The representatives of the auditors KPMG also took part in the discussion of the annual and consolidated financial statements. In addition, the Audit Committee made recommendations to the Supervisory Board on the appointment of the auditor. In urgent cases, the Audit Committee adopted resolutions by circular resolution.

At each meeting of the Audit Committee, the Chairwoman of the Audit Committee reported on her regular exchanges with the Management Board, the auditors and key functions in the Company. The Chief Financial Officer also reported on current issues in the finance department and other areas of responsibility.

The Committee received regular reports from those responsible for the main control functions on current developments and the effectiveness and further development of the control systems.

In the presence of the Head of Internal Auditing, the committee also discussed the audit results for 2022 and the audit planning for fiscal 2023.

This year, the Audit Committee dealt with the effects of the publication of the new version of the German Corporate Governance Code on its work. As in previous years, the Audit Committee again focused on monitoring the quality of the audit. In this fiscal year, a review was carried out of the implementation status of the recommendations for action from the previous year's survey and an exchange was also held with the auditors on further improvements to audit quality. The positive maturity of the audit was again confirmed.

The content of the meetings was presented to the Supervisory Board in the oral reports from the committee meetings and - where necessary - submitted for decision.

In addition, the Chairwoman of the Audit Committee is in regular contact with the auditors - also outside meetings. The auditors inform the Audit Committee without delay of all findings and events of importance to their duties which come to their attention during the performance of the audit. They shall inform the Audit Committee and make a note in the audit report if, during the performance of the audit, they ascertain facts which show a misstatement in the declaration on the German Corporate Governance Code issued by the Board of Management and Supervisory Board. The auditors have declared to the Audit Committee that there are no circumstances giving reason to suspect their partiality. The Audit

Committee has obtained the required independence agreement from the auditors, reviewed their qualifications and concluded a fee agreement with them. The Audit Committee approves any non-audit services provided by the auditors.

The Audit Committee includes two proven financial experts, Ingrid Jägering and Giovanni Soccodato. Expertise in sustainability issues is also ensured in the Audit Committee and is continuously developed further.

With a view to the second 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 16 March 2022 and made a recommendation to the Supervisory Board on the appropriation of the balance sheet profit.

On 4 May 2022, in addition to dealing with the quarterly announcement, a discussion took place on the current market expectation; the Audit Committee was satisfied that the company saw no reason to adjust the forecast.

On 28 June 2022, the Audit Committee assured itself of the quality of the audit and addressed the major projects risk assessment project.

A detailed report was given by the company on the risk assessment of the major projects also at the meeting on 3 August 2022. The Audit Committee also engaged KPMG to audit the non-financial statement.

On 27 September 2022, the Supervisory Board dealt with the audit plan for the consolidated and annual financial statements for the fiscal year 2022 and defined a catalogue of pre-approved non-audit services.

On 9 November 2022, the Audit Committee discussed the financial information during the year and again addressed potential risks from the cyber-attack in France.

On 8 December 2022, the Audit Committee again discussed the risk assessment for major projects with the Management Board, assured itself of the status of the audit of the annual and consolidated financial statements for the year 2022 and prepared the Supervisory Board's resolution on the business plan, the introduction of S4HANA and the submission of the declaration of compliance with the German Corporate Governance Code. The members of the Audit Committee also discussed the results of the Audit Committee's self-assessment and agreed to deepen the discussion at the beginning of 2023.

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.

The Audit Committee also passed a resolution by written procedure on non-audit services provided by the auditor.

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.

On 23 February 2022, 15 March 2022 and 29 March 2022, the Supervisory Board dealt with the consultancy agreement concluded with Agora Strategy Group AG and proposed to the Supervisory Board to approve it as a matter of utmost precaution. In the meetings held on 28 June 2022, 27 September 2022 and 8 December 2022, the Compliance Committee received regular reports 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 the HENSOLDT Group. On 8 December 2022, the Compliance Committee also received a report on the status of the measures implemented internally to comply with export controls and discussed the results of the Compliance Committee's self-assessment.

The **Nomination Committee** held four meetings in the last fiscal year.

At the meeting on 10 March 2022, the Nomination Committee prepared the decision of the Supervisory Board on the proposals of replacement candidates for election to the Supervisory Board by the general meeting in May 2022.

On 22 April 2022, the members of the Nomination Committee passed a resolution to propose to the Supervisory Board that Mr Giovanni Soccodato be elected to the Supervisory Board as a replacement candidate for the initially nominated Mr Norman Bone.

In its meetings on 27 September 2022 and 8 December 2022, the Nomination Committee dealt with succession planning for the Supervisory Board.

The chairpersons of the Presidial Committee, the Nomination Committee and the Audit Committee as well as 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.

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. With the exception of the meetings of the Supervisory Board and its committees held in June 2022 as purely face-to-face meetings, the meetings were held in hybrid form as face-to-face meetings with the participation of individual or several Supervisory Board members via video conference.

