

The background of the entire page is a faded, high-resolution image of a tiger, likely from a banknote, showing its stripes and facial features. The tiger is positioned in the center-right, looking towards the left.

HENSOLDT

# financials

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# HENSOLDT – Key ratios

€ million	2020	2019
<b>Order intake</b>	<b>2,541.3</b>	<b>1,040.0</b>
Sensors	2,238.1	657.5
Optronics	308.3	383.3
Elimination/Transversal/Others	-5.1	-0.8
<b>Order backlog</b>	<b>3,424.0</b>	<b>2,202.3</b>
Sensors	2,825.5	1,567.8
Optronics	600.0	634.5
Elimination/Transversal/Others	-1.5	-
<b>Revenues</b>	<b>1,206.9</b>	<b>1,114.2</b>
Sensors	923.6	837.1
Optronics	288.1	277.4
Elimination/Transversal/Others	-4.8	-0.3
<b>Revenues by region</b>	<b>1,206.9</b>	<b>1,114.2</b>
Europe	920.2	742.8
<i>(of which Germany)</i>	622.8	483.3
Middle East	155.8	164.8
Asia-Pacific	44.2	82.4
North America	53.1	40.9
Africa	48.0	86.3
LATAM	13.3	19.2
Other regions/Consolidation	-27.6	-22.3
<b>Adjusted EBIT</b>	<b>167.2</b>	<b>160.8</b>
Sensors	119.7	122.4
Optronics	50.1	39.5
Elimination/Transversal/Others	-2.6	-1.2
<b>Adjusted EBITDA</b>	<b>219.3</b>	<b>215.6</b>
Sensors	156.2	162.5
Optronics	65.6	54.3
Elimination/Transversal/Others	-2.5	-1.2
<b>Adjusted pre-tax unlevered free cash flow</b>	<b>196.4</b>	<b>74.9</b>





# IFRS CONSOLIDATED FINANCIAL STATEMENTS OF HENSOLDT **2020**

as of December 31, 2020

# HENSOLDT – Consolidated income statement

in € million	Note	Fiscal year	
		2020	2019
Revenue	11	1,206.9	1,114.2
Cost of sales	11	-936.1	-859.3
<b>Gross profit</b>		<b>270.8</b>	<b>254.9</b>
Selling and distribution expenses		-90.2	-84.8
General administrative expenses		-87.2	-76.3
Research and development costs	12	-25.1	-31.0
Other operating income	13	18.9	25.3
Other operating expenses	13	-16.1	-24.8
Share of profit/loss from investment accounted for using the equity method	8	-2.6	-1.2
<b>Earnings before finance result and income taxes (EBIT)</b>		<b>68.5</b>	<b>62.1</b>
Interest income	14	4.0	58.9
Interest expense	14	-137.7	-83.5
Other finance income/costs	14	-10.0	-1.9
<b>Finance result</b>		<b>-143.7</b>	<b>-26.5</b>
<b>Earnings before income taxes</b>		<b>-75.2</b>	<b>35.6</b>
Income taxes	15	10.7	-27.4
<b>Group result</b>		<b>-64.5</b>	<b>8.2</b>
<i>thereof attributable to the owners of HENSOLDT AG</i>		-65.2	5.9
<i>thereof attributable to non-controlling interests</i>		0.7	2.3
<b>Earnings per share</b>			
Basic and diluted earnings per share (EUR)	16	-0.75	0.07

The following disclosures in the notes are an integral part of these consolidated financial statements.

# HENSOLDT – Consolidated statement of comprehensive income

in € million	Note	Fiscal year	
		2020	2019
<b>Group result</b>		<b>-64.5</b>	<b>8.2</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Measurement of defined benefit plans	32.1	-40.4	-64.6
Tax on items that will not be reclassified to profit or loss		13.0	24.7
<b>Subtotal</b>		<b>-27.4</b>	<b>39.9</b>
<b>Items that will not be reclassified to profit or loss</b>			
Difference from currency translation of financial statements		-9.5	3.6
Cash flow hedge - unrealized gains/losses	36.3	-2.3	-1.6
Cash flow hedge - reclassification to profit or loss		0.9	1.2
Tax effect on unrealized gains/losses		0.4	-0.3
<b>Subtotal</b>		<b>-10.5</b>	<b>2.8</b>
<b>Other comprehensive income net of tax</b>		<b>-37.9</b>	<b>-37.0</b>
<b>Total comprehensive loss in the financial year</b>		<b>-102.4</b>	<b>-28.8</b>
<i>thereof attributable to the owners of HENSOLDT AG</i>		-101.8	-31.6
<i>thereof attributable to non-controlling interests</i>		-0.7	2.8

The following disclosures in the notes are an integral part of these consolidated financial statements.



# HENSOLDT – Consolidated statement of financial position

ASSETS		Dec. 31,	Dec. 31,
in € million	Note	2020	2019
<b>Non-current assets</b>		<b>1,313.4</b>	<b>1,392.6</b>
Goodwill <sup>1</sup>	17	637.2	637.2
Intangible assets	17	386.2	403.3
Property, plant and equipment	18	103.1	92.9
Right-of-use assets	28	143.5	154.9
Investments accounted for using the equity method	8	0	1.2
Other investments and other non-current financial assets	19	11.3	14.7
Non-current other financial assets	26	1.0	53.2
Other non-current assets	27	4.8	4.9
Deferred tax assets	15	26.3	30.4
<b>Current assets</b>		<b>1,634.2</b>	<b>1,063.1</b>
Other non-current financial assets, due on short-notice	19	11.2	3.0
Inventories	20	403.7	411.1
Contract assets	11	204.4	165.9
Trade receivables	21	282.0	290.8
Other current financial assets	26	7.1	5.8
Other current assets <sup>1</sup>	27	78.7	46.1
Income tax receivables	15	1.6	3.2
Cash and cash equivalents	35.1	645.5	137.4
<b>Total assets</b>		<b>2,947.6</b>	<b>2,455.7</b>

<sup>1</sup> Adjustment of previous year's figures due to IFRS 3: Goodwill €- 9.6 million ; other current assets €+ 11.7 million (please refer to Note 7.1)

EQUITY AND LIABILITIES		Dec. 31,	Dec. 31,
in € million	Note	2020	2019
Share capital	33.1	105.0	10.0
Capital reserve		596.8	396.7
Other reserves		-86.3	-49.8
Retained earnings		-281.6	-215.8
<b>Equity held by shareholders of HENSOLDT AG</b>		<b>333.9</b>	<b>141.2</b>
Non-controlling interests		12.9	13.6
<b>Equity, total</b>	<b>33</b>	<b>346.8</b>	<b>154.8</b>
<b>Non-current liabilities</b>		<b>1,257.1</b>	<b>1,517.9</b>
Non-current provisions	23	482.6	413.6
Non-current financing liabilities	35	601.3	887.7
Non-current contract liabilities	11	16.0	16.3
Non-current lease liabilities	28	140.3	147.5
Other non-current financial liabilities	26	0.2	0.2
Other non-current liabilities	27	8.9	7.7
Deferred tax liabilities	15	7.7	44.8
<b>Current liabilities</b>		<b>1,343.7</b>	<b>783.0</b>
Current provisions	23	193.6	185.1
Current financing liabilities	35	363.3	11.3
Current contract liabilities	11	416.8	317.1
Current lease liabilities	28	13.7	13.0
Trade payables	22	164.0	168.8
Other current financial liabilities <sup>1</sup>	26	97.8	20.5
Other current liabilities	27	86.9	67.1
Tax liabilities	15	7.6	0.1
<b>Total equity and liabilities</b>		<b>2,947.6</b>	<b>2,455.7</b>

<sup>1</sup> Adjustment of previous year's figures due to IFRS 3: € + 2,1 million (please refer to Note 7.1)

The following disclosures in the notes are an integral part of these consolidated financial statements.

# HENSOLDT – Consolidated statement of cash flows

in € million	Note	Fiscal year	
		2020	2019
<b>Group result</b>		<b>-64.5</b>	<b>8.2</b>
Depreciation and amortization	17/18/28	120.8	129.6
Allowances on inventories, trade receivables and contract assets		-2.4	13.2
Profit/loss from disposals of non-current assets		0.0	0.4
Share of profit in entities recognized according to the equity method		2.6	1.2
Financial expenses (net)		128.2	24.6
Other non-cash expenses/income		-5.1	-5.4
Change in			
Provisions		46.4	-0.4
Inventories		5.3	-17.8
Contract balances		61.4	-89.4
Trade receivables		5.3	56.4
Trade payables		-8.6	-13.4
Other assets and liabilities		-17.8	4.6
Interest paid		-43.6	-45.1
Transaction costs on refinancing paid		-14.9	0.0
Income tax expense (+)/income (-)		-10.7	27.4
Income taxes payments (-)/refunds (+)		-5.5	-10.9
<b>Cash flows from operating activities</b>		<b>196.9</b>	<b>83.2</b>
Acquisition/addition of intangible assets and property, plant and equipment	17/18	-97.4	-80.5
Proceeds from sale of intangible assets and property, plant and equipment	17/18	0.2	0.5
Acquisition of associates, other investments and other non-current investments	19	-6.6	-3.9
Disposals of associates, other investments and other non-current investments		2.3	2.1
Acquisition or subsidiaries net of cash acquired	7	6.4	-83.8
Other		0.1	0.0
<b>Cash flows from investing activities</b>		<b>-95.0</b>	<b>-165.6</b>

in € million	Note	Fiscal year	
		2020	2019
Proceeds from financial liabilities (syndicated loan)	35.3	950.0	2.4
Repayment of financial liabilities (syndicated loan)	35.3	-920.0	0.0
Increase of other financial liabilities	35.3	97.1	0.0
Dividend payments to non controlling interests		-0.2	-0.2
Payment of lease liabilities	35.3	-14.3	-11.3
Issue of shares	35.3	300.0	0.0
Transaction costs on issue of equity	35.3	-1.6	0.0
<b>Cash flows from financing activities</b>		<b>411.0</b>	<b>-9.1</b>
Effects of movements in exchange rates on cash and cash equivalents		-2.5	1.4
Other adjustments		-2.3	0.0
<b>Net changes in cash and cash equivalents</b>		<b>508.1</b>	<b>-90.2</b>
<b>Cash and cash equivalents</b>			
Cash and cash equivalents on January 1st		<b>137.4</b>	<b>227.5</b>
Cash and cash equivalents on December 31st		<b>645.5</b>	<b>137.4</b>

The following disclosures in the notes are an integral part of these consolidated financial statements.

# HENSOLDT – Consolidated statement of changes in equity

in € million	Attributable to the owners of HENSOLDT AG									
	Share capital	Capital reserve	Retained earnings	Other reserves					Non-controlling interests	Equity
				Remeasurement of pensions	Cash flow hedge	Currency translation	Treasury shares	Subtotal		
<b>As of Jan 1, 2019</b>	<b>0.03</b>	<b>46.3</b>	<b>-220.7</b>	<b>0.6</b>	<b>-3.4</b>	<b>-9.4</b>	<b>-10.6</b>	<b>-197.2</b>	<b>10.9</b>	<b>-186.3</b>
Group Result	-	-	5.9	-	-	-	-	5.9	2.3	8.2
Other comprehensive income	-	-	-	-39.9	-0.7	3.0	-	-37.5	0.5	-37.0
<b>Total comprehensive income</b>	-	-	<b>5.9</b>	<b>-39.9</b>	<b>-0.7</b>	<b>3.0</b>	-	<b>-31.6</b>	<b>2.8</b>	<b>-28.8</b>
Contribution of shareholder loan	-	371.0	-	-	-	-	-	371.0	-	371.0
Cancellation of treasury shares	-	-10.6	-	-	-	-	10.6	-	-	-
Adjustement from reorganization	10.0	10.0	-	-	-	-	-	0.0	-	0.0
Addition from business combinations	-	-	-	-	-	-	-	-	0.6	0.6
Dividends on non-controlling interests	-	-	-	-	-	-	-	-	-0.2	-0.2
Other	-	-	-1.0	-	-	-	-	-1.0	-0.4	-1.5
<b>As of Dec. 31, 2019</b>	<b>10.0</b>	<b>396.7</b>	<b>-215.8</b>	<b>-39.3</b>	<b>-4.1</b>	<b>-6.4</b>	-	<b>141.2</b>	<b>13.6</b>	<b>154.8</b>
Group Result	-	-	-65.2	-	-	-	-	-65.2	0.7	-64.5
Other comprehensive income	-	-	-	-27.4	-0.5	-8.6	-	-36.5	-1.4	-37.9
<b>Total comprehensive income</b>	-	-	<b>-65.2</b>	<b>-27.4</b>	<b>-0.5</b>	<b>-8.6</b>	-	<b>-101.8</b>	<b>-0.7</b>	<b>-102.4</b>
Issue of share capital from own funds	70.0	-70.0	-	-	-	-	-	-	-	-
Issue of share capital from IPO	25.0	275.0	-	-	-	-	-	300.0	-	300.0
Transaction costs	-	-4.9	-	-	-	-	-	-4.9	-	-4.9
Dividends on non-controlling interests	-	-	-	-	-	-	-	-	-0.2	-0.2
Other	-	-	-0.7	-	-	-	-	-0.7	0.2	-0.4
<b>As of Dec. 31, 2020</b>	<b>105.0</b>	<b>596.8</b>	<b>-281.6</b>	<b>-66.7</b>	<b>-4.7</b>	<b>-15.0</b>	-	<b>333.9</b>	<b>12.9</b>	<b>346.8</b>

The following disclosures in the notes are 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

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These IFRS consolidated financial statements comprise HENSOLDT AG (the “Company”) with its registered office at Willy-Messerschmitt-Str. 3, 82024 Taufkirchen, Germany, under HRB 258711, Munich District Court and its subsidiaries (the “Group”, “HENSOLDT” or “HENSOLDT Group”).

The fiscal year is the calendar year.

The HENSOLDT Group is a multinational business in the defense and security electronics market with its headquarters based in Germany. The main product portfolio ranges from radars, to electronic warfare and avionics, to optical and optronic equipment.

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

# 2 SIGNIFICANT ACCOUNTING POLICIES

## 2.1 Basis of preparation

As a listed company, HENSOLDT AG has prepared its consolidated financial statements in accordance with section 315e para. 1 of the German Commercial Code (HGB) ("consolidated financial statements in accordance with International Financial Reporting Standards") in compliance with International Financial Reporting Standards (IFRSs) and related interpretations of the International Accounting Standards Board (IASB) as adopted by the European Union in accordance with Regulation (EC) No 1606 / 2002 of the European Parliament and of the European Council on the application of international accounting standards.

Changes in important accounting policies are described in Note 4.

These consolidated financial statements were approved by the Management Board for distribution to the Supervisory Board on March 8, 2021.

The consolidated financial statements are presented in euros (€), which is the Group's functional currency. Unless otherwise stated, all financial figures are rounded to the nearest hundred thousand.

These consolidated financial statements were prepared based on the assumption of the Group's continuation as a going concern.

Unless otherwise stated, the consolidated financial statements have been prepared on a historical cost basis. The principal accounting policies are set out below.

## 2.2 Basis of consolidation

### Business combinations

The Group accounts for business combinations using the acquisition method if the acquired group of activities and assets meets the definition of a business and control is transferred to the Group. The consideration transferred for the acquisition and the identifiable assets acquired are generally recognized at fair value. In determining whether a particular group of activities and assets is a business, HENSOLDT assesses whether the group of acquired assets and activities includes at a minimum, an input and substantive process and whether the acquired group is capable of generating output. Any goodwill that arises is

tested for impairment annually. Any gain on a bargain purchase is recognized directly in the consolidated income statement. Transaction costs are expensed as incurred unless they are related to the issue of debt or equity securities.

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

Any contingent consideration is measured at fair value as of the acquisition date. If the contingent



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

### **Subsidiaries**

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

### **Non-controlling interests**

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

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

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

### **Investments accounted for using the equity method**

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

Associates are companies in which the Group has a significant influence, but not control or joint control in respect to financial and business policies. A joint venture is an arrangement, over which the Group exercises joint control and in which it has rights to the net assets of the arrangement rather than rights to its assets and obligations for its liabilities.

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

### **Consolidation of intercompany transactions**

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

## 2.3 Revenue from contracts with customers

### Revenue recognition

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

Revenue equals the transaction price to which the HENSOLDT Group expects to be entitled to under the relevant contract. Variable considerations (such as 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 collected 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, the Group estimates these in an appropriate amount. If no observable prices exist, particularly as the goods and services offered by HENSOLDT are highly complex and individual, the stand-alone selling price of each separate performance obligation is estimated based on the expected costs plus a margin. This procedure is also regularly utilized in the pricing process during contract negotiations.

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

- The customer simultaneously receives and consumes the benefits provided by the Group (e.g. maintenance contracts, training services);

- It creates a good which is controlled by the customer as the good is created or enhanced (e.g. work in progress); or
- It produces a good with no alternative use and the Group has an enforceable right to payment (including a reasonable margin) for the work completed to date, in the event of contract termination at the convenience of customers.

For each performance obligation to be satisfied over time pursuant to IFRS 15, the HENSOLDT Group recognizes revenue over 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. HENSOLDT uses this method as it, by the Group's view, best reflects the progress towards the satisfaction of the performance obligation. If costs are incurred that do not contribute to the progress of the satisfaction of the performance obligation, such as unplanned scrapping costs, or costs incurred that are disproportionate to the measurement of progress due to unexpected additional costs, these costs are excluded from the measurement of progress or, alternatively, the originally budgeted amount is revised.

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

### Performance obligations

The following section sets forth the significant performance obligations from contracts with customers and elaborates on the nature and timing of the satisfaction

of the performance obligations, including significant payment terms, and the related revenue recognition policies.

#### *Standardized products and systems with limited customization*

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

#### *Customized development, manufacture and supply of products and systems*

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

#### *Service and support*

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

#### *Variable components*

All of the abovementioned performance obligations of HENSOLDT may include variable consideration components. HENSOLDT's contracts with customers may include the following variable consideration components: price adjustments from escalations, price audits and contractual penalties. For contracts with variable consideration components, revenue is recognized to the extent that it is highly probable that a significant reversal of the amount of cumulatively recognized revenue will not be required. Accordingly, positive variable consideration components (e.g., price escalations) are recognized as an increase of the transaction price if there is an estimated probability of at least 80% that they will be realized. Conversely, negative variable consideration components (e.g. contractual penalties or price audit reimbursements) are recognized as a reduction of the transaction price if they occur with an estimated probability of 20% or more.

#### **Contract assets, contract liabilities and trade receivables**

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

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

A receivable is recognized if an amount of consideration that is unconditional is due from the customer (i.e., only the passage of time is required before payment of the consideration is due).

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

## 2.4 Intangible assets and goodwill

### Intangible assets

Intangible assets with limited useful lives are generally amortized on a straight-line basis over their respective expected useful lives to their estimated residual values. In general, the expected useful life for patents, licenses and similar rights is between 3 to 5 years, with the exception of intangible assets with finite useful lives acquired in business combinations. These consist in particular of order backlogs and customer relationships as well as technologies. The useful lives of these intangible assets, in certain transactions, ranged from 2 to 11 years for order backlogs and between 8 to 10 years for customer relationships, as well as from 3 to 12 years for technologies. Brands with indefinite useful lives are not amortized but tested for impairment annually. The brand HENSOLDT is to be used in the long term and 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 to the brand or indications as to the period on which a time limit could exist. Amortization costs for intangible assets are recognized as a part of cost of sales.

### Goodwill

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

### Research and development

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

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

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

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

## 2.5 Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Property, plant and equipment are depreciated on a straight-line basis. The following useful lives have been assumed.

Buildings	between 5 and 50 years
Technical equipment and machinery	between 4 and 10 years
Other equipment, operating and office equipment	between 3 and 13 years

## 2.6 Inventories

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

Manufacturing costs include all costs directly attributable to the manufacturing process, such as material costs, wage and production-related overheads (based on

normal operating capacity and normal use of materials, labor and other production costs) including write-downs. If any inventory risks exist, e.g. due to reduced usability after longer storage periods or lower replacement costs, appropriate write-downs are recognized. Write-downs on inventories are recognized when it is probable that projected contract costs will exceed total contract revenue.

## 2.7 Leases

The Group only substantially engages in lease activities as a lessee. The Group leases many 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 modification of a contract that contains a lease component, the Group allocates the

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

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which 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 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 a rate, initially measured using the index or rate as at the commencement date;
- Lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

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

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

#### Short-term leases and leases of low-value assets

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

## 2.8 Employee benefits

### Short-term employee benefits

Obligations under short-term employee benefits are measured as expenses as soon as the employees perform the work involved. A liability must be recognized for the amount to be paid if the Group currently has a legal or constructive obligation to pay this amount on the basis of work done by an employee and the obligation can be reliably estimated.

### Defined contribution plans

Obligations for contributions to defined contribution plans are recognized as expenses as soon as the associated work is performed.

### Defined benefit plans

The Group's net obligation for defined benefit plans is calculated separately for each plan by estimating the future benefits for which the employees have accrued entitlement in the current and in earlier periods. This amount is discounted and the estimated fair value of plan assets is then deducted from this.

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

Remeasurements of the net defined benefit liability are recognized directly in other comprehensive income. Remeasurements of the net defined benefit liability comprise actuarial gains and losses and the return on plan assets (excluding interest). The Group determines the net interest expense (income) on the net defined benefit liability (plan asset) for the reporting period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual reporting period. 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 period are taken into account. Net interest and other expenses relating to defined benefit plans are recognized in the consolidated income statement.

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

### Other long-term employee benefits

The Group's net obligations for other long-term employee benefits are the future payments due to employees in exchange for services provided during employment in the current and in earlier periods. These payments are discounted to present value. Remeasurements are recognized in the consolidated income statement in the period in which they occur.

## 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 recognized provisions for onerous contracts if it is probable that total contract costs will exceed the total contract revenue. The provision is measured at the lower amount of expected costs for terminating the contract and the expected net costs from performing the contract. Before a provision for onerous contracts is recognized, the associated inventories are written off.

Onerous sales 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 (see Note 3, Note III.11 and Note IV.23).

### Warranties

A provision for warranties is recognized when the underlying products or services are sold or rendered and a contractual or constructive obligation exists to repair damage to sold products within a certain period at the Company'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 fulfillment of the performance obligation. The provision is based on the individual assessment of future costs to be incurred. Recognition takes place pro-rata based on certain criteria, such as, for example, delivered products or a certain project progress.

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

## 2.10 Financial instruments

### Recognition and initial measurement

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

A financial asset (except for a trade receivable without financing component) or a financial liability is measured at fair value on initial recognition. For an item which is not measured at fair value with changes through profit or loss (FVtPL), transaction costs are included that can be directly allocated to its acquisition or issuance. Trade receivables without a significant financing component are measured at their transaction price on initial recognition.

### Classification and subsequent measurement

#### *Financial assets*

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

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

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



- "measured at amortized cost" (AC)
- "at fair value with changes through profit or loss" (FVtPL) and
- "at fair value through other comprehensive income" (FVtOCI).

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

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

A debt instrument is designated at FVtOCI if both of the following conditions are met and it 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 amortized cost, i.e. in subsequent periods receivables are recognized net of principal repayments, installments and impairment losses, plus any reversals of impairment losses. Receivables that are meant to be sold to a factoring party, are held in a business model "held to collect and sale". These receivables are measured at fair value. At initial recognition of an equity instrument that is not held for trading, the Group can irrevocably elect to present subsequent value changes of the investment in other comprehensive income. This option is generally exercised within the group.

All financial assets that are not measured at amortized cost or at FVtOCI are measured at FVtPL. This includes all derivative financial assets (see Note VI.36).

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

**Financial assets at FVtPL:** These assets are subsequently measured at fair value. Net gains and losses, inclusive of any interest and dividend income, are recognized in the consolidated income statement. For derivatives designated as hedging instruments in an effective hedge, see Note VI.36.

**Financial assets at amortized cost:** These assets are measured at amortized cost using the effective interest method. Amortized cost is diminished by impairment losses. Interest income, foreign exchange gains and losses as well as impairment losses are recognized in consolidated income statement. A gain or loss arising from derecognition is recognized in the consolidated income statement. The impairment requirements on financial assets are described in 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 cost.

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

**Equity instruments at FVtOCI:** These assets are subsequently measured at fair value. Dividends are recognized as income in the consolidated income statement unless the dividends clearly represent

cover of a part of costs of the investment. Other net gains or losses are recognized in other comprehensive income and are never reclassified to the consolidated income statement.

#### *Financial liabilities*

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

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

#### **Derecognition**

The Group derecognizes a financial asset when the contractual rights to receive the cash flows of an asset expire or it transfers the rights to receive the cash flows in a transaction in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which 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 trade receivables with a minimum amount of €100.0 thousand on a case-by-case basis, applying multiple criteria, to external factoring parties. In this process, the Group determines whether the risk and rewards of ownership of the financial asset are fully transferred. Subsequently, the financial asset is derecognized and the Group assesses whether a continuing involvement exists and if so, a corresponding item must be recognized.

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

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

#### **Netting**

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

#### **Derivative financial instruments and hedge accounting**

##### *Derivative financial instruments*

The HENSOLDT Group carries out some of its transactions in foreign currency, such as 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.

In addition, the HENSOLDT Group is exposed to interest rate risk stemming from its Term Loan with variable interest rate; the risk is hedged by use of interest rate swaps. Derivate contracts to mitigate foreign exchange risks and interest rate risk are concluded with different banks.

Derivatives are measured at fair value on initial recognition; attributable transaction costs are recognized in the consolidated income statement when incurred. For the purposes of subsequent measurement, derivatives are measured at FVtPL. Embedded derivatives are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

Hedge accounting ensures that derivative gains or losses are recorded through profit or loss (primarily as a part of revenue) in the same period in which the hedged items or transactions are recognized through profit or loss. By contrast, changes in the value of derivative contracts are recognized in total comprehensive income if the hedged items or

transactions have not yet been recognized in the consolidated income statement.