	Supervisory Board plenary		Audit Committee		Compliance Committee		Presidial Committee		Nomination Committee	
(Number of meetings / Attendance in %)	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %
Johannes P. Huth Chairman	5/6	83.3	-	-	-	-	5/5	100	3/4	75
Armin Maier-Junker[1] Vice Chairman	4/6	66.7	-	-	-	-	4/5	80	-	-
Dr. Jürgen Bestle[1]	6/6	100	-	-	6/6	100	-	-	-	-
Jürgen Bühl[1]	5/6	83.3	-	-	-	-	4/5	80	-	-
Letizia Colucci	4/4	100	-	-	3/3	100	-	-	-	-
Achim Gruber[1]	5/6	83.3	-	-	6/6	100	-	-	-	-
Prof. Wolfgang Ischinger	1/2	50	-	-	-	-	1/2	50	1/2	50
Ingrid Jägering	5/6	83.3	8/8	100	-	-	-	-	4/4	100
Marion Koch[1]	5/6	83.3	8/8	100	-	-	-	-	-	-
Christian Ollig	1/2	50	1/3	33.3	3/3	100	-	-	-	-
Prof. Dr. Burkhard Schwenker	4/4	100	-	-	4/4	100	-	-	-	-
Giovanni Soccodato	4/4	100	5/5	100	-	-	-	-	2/2	100
Julia Wahl[1]	6/6	100	7/8	87.5	-	-	-	-	-	-
Claire Wellby	0/2	0	-	-	-	-	-	-	-	-
Hiltrud Werner	2/2	-	-	-	2/2	100	-	-	-	-
Reiner Winkler	4/4	100	-	-	-	-	3/3	100	2/2	100
		73,95		**84,16**		**100**		**82**		**80**

Attendance at the meetings of the Supervisory Board was therefore 73.95% in the past fiscal year .

[1]Representative of the employees

Conflict 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

Two changes occurred in the Management Board during the fiscal year. Mr Axel Salzmann resigned from the Management Board with effect from the end of 30 June 2022. Mr Christian Ladurner was appointed as a member of the Management Board/CFO with effect from 1 July 2022. Mr Peter Fieser resigned from the Management Board with effect from the end of 30 September 2022. Dr Lars Immisch was appointed as a member of the Management Board with effect from 1 October 2022.

With effect from the end of 13 April 2022, Ms Ingrid Jägering resigned her mandate as a member of the Supervisory Board. Ms Ingrid Jägering was appointed by the Federal Republic of Germany to the Supervisory Board in accordance with sec. 8 (2) sentence 1 and 2 of the articles of association of HENSOLDT AG on 14 April 2022. With effect from the end of the General Meeting on 13 May 2022, Prof. Wolfgang Ischinger, Mr Christian Ollig and Ms Claire Wellby resigned as shareholder representatives on the Supervisory Board. By resolution of the general meeting of 13 May 2022, Ms Letizia Colucci, Mr Giovanni Soccodato and Mr Reiner Winkler were elected to the Supervisory Board as shareholder representatives. With effect from the end of 21 September 2022, Prof Dr Burkhard Schwenker resigned his mandate on the Supervisory Board. As of 22 September 2022, Ms Hiltrud Werner was appointed by the Federal Republic of Germany to the Supervisory Board in accordance with section 8 (2) sentence 5 and 6 of the articles of association of HENSOLDT AG.

Audit of the financial statements and the consolidated financial statements

KPMG AG Wirtschaftsprüfungsgesellschaft was appointed auditor for the fiscal year 2022 by resolution of the general meeting on 13 May 2022. 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.

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 2022.

KPMG AG Wirtschaftsprüfungsgesellschaft audited the financial statements and the combined management report of HENSOLDT Group and the consolidated financial statements for the fiscal year 2022 and issued an unqualified audit opinion in each case dated 17 March 2023. 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 Institut der Wirtschaftsprüfer (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 meeting on 20 March 2023. The members of the Audit Committee reported, in detail, on these deliberations to the plenary session at the balance sheet meeting on 20 March 2023. The plenary session 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 € 38,521,928.48 of the balance sheet profit totalling € 31,500,000.00 to distribute a dividend of € 0.30 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.

In addition, the Supervisory Board and the Management Board have prepared the remuneration report for the 2022 financial year. KPMG AG Wirtschaftsprüfungsgesellschaft also reviewed the content of the remuneration report beyond the statutory audit as to whether the remuneration report contains all legally required disclosures and issued an unqualified review opinion.

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 2022 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 the factual statements made in the report are correct.”

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 21 March 2023 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 examination, 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 thanks the members of the Management Board, the employees and the employee representatives of all Group companies for their work. You contributed to a very successful year for the HENSOLDT Group in economic terms.

For the Supervisory Board

Chairman of the Supervisory Board