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

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

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

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 VI.36.3.

#### *Cash flow hedges*

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

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

## 2.11 Income tax

Income tax expense comprises current and deferred taxes.

### Current Taxes

Current taxes comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting 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, deferred taxes are calculated on the basis of temporary differences between the tax and financial reporting valuation approaches including differences from consolidation, loss and interest carryforwards as well as tax credits. The calculation uses the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. The amount is calculated on the basis of the tax rates and tax laws applicable as of the reporting date or will be applicable in the near future.

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

- the initial recognition of goodwill; or
- 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

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

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

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

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

## 2.12 Foreign currency

### Foreign currency transactions

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

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

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

- An investment in equity securities designated at FVtOCI (except on impairment, in which case foreign currency differences that have been recognized in OCI are reclassified to the consolidated income statement);

- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- Qualifying cash flow hedges to the extent that the hedges are effective.

### Foreign operations

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

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## 2.13 Statement of cash flows

Under the indirect determination of cash flow, the changes in items in the statement of financial position related to operating activities are adjusted by currency translation effects and by changes in the scope of

consolidation. For this reason, they cannot be directly reconciled with the relevant changes on the basis of the published consolidated statement of financial position.

## 2.14 Impairment

### Non-derivative financial assets

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

- financial assets at amortized cost
- contract assets

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

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

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

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

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

### Credit impaired financial assets

At each reporting date, the Group assesses whether financial assets measured at amortized cost are credit-impaired. A financial asset is credit-impaired if one or more events occurs which has 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.

### Write-off

The gross carrying amount of a financial asset is written off when according to an appropriate assessment the Group has no reasonable expectations that the financial asset can be partly or wholly realized.

### Non-financial assets

At the end of each reporting period 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 to thus 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 groups 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.

The recoverable amount of an asset or CGU is the higher of its value in use and its fair value less costs to sell. 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.

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 fair value less costs to sell and its value

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

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

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

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## 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 or, if such a market is not available, the most advantageous market to which the Group has access at this point in time. 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 (a) by a quoted price in an active

market for an identical asset or liability nor (b) 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, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, this difference is recognized in the consolidated income statement on an appropriate basis over the life of the instrument, however no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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

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

#### *Equity instruments*

The fair value of unlisted equity instruments cannot be reliably determined, 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 and other 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.

#### *Cash and cash equivalents*

Cash and cash equivalents comprises cash on hand, cash at bank and checks. 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 investments include shares in a limited partnership (HENSOLDT Real Estate GmbH & Co. KG). The limited partnership essentially includes real estate assets, which are evaluated based on current market prices. The fair value of the plan assets represents a material part of the net assets of the limited partnership.

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

#### *Derivatives*

The fair values of derivative instruments are based on quoted market prices where available 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.

Price determination for forward exchange transactions: the fair value 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.

Price determination for interest rate futures: the fair value 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.

#### *Financial liabilities*

The fair values recognized for financial liabilities, which are not bond or debt securities, are determined on the basis of input parameters from Level 2 in which plan-

ned 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 payables, contract liabilities as well as current other financial liabilities*

The carrying amounts of trade payables, 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.

# 3 KEY ESTIMATES AND ASSESSMENTS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, as well as the related disclosure of contingent liabilities. Uncertainty about these assumptions and estimates

could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Estimates and underlying assumptions are reviewed on an ongoing basis. Changes to estimates are recognized prospectively.

## 3.1 Revenue recognition over time

Revenue from the rendering of performance obligations over time is recognized using the percentage-of-completion method (Cost-to-Cost method). Under this method, exact estimates of contract results at the stage of completion and level of progress are necessary. To determine the progress of the contract the key estimates include total

contract costs, the remaining costs until completion, the overall contract revenue and the contract risks.

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

## 3.2 Capitalization of development cost

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

## 3.3 Assets acquired and liabilities assumed as well as goodwill

Measurement of the fair value of assets acquired and liabilities assumed in the course of company acquisitions, 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.

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## 3.4 Impairment testing

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

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## 3.5 Provisions

The measurement of provisions, e.g. for contract losses, 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 of guarantees and follow-up costs. 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.

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## 3.6 Employee benefits

The Group recognizes pension and other retirement benefits in accordance with actuarial valuations. These valuations are based on statistical and other factors for anticipating future events. The assumptions can deviate significantly from actual developments due to changing market and economic conditions and thus lead to a significant change in employee benefits obligations and the related future costs (see Note V.32).

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

### Market 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, pay increases 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 used to calculate the actuarial value of the obligation as of December 31, are as follows:

	Pension plans in Germany	
	Dec. 31, 2020	Dec. 31, 2019
Assumptions in %		
Discount rate	1.1 %	1.4 %
Wage increase rate (until age 36)	3.0 %	3.0 %
Wage increase rate (from age 36)	2.0 %	2.0 %
Inflation rate	1.0 %	1.0 %

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

The pay increase rates are based on long-term expectations of the respective employer that are derived from the inflation rate assumed. Payments for pension growth rates are derived from the respective inflation rate for the plan.

The inflation rate for plans corresponds to the expected increase in the cost of living.

Moreover, an assumption is made as to what extent the employees choose a one-off payment, installment payment or pension when the benefit falls due. In light of the prolonged decline in interest rates in conjunction with no expected change to this trend in the foreseeable future and actual observed selection choices upon retirement since the creation of HENSOLDT, in the previous year, management has revised its demographic assumptions related to the behavior of beneficiaries under the German pension plan. This resulted in a significant 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 as described in Note IV/24. The outcome of these issues can have a material impact on the Group's financial position, operating profit and cash flows. Management regularly analyzes current information on these issues and recognizes provisions in the amount of likely cash outflows, including estimated legal costs. In deciding

on the need for provisions, management takes into account the degree of probability of an unfavorable outcome and the possibility of reliably estimating the amount of damage. Filing an action or formally exercising damage claims against Group companies or the announcement of such an action or exercising of damage claims does not automatically mean that a provision is appropriate.

## 3.8 Income taxes

In terms of income taxes, material estimates and assessments arise in respect of deferred tax assets. The assessment of impairment of deferred tax assets depends on the management's estimate of the utilization of the deferred tax assets. This is dependent on taxable profits in the periods when the tax measurement differences are reversed and the tax loss carryforwards can be utilized. On the basis of individual company

planning and taking into account tax adjustment effects, the Company assumes that the advantages of deferred tax assets can be realized in the next four to five years on the basis of sufficient, future taxable income. The main influencing factor for the occurrence of loss carryforwards were one-off transformation-related effects, as well as IPO related restructuring and refinancing.

## 3.9 Lease term

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

The 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 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 has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. The Group considers all relevant factors that create economic incentives to exercise either the renewal or termination. After the commencement date, HENSOLDT

reassesses the lease if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

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

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

## 3.10 Determination of fair values

Several accounting policies 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, the Group uses observable market data as far as possible.

Using unobservable market parameters, key estimates and assessments need to be determined. HENSOLDT 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 HENSOLDT Group's Financial Statement
Amendments to References to the Conceptual Framework in IFRS Standards	Jan. 1, 2020	Confirmed	No
Amendments to IFRS 3 "Business combinations"	Jan. 1, 2020	Confirmed	No
Amendments to IAS 1 and IAS 9: "Definition of Material"	Jan. 1, 2020	Confirmed	No
Interest Rate Benchmark Reform Phase 1 (Amendments to IFRS 9, IAS 39 and IFRS 7)	Jan. 1, 2020	Confirmed	No
Adjustments to IFRS 16: "COVID-19 related lease concessions"	Jun. 1, 2020	Confirmed	No

## 5 STANDARDS ISSUED BUT NOT YET EFFECTIVE

A range of new or revised standards, changes and improvements to standards and interpretations are not yet applicable to the fiscal year ending December 31, 2020, and were not applied when preparing these consolidated financial statements. Amendments to standards not separately listed are not expected to have an impact on the Group.

Standard and changes	Date of effectiveness from IASB for the annual reporting period beginning on or after	EU Endorsement status	Expected to have a material impact on HENSOLDT Group's Financial Statement
Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39 and IFRS 7)	Jan. 1, 2021	Confirmed	No
Amendments to IAS 37: Onerous contracts	Jan. 1, 2022	Not yet confirmed	No
Amendments to IFRS 3: Amendments to References to the Conceptual Framework in IFRS Standards	Jan. 1, 2022	Not yet confirmed	No
Amendments to IAS 16: Property, Plant and Equipment, Proceeds from intended use	Jan. 1, 2022	Not yet confirmed	No
Amendments to IAS 1: Classification of Liabilities as Current or Non-current	Jan. 1, 2023	Not yet confirmed	No

# II GROUP STRUCTURE

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# 6 CONSOLIDATED GROUP

The shareholdings as of December 31, 2020, are listed in the following table:

Company	Registered Office	Equity interest	Type of interest
HENSOLDT AG	Taufkirchen/Germany	-	PC
HENSOLDT Holding GmbH	Taufkirchen/Germany	<100%*	FC
HENSOLDT Holding Germany GmbH	Taufkirchen/Germany	<100%*	FC
HENSOLDT Avionics Holding GmbH (former: EuroAvionics Holding GmbH)	Pforzheim/Germany	100.0%	FC
HENSOLDT Avionics GmbH (former: EuroAvionics GmbH)	Pforzheim/Germany	100.0%	FC
EuroAvionics UK Ltd.	Slinfold, West Sussex/United Kingdom	100.0%	FC
EuroAvionics Schweiz AG	Sissach/Switzerland	100.0%	FC
EuroAvionics US HoldCo. Inc.	Sarasota/USA	100.0%	FC
EuroAvionics USA LLC	Sarasota/USA	100.0%	FC
GEW Integrated Systems (Pty) Ltd.	Brummeria/South Africa	75.0%	FC
GEW Technologies (Pty) Ltd.	Brummeria/South Africa	75.0%	FC
HENSOLDT Optronics GmbH	Oberkochen/Germany	<100%*	FC
HENSOLDT Optronics (Pty) Ltd.	Irene/South Africa	70.0%	FC
HENSOLDT Sensors GmbH	Taufkirchen/Germany	<100%*	FC
HENSOLDT UK Limited	Enfield/United Kingdom	100.0%	FC
KH Finance No.2	Enfield/United Kingdom	100.0%	FC
KH Finance Ltd.	Enfield/United Kingdom	100.0%	FC
Kelvin Hughes Ltd.	Enfield/United Kingdom	100.0%	FC
Kelvin Hughes BV	Rotterdam/The Netherlands	100.0%	FC
A/S Kelvin Hughes	Ballerup/Denmark	100.0%	FC
Kelvin Hughes LLC	Alexandria (Virginia)/USA	100.0%	FC
HENSOLDT Singapore Pte. Ltd.	Singapur/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 Australia Pty Ltd	Fyshwick, Canberra/Australia	100.0%	FC
Nexeya France S.A.S.	Toulouse/France	100.0%	FC
Midi Ingénierie S.A.S.	Toulouse/France	85.0%	FC
Antycip Technologies S.A.S.	Massy/France	100.0%	FC
Penser Maitriser Technique Logistique - P.M.T.L S.A.S.	Cologne/France	100.0%	FC
HENSOLDT Space Consulting S.A.S. (former: Nexeya Conseil et Formation S.A.S.)	Toulouse/France	100.0%	FC
Nexeya Canada Inc.	Markham/Canada	100.0%	FC
HENSOLDT Cyber GmbH	Taufkirchen/Germany	51.0%	EQ

PC = Parent Company

EQ = Joint ventures pursuant to IFRS 11 accounted for using the equity method

FC = Consolidated affiliated company.

\*Interest of federal German Republic with a nominal value of 1 euro each

The consolidated financial statements include the financial statements of HENSOLDT AG and the financial statements of all directly and indirectly by HENSOLDT AG controlled material subsidiaries. The group entities prepare their financial statements as at same reporting

date as for which the Group prepares its consolidated financial statements. 32 entities (PY: 32) were fully consolidated. One entity was included in the Group using the equity method. 13 companies (PY: 13) as listed below were not consolidated.

Company	Registered Office	Equity in € million	Profit/loss in € million	Equity interest	Type of interest
Atlas Optronics LLC <sup>1</sup>	Abu Dhabi/United Arab Emirates	N/A	N/A	49.0%	AC
Deutsche Elektronik Gesellschaft für Algerien (DEGFA) GmbH <sup>1</sup>	Ulm/Germany	10.4	-0.3	66.7%	JV
EURO-ART Advanced Radar Technology GmbH <sup>1</sup>	Munich/Germany	0.2	0.0	25.0%	AC
EURO-ART International EWIV <sup>1</sup>	Munich/Germany	1.1	0.0	50.0%	AC
EUROMIDS S.A.S. <sup>1</sup>	Paris/France	3.2	0.3	25.0%	AC
LnZ Optronics Co., Ltd. <sup>1</sup>	Seoul/South-Korea	1.4	0.0	50.0%	AC
HENSOLDT do Brasil Segurança e Defesa Eletrônica e Óptica Ltda <sup>1</sup>	Belo Horizonte/Brazil	-0.1	0.1	99.0%	NC
Société Commune Algérienne de Fabrication de Systèmes Electroniques (SCAFSE) SPA <sup>1</sup>	Sidi Bel Abbès/Algeria	27.4	1.6	49.0%	JV
HENSOLDT Inc. <sup>1</sup>	Wilmington (North Carolina)/USA	-4.8	-1.7	100.0%	NC
HENSOLDT Private Ltd. <sup>3</sup>	Bangalore/India	0.1	0.1	100.0%	NC
Nexeya USA Inc. <sup>2</sup>	Beaufort (North Carolina)/USA	0.0	0.0	100.0%	NC
Antycip Iberica SL <sup>1</sup>	Barcelona/Spain	0.0	0.0	100.0%	NC
PMTL-PEINTURE COMPOSITE S.A.S. <sup>2</sup>	L'Isle-Jourdain/France	0.1	-0.1	49.8%	AC

NC: Non-consolidated affiliated company for reasons of immateriality valued at cost

AC: Associated company valued at cost for reasons of immateriality

JV: Joint ventures pursuant to IFRS 11 valued at cost for reasons of immateriality

<sup>1</sup> Equity and profit/loss 2019

<sup>2</sup> Equity and profit/loss June 30, 2020

<sup>3</sup> Equity and profit/loss March 31, 2020

N/A: No financial data available.

# 7 ACQUISITIONS

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## 7.1 Acquisitions in the previous reporting period

### **Nexeya France S.A.S.**

As at October 1, 2019, HENSOLDT acquired 100.0% of the shares and voting rights in Nexeya France S.A.S., Toulouse, France ("Nexeya"). The preliminary purchase price amounted to €88.8 million. The process of the determining the final purchase price resulted in the

adjustment of the purchase price by €9.6 million to €79.2 million and of the recognized goodwill from €49.8 million to €40.2 million, respectively, in the fiscal year 2020. The adjustment (assets +€11.7 million, liabilities +€2.1 million) was made retrospectively as of December 31, 2019, adjusting the prior-year comparative figures.

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## 7.2 Acquisitions after balance the reporting period

### **HENSOLDT Analytics GmbH and Tellumat (Pty) Ltd.**

At the beginning of 2021, 100.0% of the shares in HENSOLDT Analytics GmbH (formerly known as: SAIL

LABS Technology GmbH), Vienna, and two business units (ATM and Defence Division) of Tellumat (Pty) Ltd, South Africa, were acquired. The total preliminary purchase price amounted to €7.7 million.

# 8 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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HENSOLDT Cyber GmbH, Taufkirchen, District of Munich, is a 51.0% joint venture founded in 2017 by HENSOLDT Holding Germany GmbH and Secure Elements GmbH, Munich. The Company's purpose is the development, production, integration and sale of solutions in the areas of IT hardware, software and services.

The share capital of the company amounts to €25.0 thousand. In the previous year, HENSOLDT Holding

Germany GmbH contributed payments in the amount of €3,0 million into the capital reserve . In 2020, HENSOLDT Cyber GmbH reported a loss of €5.1 million. The at-equity valuation of the investment of €1.2 million was fully written off in 2020 (PY: €1.2 million). A short-term loan granted by HENSOLDT Holding Germany GmbH as part of the net investment in HENSOLDT Cyber GmbH was reduced by the pro-rata loss of €1.4 million. After the impairment, the loan amounted to €7.8 million.

# 9 TRANSACTIONS WITH RELATED PARTIES

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## 9.1 Related parties and entities

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

AG of 20,0% or more or another key management position.

As of August 17, 2020, the key management personnel of the HENSOLDT Group is the Management Board and the Supervisory Board of HENSOLDT AG.

Until August 17, 2020, the key management personnel was the Management Board of HENSOLDT GmbH as well as the supervisory board of HENSOLDT Holding GmbH.

Related parties of HENSOLDT AG are:

Members of the Management Board:

- Thomas Müller, CEO;
- Axel Albert Hans Salzmann, CFO; and
- Peter Fieser, CHRO.

Members of the Supervisory board:

- Johannes P. Huth, Partner of an investment company, 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;
- Jürgen Bühl, Trade Union Secretary of the IGM Management Board;
- Dr. Frank Döngi, Chairman of the Company Spokesperson Committee of senior management (as of March 01, 2020);
- Winfried Fetzer, Chairman of the Works Council, Chairman of the General Works Council of HENSOLDT Optronics GmbH;
- Prof. Dr. h.c. Wolfgang Ischinger;
- Ingrid Jägering;
- Marion Koch, Member of the Works Council of HENSOLDT Sensors GmbH (as of August 11, 2020);
- Christian Ollig;
- Prof. Dr. Burkhard Schwenker;
- Julia Wahl, Union Secretary of IGM (as of January 31, 2019);
- Claire Wellby (from March 01, 2020);
- Thomas Hoepfner, Chairman of the Works Council / Deputy Chairman of the General Works Council of HENSOLDT Sensors GmbH (until August 10, 2020);
- Martin Mix (till February 29, 2020);
- Peter Härtle, Chairman of the Company Spokesperson Committee of senior management (until February 29, 2020); and
- Ingo Zeeh, Member of the Works Council of HENSOLDT Optronics (as of January 01, 2021).

Square Lux Holding II S.à r.l., Luxembourg, (hereinafter also "Square") holds a direct majority interest as controlling company in HENSOLDT AG (formerly: HENSOLDT GmbH) since November 29, 2019. Until the IPO in 2020, Square held 100,0% of the shares, as of December 31, 2020 Square holds 68,3% of the shares.

Through other parent companies of Square, the Company's ultimate parent is KKR Square Aggregator L.P., Canada (hereinafter also "KKR") and its subsidiaries. KKR is a holding company of investment funds indirectly held by Kohlberg Kravis Roberts & Co L.P. and its affiliates. HENSOLDT AG is also indirectly majority-owned by Square Lux Midco 1 & Co S.C.A., Luxembourg, which is owned by KKR.

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

Other related parties of HENSOLDT AG are companies in which HENSOLDT AG either directly or indirectly holds a majority interest.

Additional related parties are HENSOLDT Sensors GmbH's pension fund, HENSOLDT Pension Trust e.V. (including its subsidiaries), as well as the non-consolidated subsidiaries of the Group.

#### Management participation

The members of the Management Board of HENSOLDT AG, as well as other executives and board members of the HENSOLDT Group can indirectly participate in HENSOLDT AG by indirect acquisitions of ordinary shares and in some cases also of interest-bearing Convertible Preferred Equity Certificates issued by Square Lux Midco 1 & Co S.C.A. In the absence of a monetary benefit at the time of the entry or exit of the participants, no expense is recognized in the consolidated financial statements at any time (neither in the event of an exit nor in the event of the resignation of the manager).

## 9.2 Related party transactions

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

in € million	Fiscal year	
	2020	2019
<b>Revenues</b>		
Joint ventures	13.8	57.4
Associates	51.3	13.7
Non-consolidated companies	22.4	25.3
<b>Other income and cost reimbursements</b>		
Parent company	5.2	-
Joint ventures	1.1	0.8
Other related parties	10.1	14.2

	Fiscal year	
in € million	2020	2019
<b>Purchases of goods and services</b>		
Joint ventures	0.6	0.2
Associates	3.9	0.5
Non-consolidated companies	1.1	1.6
Other related parties	24.8	13.7
<b>Other expenses</b>		
Other related parties	-	21.4

	Dec. 31,	Dec. 31,
in € million	2020	2019
<b>Receivables</b>		
Joint ventures	74.0	71.9
Associates	20.9	14.7
Non-consolidated companies	4.3	5.5
Other related parties	0.1	0.1
<b>Liabilities</b>		
Joint ventures	0.9	1.5
Associates	3.2	2.5
Non-consolidated companies	0.2	0.0
Other related parties	4.1	4.8

In course of HENSOLDT AG's IPO, HENSOLDT AG has charged expenses to the net amount of €5.2 million on a pro-rata basis to the parent company under the cost-sharing and compensation agreement in which the Company entered into with Square Lux Holding II S.à r.l., Luxembourg.

Expenses with other related parties include expenses associated with the IPO and fees for KKR Capital Markets Partners LLP for the accompanying refinancing of the Group in the amount of €4.2 million (PY: €0.0 million), fees for KKR Capstone Americas LLP in the amount of €30 thousand (PY: €0.0 million), fees for KKR Capital Markets (Ireland) Ltd. in the amount of €5.5 million

(PY: €0.0 million), and expenses related to leased buildings in the amount of €15.1 million (PY: €13.7 million). Other expenses include interest paid to Square Lux Finco S.à r.l. in the amount of €0.0 million (PY: €21.4 million),

Receivables and liabilities from related parties in 2020 mainly relate to trade receivables and trade liabilities. Receivables from joint ventures include a loan of €7.8 million (PY: €3.0 million) to HENSOLDT Cyber GmbH.

Further information regarding the financing of pension plans of the Group which are considered related parties are presented under Note V.32.

### 9.3 Related parties

The members in key positions of HENSOLDT AG and the Group are, as of August 17, 2020, the members of the Management Board and the members of the Supervisory Board of HENSOLDT AG. Until August 17, 2020, they were the members of the Management Board of HENSOLDT GmbH and the members of the Supervisory Board of HENSOLDT Holding GmbH.

In the previous year, until November 29, 2019, the Group's key management personnel consisted of the Management Team and the Supervisory Board of HENSOLDT Holding GmbH. The Management Team of HENSOLDT Holding GmbH consisted of the members of the Management Board and other executive positions. Since November 29, 2019, HENSOLDT GmbH has been the new parent company of the Group.

#### Remuneration of the Management Board

The members of the Management Board received salaries and other short-term benefits (including bonuses)

totaling €3.2 million (PY: €2.8 million) for the fiscal year. The members of the Management Board were granted contributions to the company pension scheme totaling €0.4 million (PY: €0.4 million).

Therefore, the total compensation and benefits granted to the members of the Management Board amounted to €3.6 million (PY: €3.3 million).

#### Remuneration of the Supervisory Board

The compensation of the members of the Supervisory Board comprised a general compensation and an additional compensation for committee activities amounting in total to €0.6 million (PY: €0.5 million), including attendance fees.

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





# III GROUP PERFORMANCE

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# 10 OPERATING SEGMENTS

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## 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 segments Sensors and Optronics.

### Sensors segment

The Sensors segment provides system solutions and comprises the three divisions Radar, Identification Friend or Foe ("IFF") & Data Communications ("COMMS"), Spectrum Dominance & Airborne Solutions, and Customer Services, as well as Others/Elimination. The solutions of the Radar, IFF & COMMS and the Spectrum Dominance & Airborne Solutions divisions are complementary in the value chain, resulting in interdependencies between the two such as shared engineering and operations. As an aftersales division, the Customer Services division is positioned further down the value chain and largely dependent on the primary business of the other two divisions of the Sensors segment.

#### *Radar, IFF & COMMS*

Within the Radar, IFF & COMMS division, the Group develops and manufactures mobile and stationary radar and IFF systems used for surveillance, reconnaissance, air traffic control (ATC) and air defense. 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, IFF & COMMS division also includes systems for establishing secure data connections for air, sea and land platforms.

#### *Spectrum Dominance & Airborne Solutions*

The Spectrum Dominance & Airborne Solutions division includes electronic systems for the acquisition and evaluation of radar and radio signals and jammers, which are used, for example, to protect convoys or individual vehicles against improvised explosive devices. In addition to applications on the electromagnetic

spectrum for land, sea and air applications, the product range is being extended to include defensive cyber-solutions. Furthermore, the Group offers electronic self-protection systems integrating missile, laser and radar warning sensors with countermeasures for air, sea and ground platforms and provides military and civil avionics systems such as situational awareness systems, mission computers and flight data recorders. Systems from the Spectrum Dominance & Airborne Solutions division are used in fighter aircraft such as the Eurofighter and Tornado, the Airbus A400M transport aircraft and various helicopter models.

#### *Customer Services*

The Customer Services division encompasses a range of customer support and service activities, as well as maintenance over the entire lifecycle of the platforms and systems developed in the other two divisions of the Sensors segment. Simulation solutions, training courses and special services are also offered within this division.

Others/Elimination includes others, mainly comprising components for anti-aircraft missile defense systems, funded military studies and funding projects, and the elimination of intra-segment revenue between the three divisions of the Sensors segment.

### Optronics segment

The Optronics segment comprises optronics and optical and precision instruments for military, security and civil applications that can be used on land, in water and in the air. On land, the product range includes rifle scopes, sights, laser rangefinders, night vision devices, and thermal imaging cameras that assist snipers and infantry soldiers with observation and target acquisition. In addition, devices for surveillance and target acquisition are offered for armored vehicles. For use at sea, submarine periscopes, optronic mast

systems and other electro-optical systems are offered. In the air, the product portfolio includes stabilized sensor platforms with image stabilizers for helicopters, manned fixed-wing aircraft and drones, which support their surveillance and target acquisition. HENSOLDT also offers

mobile and stationary surveillance solutions for security applications, as well as special equipment for industrial and space applications within this segment. Further, 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 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.

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

				2020
in € million	Sensors	Optronics	Elimination/ Transveral/ Others	Group
Material non-cash items other than depreciation and amortisation:				
Additions to other provisions	-85.3	-45.6	-	-130.9
Dissolution of other provisions	13.1	4.9	-	18.0
Entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method	-	-	-2.6	-2.6

				2020
in € million	Sensors	Optronics	Elimination/ Transveral/ Others	Group
<b>EBITDA</b>	<b>155.3</b>	<b>64.9</b>	<b>-30.9</b>	<b>189.3</b>
Separation cost	-	-	0.0	0.0
Transaction cost	-	-	0.9	0.9
IPO cost	-	-	15.8	15.8
Other non-recurring effects	0.9	0.7	11.7	13.3
<b>Adjusted EBITDA</b>	<b>156.2</b>	<b>65.6</b>	<b>-2.5</b>	<b>219.3</b>
<i>Margin adjusted EBITDA <sup>1</sup></i>	<i>16.9%</i>	<i>22.8%</i>		<i>18.2%</i>
Depreciation and Amortization	-90.5	-30.2	-0.1	-120.8
<b>EBIT</b>	<b>64.8</b>	<b>34.7</b>	<b>-31.0</b>	<b>68.5</b>
Effect on earnings from purchase price allocations	54.0	14.7	-	68.6
Separation cost	-	-	0.0	0.0
Transaction cost	-	-	0.9	0.9
IPO cost	-	-	15.8	15.8
Other non-recurring effects	0.9	0.7	11.7	13.4
<b>Adjusted EBIT</b>	<b>119.7</b>	<b>50.1</b>	<b>-2.6</b>	<b>167.2</b>
<i>Margin adjusted EBIT <sup>1</sup></i>	<i>13.0%</i>	<i>17.4%</i>		<i>13.9%</i>

<sup>1</sup> Based on external revenue

				2020
in € million	Sensors	Optronics	Elimination/ Transveral/ Others	Group
<b>EBIT</b>	<b>64.8</b>	<b>34.7</b>	<b>-31.0</b>	<b>68.5</b>
Finance income/costs	-	-	-	-143.7
<b>EBT</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-75.2</b>

Other non-recurring effects in 2020 include efforts for efficiency programs (HENSOLDT GO!), post-merger-integration and structural development of the HENSOLDT Group.

				2019
in € million	Sensors	Optronics	Elimination/ Transveral/ Others	Group
Order Intake	657.5	383.3	-0.8	1,040.0
Order Backlog as per December 31	1,567.8	634.5	-	2,202.3
Revenues from external customers	836.6	275.5	2.1	1,114.2
Intersegment revenues	0.5	2.0	-2.5	-0.0
<b>Segment revenues</b>	<b>837.1</b>	<b>277.4</b>	<b>-0.3</b>	<b>1,114.2</b>

				2019
in € million	Sensors	Optronics	Elimination/ Transveral/ Others	Group
Material non-cash items other than depreciation and amortisation:				
Additions to other provisions	-75.9	-68.1	-	-144.0
Dissolution of other provisions	24.9	17.7	-	42.5
Capitalized interest	-	-	-21.4	-21.4
Entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method	-	-	-1.2	-1.2

				2019
in € million	Sensors	Optronics	Elimination/ Transveral/ Others	Group
<b>EBITDA</b>	<b>162.5</b>	<b>53.3</b>	<b>-19.9</b>	<b>195.9</b>
Separation cost	-	-	-4.9	-4.9
Transaction cost	-	-	0.5	0.5
IPO cost	-	-	5.5	5.5
Other non-recurring effects	-	1.0	17.6	18.6
<b>Adjusted EBITDA</b>	<b>162.5</b>	<b>54.3</b>	<b>-1.2</b>	<b>215.6</b>
<i>Margin adjusted EBITDA <sup>1</sup></i>	<i>19.4 %</i>	<i>19.6 %</i>		<i>19.3 %</i>
Depreciation and Amortization	-101.9	-31.6	-0.3	-133.8
<b>EBIT</b>	<b>60.6</b>	<b>21.6</b>	<b>-20.2</b>	<b>62.1</b>
Effect on earnings from purchase price allocations	61.9	16.9	-	78.8
Separation cost	-	-	-4.9	-4.9
Transaction cost	-	-	0.5	0.5
IPO cost	-	-	5.5	5.5
Other non-recurring effects	-	1.0	17.9	18.8
<b>Adjusted EBIT</b>	<b>122.4</b>	<b>39.5</b>	<b>-1.2</b>	<b>160.8</b>
<i>Margin adjusted EBIT <sup>1</sup></i>	<i>14.6 %</i>	<i>14.2 %</i>		<i>14.4 %</i>

<sup>1</sup> Based on external revenue

				2019
in € million	Sensors	Optronics	Elimination/ Transveral/ Others	Group
<b>EBIT</b>	<b>60.6</b>	<b>21.6</b>	<b>-20.2</b>	<b>62.1</b>
Finance result	-	-	-	-26.5
<b>EBT</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>35.6</b>

Other non-recurring effects in 2019 include efforts for efficiency programs ("HENSOLDT GO!"), M&A projects, post-merger-integration and structural development of the HENSOLDT Group.

## 10.3 Geographical information

	Fiscal year	
in € million	2020	2019
<b>Revenue</b>		
Europe	920.2	742.8
<i>(thereof Germany)</i>	622.8	483.3
Middle East	155.8	164.8
APAC	44.2	82.4
North America	53.1	40.9
Africa	48.0	86.3
LATAM	13.3	19.2
Other regions/Consolidation	-27.6	-22.3
	<b>1,206.9</b>	<b>1,114.2</b>

	Dec. 31,	Dec. 31,
in € million	2020	2019
<b>Non-current assets</b>		
Germany	1,136.3	1,129.9
Other regions	133.6	158.3
	<b>1,269.9</b>	<b>1,288.3</b>

## 10.4 Major customers

Within its two segments, the HENSOLDT Group has three customers that each generate more than 10% of total revenue. From the first customer a revenue of €250.7 million (PY: €239.6 million) was recognized,

revenue from the second customer amounted to €149.2 million (PY: €115.4 million). Revenue of €119.0 million (PY: €124.2 million) was recognized from the third customer.

# 11 REVENUE AND COST OF SALES

## 11.1 Revenue

For reporting purposes, the Group distinguishes between two categories for revenue recognition: sales and aftersales. The aftersales category includes 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 do not fall into the aftersales category are 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	Other	2020
<b>Revenue from contracts with customers</b>				
Sales	655.5	246.9	-	902.3
Aftersales	267.8	35.2	-	303.0
Exchange rate differences	-0.7	2.3	-	1.6
<b>Total</b>	<b>922.5</b>	<b>284.4</b>	<b>-</b>	<b>1,206.9</b>

				Fiscal year
in € million	Sensors	Optronics	Other	2020
<b>Point of time of revenue recognition</b>				
Revenue recognition at a point in time	480.5	276.1	-	756.6
Revenue recognition over time	442.7	6.0	-	448.7
Exchange rate differences	-0.7	2.3	-	1.6
<b>Total</b>	<b>922.5</b>	<b>284.4</b>	<b>-</b>	<b>1,206.9</b>

				Fiscal year
in € million	Sensors	Optronics	Other	2019
<b>Revenue from contracts with customers</b>				
Sales	625.4	241.7	-	867.0
Aftersales	210.1	34.3	-	244.4
Exchange rate changes	1.1	-0.5	2.1	2.7
<b>Total</b>	<b>836.6</b>	<b>275.5</b>	<b>2.1</b>	<b>1,114.2</b>



				Fiscal year
in € million	Sensors	Optronics	Other	2019
<b>Point of time of revenue recognition</b>				
Revenue recognition at a point in time	497.6	259.6	-	757.2
Revenue recognition over time	337.9	16.4	-	354.3
Exchange rate changes	1.1	-0.5	2.1	2.7
<b>Total</b>	<b>836.6</b>	<b>275.5</b>	<b>2.1</b>	<b>1,114.2</b>

## 11.2 Contract assets and contract liabilities

in € million	Contract assets	Contract liabilities
<b>As of Jan. 01, 2019</b>	<b>80.7</b>	<b>357.6</b>
Revenue recognized in the reporting period that was included in the contract liability balance at the beginning of the period	-	-145.4
Increases due to cash received, except for amounts which were recognized as revenue during the reporting period	-	116.8
Reclassifications from contract assets, which were recognized at the beginning of the period, to receivables	-31.3	-
Increases due to changes in the determination of stage of completion	90.3	-
Changes in the estimate of the transaction price or contract modification	2.0	-4.7
Changes due to business combinations	23.6	3.4
Other	0.7	5.8
<b>As of Dec. 31, 2019</b>	<b>165.9</b>	<b>333.5</b>
Revenue recognized in the reporting period that was included in the contract liability balance at the beginning of the period	-	-82.8
Increases due to cash received, except for amounts which were recognized as revenue during the reporting period	-	193.7
Reclassifications from contract assets, which were recognized at the beginning of the period, to receivables	-33.9	-
Increases due to changes in the determination of stage of completion	79.2	-
Changes due to business combinations	-	-
Other	-6.8	-11.5
<b>As of Dec. 31, 2020</b>	<b>204.4</b>	<b>432.8</b>

An impairment of €0.3 million (PY: €0.4 million) is included in the carrying amount of the contract assets.

Revenue from performance obligations, which had been (partially) fulfilled in prior periods, in the amount of €0.9 million (PY: €3.8 million) was recognized in the reporting period.

## 11.3 Transaction price for remaining performance obligations

As of December 31, 2020, the total amount of the transaction price allocated to remaining performance obligations amounted to €3,424 million (PY: €2,202 million). Management expects that 30.6% of this transaction price will be

recognized as revenue in the next reporting period and a further 36.0% in the period between 2022 and 2023. The remaining 33.4% will be recognized in fiscal year 2024 and following years.

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## 11.4 Cost of sales

Cost of sales includes amortization from adjustments to the fair values of assets as part of the purchase price allocations of €68.6 million (PY: €78.8 million).

Inventories recognized as an expense in the reporting period amounted to €774.4 million (PY: €698.8 million).

# 12 RESEARCH AND DEVELOPMENT COSTS

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Research and development costs amounted to €25.1 million (PY: €31.0 million).

For the capitalization of development costs, please refer to Note IV.17.

# 13 OTHER OPERATING INCOME AND EXPENSES

## 13.1 Other operating income

in € million	Fiscal year	
	2020	2019
Reinvoiced services	16.5	22.7
Others	2.4	2.6
<b>Other operating income</b>	<b>18.9</b>	<b>25.3</b>

Other operating income mainly relates to recharged facility- and administrative services as well as IT services.

## 13.2 Other operating expenses

in € million	Geschäftsjahr	
	2020	2019
Reinvoiced costs	15.0	20.0
Other	1.1	4.8
<b>Other operating expenses</b>	<b>16.1</b>	<b>24.8</b>

Other operating expenses mainly relates to facility and administrative services.

# 14 FINANCE RESULT

in € million	Fiscal year	
	2020	2019
Interest income from plan assets	2.6	3.6
Other interest income	0.6	54.4
<i>thereof changes in fair value of embedded derivatives</i>	-	54.2
Other	0.9	0.9
<b>Interest income</b>	<b>4.0</b>	<b>58.9</b>
Loan (Term Loan)	-108.2	-34.4
<i>thereof changes in fair value of embedded derivatives</i>	-50.9	-
<i>thereof catch-up effect from preliminary contract termination</i>	-27.9	-
Revolving Credit Facility	-5.2	-2.6
Shareholder loan (Square Lux Finco S.à r.l.)	-	-21.4
Interest expense from swap	-4.3	-3.4
Interest expenses on provisions for employee benefits	-8.1	-8.6
Interest expenses on lease liabilities	-9.7	-9.8
Other	-2.3	-3.3
<b>Interest expense</b>	<b>-137.7</b>	<b>-83.5</b>
Bank fees	-7.6	-5.2
Foreign currency translation of monetary items	-2.0	2.6
Other	-0.4	0.7
<b>Other finance income/costs</b>	<b>-10.0</b>	<b>-1.9</b>
<b>Total finance costs</b>	<b>-143.7</b>	<b>-26.5</b>

# 15 INCOME TAX

Income taxes are broken down as follows:

in € million	Fiscal year	
	2020	2019
Current tax expense expenses (-)/income (+)	-9.4	-8.8
<i>thereof which income tax attributable to the prior year</i>	-0.3	2.2
Deferred taxes expense (-)/income (+)	20.1	-18.6
<i>thereof changes in temporary differences</i>	12.4	-13.0
<b>Recognized tax expense (-)/income (+)</b>	<b>10.7</b>	<b>-27.4</b>
Deferred tax income recognized directly in equity	13.3	24.5

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 2020:

in € million	Fiscal year	
	2020	2019
Earnings before income tax profit (+)/loss (-)	-75.2	35.6
<i>Income tax rate</i>	28.3 %	28.3 %
Expected income taxes on this expense (-)/income (+)	21.3	-10.1
Effects deriving from differences to the expected tax rate	-0.3	0.1
Change in the tax rate and tax laws	-0.1	-0.1
Taxes for prior years	1.8	3.4
Non-deductible interest expenses	-1.2	-1.7
Other non-deductible expenses and taxes as well as effects from change from permanent balance sheet differences	-2.3	-6.7
Tax-exempt income	0.6	0.2
Changes in the expected utilization of deferred tax assets	-8.5	-13.6
Other	-0.6	1.1
<b>Income tax as per income statement expense (-)/income (+)</b>	<b>10.7</b>	<b>-27.4</b>
<i>Effective tax rate in %</i>	14.3 %	77.0 %

Deferred tax assets and deferred tax liabilities are recognized in accordance with IAS 12 Income Taxes if future tax effects, either due to temporary differences between the carrying amounts of existing assets and

liabilities and their tax bases or due to loss carryforwards, are expected. Deferred tax assets and deferred tax liabilities resulting from valuation differences in the balance sheet items are composed as follows:

	Dec. 31,	Dec. 31,
in € million	2020	2019
<b>Deferred tax assets</b>		
<b>Assets</b>		
Intangible assets	-	0.0
Property, plant and equipment	0.7	0.8
Financial assets	0.2	0.3
Inventories and contract assets	3.5	43.0
Receivables and other assets	1.7	5.8
<b>Liabilities</b>		
Provisions	96.6	85.5
Liabilities	146.8	50.2
<b>Loss carryforwards</b>	31.8	34.4
<b>Tax credits</b>	10.2	0.3
<b>Other</b>	0.0	1.3
<b>Deferred tax assets (gross)</b>	<b>291.5</b>	<b>221.7</b>
Netting	-265.3	-191.4
<b>Deferred tax assets (net)</b>	<b>26.3</b>	<b>30.4</b>

	Dec. 31,	Dec. 31,
in € million	2020	2019
<b>Deferred tax liabilities</b>		
<b>Assets</b>		
Intangible assets	131.1	97.7
Property, plant and equipment	3.8	4.3
Financial assets	0.9	0.2
Inventories and contract assets	74.6	63.0
Receivables and other assets	3.0	18.5
<b>Liabilities</b>		
Provisions	23.9	31.1
Liabilities	35.3	21.5
<b>Other</b>	<b>0.3</b>	<b>0.0</b>
<b>Deferred tax liabilities (gross)</b>	<b>273.0</b>	<b>236.2</b>
Netting	-265.3	-191.4
<b>Deferred tax liabilities (net)</b>	<b>7.7</b>	<b>44.8</b>
<b>Excess of deferred tax assets (+)/deferred tax liabilities (-)</b>	<b>18.5</b>	<b>-14.5</b>

The assessment of whether deferred tax assets are impaired depends on the management's estimate if there will be a future taxable profits available against which the Group can use the benefits therefrom.

As of December 31, 2020, the Company did not recognize 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 recognized amounted to €2.4 million (PY: €2.8 million).

As of December 31, 2020, the following loss and interest carryforwards are recognized (gross):

	Dec. 31,	Dec. 31,
in € million	2020	2019
Corporate tax loss carryforwards	155.6	129.2
Trade tax loss carryforwards	155.1	123.1
Interest carryforwards	180.8	150.8
Tax credits	-0.0	0.3

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

	Dec. 31,	Dec. 31,
in € million	2020	2019
Corporate tax loss carryforwards	44.9	8.7
Trade tax loss carryforwards	44.9	8.3
Interest carryforwards	140.1	150.8

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

in € million	Fiscal year	
	2020	2019
Consolidated profit attributable to the owners of HENSOLDT AG	-65.2	5.9
Weighted average number of ordinary shares (in millions)	86.6	80.0
<b>Basic and diluted earnings per share (in €)</b>	<b>-0.75</b>	<b>0.07</b>

The earnings per share were, due to the issue of equity to the amount of €70.0 million from own funds in 2020, determined under the assumption that HENSOLDT AG had already issued 80.0 million shares in 2019.

# IV OPERATING ASSETS AND LIABILITIES

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# 17 INTANGIBLE ASSETS

Intangible assets (excluding goodwill) as of December 31 consisted of the following:

in € million	Licenses, patents and other rights	Other intangible assets	Capitalized development costs	Customer relationship, technology, order backlog, brand	Advance payments and construction in progress	Total
<b>Cost</b>						
<b>As of Jan. 01, 2019</b>	<b>6.3</b>	<b>0.3</b>	<b>60.9</b>	<b>505.7</b>	<b>3.1</b>	<b>576.4</b>
Acquisition through business combinations	0.4	-	0.6	35.1	0.3	36.3
Additions	3.0	0.0	55.1	-	1.0	59.1
Reclassifications	0.5	-	-	-	-0.4	0.2
Currency translation	0.0	-	0.7	-	-	0.7
<b>As of Dec. 31, 2019</b>	<b>10.2</b>	<b>0.3</b>	<b>117.3</b>	<b>540.8</b>	<b>4.0</b>	<b>672.7</b>
Additions	2.8	0.1	62.1	-	1.2	66.1
Disposals	-	-	-12.6	-	-	-12.6
Reclassifications	-	-	-	-	-2.6	-2.6
Currency translation	-	-	-1.5	-	-	-1.5
<b>As of Dec. 31, 2020</b>	<b>13.0</b>	<b>0.4</b>	<b>165.3</b>	<b>540.8</b>	<b>2.6</b>	<b>722.1</b>
<b>Accumulated amortization and impairment losses</b>						
<b>As of Jan. 01, 2019</b>	<b>-3.4</b>	<b>-0.1</b>	<b>-14.8</b>	<b>-159.3</b>	<b>-</b>	<b>-177.6</b>
Additions	-3.6	-0.1	-9.7	-78.0	-	-91.5
Currency translation	-	-	-0.2	-	-	-0.2
<b>As of Dec. 31, 2019</b>	<b>-7.1</b>	<b>-0.3</b>	<b>-24.6</b>	<b>-237.3</b>	<b>-</b>	<b>-269.4</b>
Additions	-2.5	-0.1	-9.0	-67.9	-	-79.5
Disposals	0.0	-	12.6	-	-	12.6
Currency translation	-	-	0.3	-	-	0.3
<b>As of Dec. 31, 2020</b>	<b>-9.6</b>	<b>-0.4</b>	<b>-20.7</b>	<b>-305.3</b>	<b>-</b>	<b>-336.0</b>
<b>Carrying amount</b>						
<b>As of Dec. 31, 2019</b>	<b>3.1</b>	<b>0.0</b>	<b>92.7</b>	<b>303.5</b>	<b>4.0</b>	<b>403.3</b>
<b>As of Dec. 31, 2020</b>	<b>3.4</b>	<b>0.0</b>	<b>144.6</b>	<b>235.5</b>	<b>2.6</b>	<b>386.1</b>

The category “customer relationship, technology, order backlog and brand” includes the HENSOLDT brand with an indefinite useful live.

The carrying amount of the HENSOLDT brand amounted to €55.4 million as of December 31, 2020 (PY: €55.4 million).  
In fiscal year 2020, no impairment losses were recognized.

## 17.1 Development costs

The Group capitalized development costs in fiscal year 2020 of €62.1 million (PY: €55.1 million) as internally generated intangible assets, primarily for development of various radar and sensor technologies such as ASR-NG, TRML4D, TRS4D, IMEX/RESM, Spexer FLASH-NG, ARGUS-LWS.

In 2020, two development projects that had already started were fully impaired due to changed requirements. The impairment loss of €0.9 million was recognized in cost of sales. In 2019, no impairment losses were recognized for either development work commenced or completed.

## 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
<b>Goodwill as of Jan 1, 2019</b>	<b>510.0</b>	<b>83.8</b>	<b>593.8</b>
Additions Nexeya	49.8	-	49.8
Additions HENSOLDT Australia Pty Ltd	3.2	-	3.2
<b>As of Dec. 31, 2019</b>	<b>563.0</b>	<b>83.8</b>	<b>646.8</b>
Purchase price adjustments Nexeya	-9.6	-	-9.6
<b>As of Jan. 01, 2020</b>	<b>553.4</b>	<b>83.8</b>	<b>637.2</b>
<b>As of Dec. 31, 2020</b>	<b>553.4</b>	<b>83.8</b>	<b>637.2</b>

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 recorded.

The calculation of the value in use, which is performed in the fourth quarter of each year as of September 30, is based on a DCF model. The cash flows are derived from the budget for the next three years and do not include

restructuring activities, which the Group is not yet obligated to do, nor significant future investments that will improve the performance of the assets of the CGU tested. The recoverable amount depends on the discount rate used for the DCF model, the expected future cash flows and the growth rate used for extrapolation purposes. These estimates are mainly relevant for goodwill and other intangible assets with indefinite useful lives recognized by HENSOLDT.

Following key assumptions were used in the estimation of the value in use:

Assumptions in %	Dec. 31, 2020		Dec. 31, 2019	
	Sensors	Optronics	Sensors	Optronics
Discount rate (post-tax)	6.0%	6.0%	5.9%	5.9%
Sustainable growth rate	1.0%	1.0%	1.0%	1.0%
Projected sustainable EBIT margin	13.0%	13.0%	13.3%	13.3%

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 the 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 a branch specific debt ratio. The cost of equity is derived market based from the return on investment expected by the Group's equity investors depending on their risk expectation. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. The sector 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 8.03% (PY: 7.95%) for the CGU Sensors and 8.30% (PY: 8.20%) for the CGU Optronics.

The forecasted cash flows used by the 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 perpetual annuity is calculated. The perpetual annuity underlies a sustainable growth rate of 1.0%.

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

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

# 18 PROPERTY, PLANT AND EQUIPMENT

Property, plant, and equipment as of December 31 consisted of the following:

in € million	Land, improvements and buildings	Technical equipment and machinery	Other equipment operating and office equipment	Construction in progress	Total
<b>Cost</b>					
<b>As of Jan. 01, 2019</b>	<b>8.8</b>	<b>74.1</b>	<b>28.1</b>	<b>15.4</b>	<b>126.3</b>
Acquisition through business combinations	1.4	0.7	0.4	1.5	4.0
Additions	0.3	8.8	6.4	5.8	21.4
Disposals	-0.2	-0.8	-0.4	-	-1.4
Reclassifications	2.6	1.2	1.1	-5.0	-0.2
Currency translation	0.2	0.4	0.2	0.0	0.7
<b>As of Dec. 31, 2019</b>	<b>13.1</b>	<b>84.4</b>	<b>35.6</b>	<b>17.7</b>	<b>150.9</b>
Additions	0.2	16.7	7.6	6.6	31.0
Disposals	-0.0	-2.1	-0.4	-0.1	-2.6
Reclassifications	1.1	9.5	0.4	-8.5	2.5
Currency translation	-0.3	-1.2	-0.4	-0.1	-2.0
<b>As of Dec. 31, 2020</b>	<b>14.1</b>	<b>107.3</b>	<b>42.8</b>	<b>15.6</b>	<b>179.8</b>
<b>Accumulated amortization and impairment losses</b>					
<b>As of Jan. 01, 2019</b>	<b>-0.5</b>	<b>-25.6</b>	<b>-10.9</b>	<b>-</b>	<b>-37.1</b>
Additions	-0.5	-14.2	-6.4	-	-21.1
Disposals	-	0.3	0.2	-	0.5
Reclassifications	-	-	-	-	-
Currency translation	-0.0	-0.2	-0.1	-	-0.2
<b>As of Dec. 31, 2019</b>	<b>-1.1</b>	<b>-39.7</b>	<b>-17.2</b>	<b>-</b>	<b>-58.0</b>
Additions	-0.5	-14.6	-6.8	-	-21.9
Disposals	-	2.1	0.3	-	2.4
Reclassifications	-	0.0	0.1	-	0.1
Currency translation	0.0	0.5	0.2	-	0.7
<b>As of Dec. 31, 2020</b>	<b>-1.6</b>	<b>-51.7</b>	<b>-23.4</b>	<b>-</b>	<b>-76.7</b>
<b>Carrying amount</b>					
<b>As of Dec. 31, 2019</b>	<b>12.0</b>	<b>44.8</b>	<b>18.4</b>	<b>17.7</b>	<b>92.9</b>
<b>As of Dec. 31, 2020</b>	<b>12.5</b>	<b>55.7</b>	<b>19.3</b>	<b>15.6</b>	<b>103.1</b>

In the fiscal years 2020 and 2019, no impairment losses were recognized.

# 19 OTHER INVESTMENTS AND OTHER NON-CURRENT FINANCIAL ASSETS

	Dec. 31,	Dec. 31,
in € million	2020	2019
Other investments	11.2	11.2
Other non-current financial assets	0.1	3.5
<b>Other investments and other non-current financial assets</b>	<b>11.3</b>	<b>14.7</b>
<b>Other non-current financial assets, due at short-notice</b>	<b>11.2</b>	<b>3.0</b>
<b>Total</b>	<b>22.5</b>	<b>17.6</b>

Other investments relate mainly to the investment in Deutsche Elektronik Gesellschaft für Algerien mbH of €9.3 million (PY: €9.3 million).

Interests in other non-current financial assets due at short notice mainly include a loan to HENSOLDT Cyber GmbH in the amount of €7.8 million, which was, in the previous year, presented as other non-current financial assets in the amount of €3.0 million.

# 20 INVENTORIES

in € million	Gross amount	Impairment	Net carrying amount	Net carrying amount
			Dec. 31,	Dec. 31,
			2020	2019
Raw materials and supplies	210.5	-43.9	166.5	165.9
Work in process	246.8	-33.4	213.4	221.5
Finished goods and parts for resale	36.4	-12.6	23.7	23.7
<b>Total</b>	<b>493.6</b>	<b>-89.9</b>	<b>403.7</b>	<b>411.1</b>

Impairments on inventories recognized in the consolidated income statement during the fiscal year amounted to €7.7 million (PY: €9.3 million). No significant reversal of impairment losses was recognized as reduction of material cost in the fiscal year.



# 21 TRADE RECEIVABLES

	Dec. 31,	Dec. 31,
in € million	2020	2019
Receivables from the sale of goods and services	294.2	305.0
Impairment	-12.2	-14.2
<b>Total</b>	<b>282.0</b>	<b>290.8</b>

Trade receivables amounting to €129.5 million (PY: €48.8 million) were transferred to a factoring party and derecognized (non-recourse factoring). Further trade receivables amounting to €3.8 million (PY: €4.7 million) do not qualify for derecognition as the credit risk is not transferred to the factoring

party (recourse factoring). For the cash received from the factoring party, a corresponding other financial liability is recognized.

The allowance for trade receivables developed as follows:

in € million	2020	2019
<b>As of Jan. 1</b>	14.2	9.9
Acquisition through business combinations	-	0.2
Additions	3.8	5.5
Utilization	-4.2	-
Reversals	-1.6	-1.4
Currency translation	-0.0	-0.0
<b>As of Dec. 31</b>	<b>12.2</b>	<b>14.2</b>

The credit and market risks as well as impairment losses are presented in Note VI.36.

Contract assets and liabilities are presented in Note III.11

## 22 TRADE PAYABLES

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As in the prior year, all trade payables as of December 31, 2020, are due within one year.

# 23 PROVISIONS

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

	Dec. 31,	Dec. 31,
in € million	2020	2019
Pension provisions (note 32)	429.8	358.6
Other provisions	246.4	240.1
<b>Total</b>	<b>676.2</b>	<b>598.7</b>
<i>thereof non-current</i>	<i>482.6</i>	<i>413.6</i>
<i>thereof current</i>	<i>193.6</i>	<i>185.1</i>

Other provisions developed as follows over the course of the year:

in € million	Warranties	Personnel-related provisions	Contract losses	Outstanding costs	Other risks and costs	Total
<b>As of Jan. 1, 2020</b>	<b>82.4</b>	<b>49.4</b>	<b>2.5</b>	<b>24.1</b>	<b>81.8</b>	<b>240.1</b>
Utilized	-28.2	-29.6	-	-8.6	-34.3	-100.7
Reversal	-7.0	-2.5	-0.1	-1.9	-6.5	-18.0
Additions	33.7	35.7	1.6	12.4	47.4	130.9
Exchange rate differences	-0.6	-0.1	-	-1.3	-0.5	-2.5
Unwinding of discount	0.1	-	-	-	0.1	0.2
Reclassifications	-	0.2	-	-	-3.8	-3.6
<b>As of Dec. 31, 2020</b>	<b>80.4</b>	<b>53.1</b>	<b>4.0</b>	<b>24.7</b>	<b>84.2</b>	<b>246.4</b>
<i>thereof current</i>	<i>40.0</i>	<i>33.5</i>	<i>4.0</i>	<i>24.7</i>	<i>69.7</i>	<i>171.9</i>
<i>thereof non-current</i>	<i>40.4</i>	<i>19.6</i>	<i>-</i>	<i>-</i>	<i>14.5</i>	<i>74.5</i>

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 deferrals for supplies not yet invoiced and outstanding own services under long-term construction contracts.

The provisions for other risks and costs relate, among other things, to contract-related provisions for subsequent work on performance obligations already fulfilled. In the fiscal year, an amount of €3.8 million was reclassified from provisions to liabilities.

For the non-current other provisions of the Company, 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

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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 and the result of individual issues cannot be reliably predicted. The Group believes that it has recognized adequate provisions to cover current or potential litigation risks. It is quite possible that the final ruling in some cases could lead to expenses beyond those accounted for in the recognized provisions. The term “quite possible” used here means that the chance of a future transaction or future occurrence of an event is more than unlikely, however less than likely.

Within the scope of its ordinary business operations, the HENSOLDT Group is, from time to time, involved in different court and arbitration proceedings. In January 2020, a major customer filed an arbitration claim with the contractually agreed arbitration board regarding a partially

fulfilled contract and demanded refund of payments already made (approximately €31.0 million plus interest) plus further costs and expenses. HENSOLDT considers the asserted claims to be without merit and filed an arbitration counterclaim in May 2020, asserting a claim for performance of the contract, i.e. for payment in accordance with the underlying contract (approximately €11.0 million plus interest). A sufficiently certain statement about the outcome of the arbitration proceedings is still not possible.

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

	Dec. 31,	Dec. 31,
in € million	2020	2019
Loan guarantees/sureties	25.4	38.4
Contractual guarantees/sureties	420.9	410.1
Other guarantees and sureties	50.0	37.1
<b>Total</b>	<b>496.3</b>	<b>485.6</b>

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

In addition, the HENSOLDT Group guarantees the fulfillment of its own contractual guarantees/securities, 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, performance guarantees, custom guarantees and rental guarantees.

# 26 OTHER FINANCIAL ASSETS AND OTHER FINANCIAL LIABILITIES

## 26.1 Other financial assets

	Dec. 31,	Dec. 31,
in € million	2020	2019
Positive fair values of derivative financial instruments <sup>1</sup>	0.3	51.5
Miscellaneous other non-current financial assets	0.7	1.8
<b>Total other non-current financial assets</b>	<b>1.0</b>	<b>53.2</b>
Positive fair values of derivative financial instruments <sup>1</sup>	5.1	4.9
Receivables from employees	0.8	0.2
Miscellaneous other current financial assets	1.1	0.6
<b>Total other current financial assets</b>	<b>7.1</b>	<b>5.8</b>
<b>Total</b>	<b>8.0</b>	<b>59.0</b>

<sup>1</sup> See Note VI.36

## 26.2 Other financial liabilities

	Dec. 31,	Dec. 31,
in € million	2020	2019
Miscellaneous other non-current financial liabilities	0.2	0.2
<b>Total other non-current financial liabilities</b>	<b>0.2</b>	<b>0.2</b>
Liabilities for derivative financial instruments <sup>1</sup>	6.4	10.9
Liabilities from factoring contracts <sup>2</sup>	91.3	-
Miscellaneous other current financial liabilities	0.1	9.6
<b>Total other current financial liabilities</b>	<b>97.8</b>	<b>20.5</b>
<b>Total</b>	<b>98.0</b>	<b>20.7</b>

<sup>1</sup> See Note VI.36

<sup>2</sup> 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

	Dec. 31,	Dec. 31,
in € million	2020	2019
Other	4.8	4.9
<b>Total other non-current assets</b>	<b>4.8</b>	<b>4.9</b>
Advance payments	57.9	23.0
VAT	12.5	5.4
Miscellaneous other current assets	8.2	17.7
<b>Total other current assets</b>	<b>78.7</b>	<b>46.1</b>
<b>Total</b>	<b>83.5</b>	<b>50.9</b>

## 27.2 Other liabilities

	Dec. 31,	Dec. 31,
in € million	2020	2019
Liabilities to employees	8.9	7.7
<b>Total other non-current liabilities</b>	<b>8.9</b>	<b>7.7</b>
Tax liabilities (not incl. income tax)	37.2	23.7
Liabilities to employees	30.2	25.1
Liabilities to social security agencies	5.8	4.7
Other	13.7	13.6
<b>Total other current liabilities</b>	<b>86.9</b>	<b>67.1</b>
<b>Total</b>	<b>95.8</b>	<b>74.8</b>

# 28 LEASES

## 28.1 Amounts recognized in the consolidated statement of financial position

The following amounts relate to leases accounted for as right-of-use assets as of December 31, 2020.

	Dec. 31, 2020	Dec. 31, 2019
in € million		
Land and buildings	137.9	147.2
Technical equipment and machinery	2.4	4.2
Other equipment, factory and office equipment	3.2	3.4
<b>Total</b>	<b>143.5</b>	<b>154.9</b>

Additions to right-of-use assets in 2020 were €9.7 million (PY: €21.4 million).

The lease liability recognized on the consolidated statement of financial position comprises the following:

	Dec. 31, 2020	Dec. 31, 2019
in € million		
Current	13.7	13.0
Non-current	140.3	147.5
<b>Total</b>	<b>154.0</b>	<b>160.5</b>

## 28.2 Amounts recognized in the consolidated income statement

	Fiscal year	
in € million	2020	2019
Land and buildings	16.2	14.4
Technical equipment and machinery	0.9	0.8
Other equipment, factory and office equipment	2.1	1.8
<b>Total depreciation charge</b>	<b>19.2</b>	<b>17.0</b>

	Fiscal year	
in € million	2020	2019
Interest on lease liabilities	9.7	9.8
Income from sub-leasing right-of-use assets presented in "other revenue"	-0.1	-0.5
Expense related to short-term leases	0.9	2.7
Expense relating to leases of low-value assets that are not short-term leases	2.0	1.3
<b>Total amounts recognised in profit or loss</b>	<b>12.5</b>	<b>13.2</b>



The total cash outflow for lease payments in 2020 amounted to €24.0 million (PY: €21.1 million).

HENSOLDT has several lease contracts that include extension options and termination options. The exercise of such options is decided by management

to provide flexibility in managing the leased-asset portfolio and align with HENSOLDT's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (see Note I.3.9).



# V EXPENSES AND EMPLOYEE BENEFITS

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# 29 HEADCOUNT

	Fiscal year	
	2020	2019
Production, research and development, service	4,289	3,938
Sales and distribution	191	114
Administration and general services	637	550
Apprentices, trainees, etc.	418	395
<b>Total<sup>1</sup></b>	<b>5,535</b>	<b>4,997</b>

<sup>1</sup> Average figures in FTE's (Full Time Equivalents)

# 30 PERSONNEL EXPENSES

in € million	Fiscal year	
	2020	2019
Wages, salaries	429.2	391.7
Social security contributions	69.6	56.2
Net periodic employee benefit expenses	27.7	21.8
<b>Total</b>	<b>526.5</b>	<b>469.7</b>

# 31 PERSONNEL-RELATED PROVISIONS

Several German group entities offer models for lifetime working or retirement accounts, which represent defined benefit plans due to a pledged interest on contributions or nominal contributions and are to be classified as post-employment benefits in accordance with IAS 19. The

obligations of €17.2 million (PY: €16.1 million) are fully offset against corresponding assets. The regular contributions of employees to their lifetime working accounts lead to a corresponding personnel expense in the reporting period which is recognized in personnel expenses.

Other personnel-related provisions developed as follows:

in € million	Long service awards/ bonuses	Partial retirement	Other personnel expenses	Total
<b>As of Jan. 01, 2020</b>	<b>46.2</b>	<b>2.3</b>	<b>0.9</b>	<b>49.4</b>
Utilized	-25.9	-3.1	-0.6	-29.6
Reversal	-1.9	-0.3	-0.3	-2.5
Additions	32.5	3.2	-	35.7
Effect of movements in exchange rates	-0.1	0	0	-0.1
Reclassifications	-	0.2	-	0.2
<b>As of Dec. 31, 2020</b>	<b>50.8</b>	<b>2.3</b>	<b>0.0</b>	<b>53.1</b>

# 32 PENSION BENEFITS

	Dec. 31,	Dec. 31,
in € million	2020	2019
Provisions for employee benefits	276.5	225.7
Provisions for deferred compensation	153.3	132.9
<b>Total</b>	<b>429.8</b>	<b>358.6</b>

## 32.1 Provisions for pension plans

Provisions for German pension obligations (defined benefit obligations or “DBO”) are recognized based on defined benefit plans for old-age, 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 savings, payment in installments or an annuity.

Contractual trust arrangements or “CTA” exist to finance domestic pension obligations. The structure of the contractual trust arrangement is based on mutual trust agreements. Assets transferred to the contractual trust arrangement 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 I.2.8 and Note I.3.6.

## Changes in the defined benefit obligations and plan assets

	DBO		Plan assets		Total	
in € million	2020	2019	2020	2019	2020	2019
<b>As of Jan. 1</b>	<b>428.7</b>	<b>330.3</b>	<b>203.0</b>	<b>166.0</b>	<b>225.7</b>	<b>164.3</b>
Assumption due to business combinations	-	5.3	-	-	-	5.3
Expenses for pension benefit entitlements	22.2	16.4	-	-	22.2	16.4
Interest expenses/income	5.9	6.4	2.7	3.3	3.2	3.1
Payments	-4.2	-3.2	-3.8	-2.8	-0.4	-0.4
Actuarial gains/losses deriving from						
Changes in demographic assumptions	-	39.0	-	-	-	39.0
Changes in financial assumptions	29.1	25.6	-	-	29.1	25.6
Adjustments based on experience	9.8	12.3	-	-	9.8	12.3
Plan assets	-	-	9.9	36.5	-9.9	-36.5
Other changes in consolidation, transfers	-3.2	-3.4	-	-	-3.2	-3.4
<b>As of Dec. 31</b>	<b>488.3</b>	<b>428.7</b>	<b>211.8</b>	<b>203.0</b>	<b>276.6</b>	<b>225.7</b>

The weighted average duration of the defined benefit obligation for pensions and deferred compensation is 19 years.

As of December 31, reported as:

	Dec. 31,	Dec. 31,
in € million	2020	2019
Defined benefit obligation	488.3	428.7
Plan assets	-211.8	-203.0
<b>Total</b>	<b>276.5</b>	<b>225.7</b>

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

	Dec. 31,	Dec. 31,
in € million	2020	2019
Active	80 %	81 %
Eligible employees	5 %	5 %
Pensioner	15 %	14 %
	<b>100 %</b>	<b>100 %</b>

The expected employer's contribution to defined benefit plans for the fiscal year 2021 amounts to €13.9 million (PY: €11.8 million).

## 32.2 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 development of DBO and plan assets is as follows:

### Changes in the defined benefit obligations and plan assets

in € million	DBO		Plan assets		Total	
	2020	2019	2020	2019	2020	2019
<b>As of Jan. 1</b>	<b>147.9</b>	<b>115.8</b>	<b>15.0</b>	<b>14.0</b>	<b>132.9</b>	<b>101.8</b>
Expenses for pension benefit entitlements	3.5	3.8	-	-	3.5	3.8
Interest expenses/income	2.1	2.2	0.2	0.3	1.9	1.9
Payments	-1.2	-1.1	-	0.1	-1.2	-1.2
Actuarial gains/losses deriving from						
Changes in demographic assumptions	-	9.7	-	-	-	9.7
Changes in financial assumptions	7.5	10.4	-	-	7.5	10.4
Adjustments based on experience	2.6	4.7	-	-	2.6	4.7
Plan assets	-	-	-1.3	0.6	1.3	-0.6
Other changes in consolidation, transfers	-0.7	-2.8	-	-	-0.7	-2.8
Participant contributions	5.5	5.2	-	-	5.5	5.2
<b>As of Dec. 31</b>	<b>167.2</b>	<b>147.9</b>	<b>13.9</b>	<b>15.0</b>	<b>153.3</b>	<b>132.9</b>

As of December 31, reported as:

in € million	Deferred compensation	
	2020	2019
Defined benefit obligation	167.2	147.9
Plan assets	-13.9	-15.0
<b>Total</b>	<b>153.3</b>	<b>132.9</b>

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

in %	Dec. 31,	Dec. 31,
	2020	2019
Active	77 %	77 %
Eligible employees	8 %	8 %
Pensioner	15 %	15 %
	<b>100 %</b>	<b>100 %</b>



The following table shows how the present value of defined benefit obligations of pension plans and deferred compensation would have been affected by changes in actuarial assumptions as prepared as of December 31, 2020:

in € million	Change	Dec. 31, 2020		Dec. 31, 2019	
		Increase	Decrease	Increase	Decrease
Present value of obligation					
Discount rate	by 0.5 percentage points	-52.3	72.8	-44.4	62.5
Wage increase rate	by 0.25 percentage points	0.9	-0.9	0.9	-0.9
Pension increase rate	by 0.25 percentage points	10.3	-0.1	9.0	-0.1
Life expectancy	by 1 year	15.3	-15.3	12.6	-12.7
Exercising of pension option	by 10 percentage points	25.8	-25.8	21.5	-21.5

Sensitivities are calculated using the same method (present value of the defined benefit obligation calculated using the projected unit credit method) as used for the calculation of post-employment benefits. The sensitivity analysis is based on a change of one assumption while maintaining all other assumptions unchanged.

This is unlikely to occur in practice. Changes to more than one assumption can correlate, which can have differing effects on the DBOs than the effects as described above. If the assumptions change in different levels, the effects on the defined benefit obligation are not necessarily linear.

#### Asset-liability matching strategy (Investment of plan assets)

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

For this reason, the HENSOLDT treasury department implements a security-oriented investment concept

specified by HENSOLDT Strategic Investment Committee, which is focused on the DBOs and the steering and optimization of the plan assets.

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

in € million	Quoted prices		Unquoted prices		Total	
	Dec. 31,		Dec. 31,		Dec. 31,	
	2020	2019	2020	2019	2020	2019
Other investments	-	-	179.2	167.8	179.2	167.8
Pooled investment instruments	46.4	50.2	-	-	46.4	50.2
<b>Total</b>	<b>46.4</b>	<b>50.2</b>	<b>179.2</b>	<b>167.8</b>	<b>225.6</b>	<b>218.0</b>

Other investments relate to limited partnership interests in HENSOLDT Real Estate GmbH & Co. KG.

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 in 2020 amount to €28.0 million (PY: €27.4 million).

# **VI CAPITAL STRUCTURE AND FINANCIAL INSTRUMENTS**

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# 33 EQUITY

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## 33.1 Equity attributable to owners of the parent company

As of December 31, 2020, the parent company is HENSOLDT AG.

As of December 31, 2020, the share capital of HENSOLDT AG amounts to €105.0 million and is divided into 105 million ordinary bearer shares (no-par value shares).

With the entry in the Commercial Register on August 17, 2020, HENSOLDT GmbH was converted into HENSOLDT AG. Prior to the conversion, the share capital of the Company was increased from €10.0 million by €70.0 million to €80.0 million from capital reserves by resolution of the shareholders on August 4, 2020 and entry in the Commercial Register on August 6, 2020.

At the time of the conversion of HENSOLDT GmbH into HENSOLDT AG, the share capital of HENSOLDT GmbH amounted to €80.0 million.

In the course of the initial public offering, the share capital of the Company was increased by additional €25.0 million to €105.0 million by resolution of September 3, 2020 and entry in the Commercial Register on September 24, 2020.

The share premium from the issuance of the 25.0 million new shares in the amount of €275.0 million less €4.9 million non-deductible transaction costs and bank fees of the banks accompanying the initial public offering, was transferred to the capital reserve. On September 24, 2020, all 105 million shares of HENSOLDT AG were admitted to trading on the Frankfurt Stock Exchange with admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) and the following day, trading commenced.

In accordance with the articles of association, the share capital of the Company may be increased by the Executive

Board until August 11, 2025, with the approval of the Supervisory Board, by issuing new ordinary bearer shares against cash and/or non-cash contributions on one or more occasions by up to a total of €36.0 million. (Authorized Capital 2020/I). As of December 31, 2020, the Company has not utilized the Authorized Capital 2020/I. Accordingly, the Authorized Capital 2020/I amounts to €36.0 million as of December 31, 2020.

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

The previous year's figures relate to the share capital of the HENSOLDT GmbH (see I.2.1 Basis of Preparation). HENSOLDT GmbH's share capital was fully paid in and amounted to €10.0 million as of December 31, 2019.

Other reserves include cumulative other comprehensive income.

Retained earnings contain earnings of the companies included in the consolidated financial statements including earnings in the fiscal year, provided these have not been distributed.

## 33.2 Treasury shares

By way of shareholder resolution dated November 15, 2019, and with effect as of November 18, 2019, 6,275 treasury shares of HENSOLDT Holding GmbH in the amount of €10.6 million were cancelled and offset against the capital reserve.

## 33.3 Non-controlling interests

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

in € million	HENSOLDT Optronics (Pty) Ltd.	GEW Technologies (Pty) Ltd.	Midi Ingénierie S.A.S.	Total	Intragroup eliminations/ adjustments	Dec. 31, 2020
<b>Percentage of non-controlling interests</b>	<b>30%</b>	<b>7%</b>	<b>15%</b>			
Non-current assets	9.8	6.6	0.1	<b>16.5</b>	-	16.5
Current assets	51.5	46.1	3.6	<b>101.2</b>	-	101.2
Non-current liabilities	-2.9	-0.7	-0.3	<b>-3.9</b>	-	-3.9
Current liabilities	-23.9	-20.0	-0.6	<b>-44.6</b>	-	-44.6
<b>Net assets</b>	<b>34.4</b>	<b>32.0</b>	<b>2.8</b>	<b>69.2</b>	-	<b>69.2</b>
<b>Net assets of non-controlling interests</b>	<b>10.3</b>	<b>2.1</b>	<b>0.4</b>	<b>12.9</b>	-	<b>12.9</b>
Revenue	39.9	32.9	3.8	<b>76.6</b>	-	76.6
Profit	1.6	1.7	1.0	<b>4.3</b>	-	4.3
Other comprehensive income/loss	-4.6	-5.2	-0.1	<b>-9.9</b>	-	-9.9
<b>Total comprehensive income/loss</b>	<b>-3.0</b>	<b>-3.5</b>	<b>0.9</b>	<b>-5.6</b>	-	<b>-5.6</b>
<b>Profit attributable to non-controlling interests</b>	<b>0.5</b>	<b>0.1</b>	<b>0.1</b>	<b>0.7</b>	-	<b>0.7</b>
<b>Other comprehensive income/loss attributable to non-controlling interests</b>	<b>-1.4</b>	<b>-0.4</b>	<b>-0.0</b>	<b>-1.7</b>	<b>0.3</b>	<b>-1.4</b>
Cash flows from operating activities	4.4	-5.5	0.1	<b>-1.0</b>	-	-1.0
Cash flows from investing activities	-1.0	-0.7	-0.0	<b>-1.7</b>	-	-1.7
Cash flows from financing activities	-1.8	-1.3	-2.7	<b>-5.8</b>	-	-5.8
<i>thereof dividends of non-controlling interests</i>	-	-0.1	-0.2	-0.3	-	-0.3
Effects of movements in exchange rates on cash and cash equivalents	-0.1	-3.2	-	<b>-3.3</b>	-	<b>-3.3</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1.5</b>	<b>-10.7</b>	<b>-2.6</b>	<b>-11.7</b>	-	<b>-11.7</b>

in € million	HENSOLDT Optronics (Pty) Ltd.	GEW Technologies (Pty) Ltd.	Midi Ingénierie S.A.S.	Total	Intragroup eliminations/ adjustments	Dec. 31, 2019
<b>Percentage of non-controlling interests</b>	<b>30 %</b>	<b>7 %</b>	<b>15 %</b>			
Non-current assets	13.1	7.8	0.1	<b>20.9</b>	-	20.9
Current assets	56.4	56.5	5.8	<b>118.7</b>	-	118.7
Non-current liabilities	-3.8	-0.4	-0.2	<b>-4.4</b>	-	-4.4
Current liabilities	-28.3	-26.9	-1.1	<b>-56.3</b>	-	-56.3
<b>Net assets</b>	<b>37.5</b>	<b>36.9</b>	<b>4.6</b>	<b>78.9</b>	-	<b>78.9</b>
<b>Net assets of non-controlling interests</b>	<b>11.2</b>	<b>2.5</b>	<b>0.7</b>	<b>14.4</b>	<b>-0.8</b>	<b>13.6</b>
Revenue	50.2	38.1	1.8	<b>90.1</b>	-	90.1
Profit	5.6	6.5	0.9	<b>13.0</b>	-	13.0
Other comprehensive income/loss	1.5	0.8	0.0	<b>2.3</b>	-	2.3
<b>Total comprehensive income/loss</b>	<b>7.1</b>	<b>7.3</b>	<b>0.9</b>	<b>15.3</b>	-	<b>15.3</b>
<b>Profit attributable to non-controlling interests</b>	<b>1.7</b>	<b>0.4</b>	<b>0.1</b>	<b>2.3</b>	-	<b>2.3</b>
<b>Other comprehensive income/loss attributable to non-controlling interests</b>	<b>0.5</b>	<b>0.1</b>	<b>0.0</b>	<b>0.5</b>	-	<b>0.5</b>
Cash flows from operating activities	-7.6	-2.8	1.4	<b>-9.0</b>	-	-9.0
Cash flows from investing activities	-3.3	-0.5	-0.0	<b>-3.8</b>	-	-3.8
Cash flows from financing activities						
<i>(thereof dividends of non-controlling interests: in € million 0)</i>	<i>10.5</i>	<i>-3.7</i>	<i>-0.4</i>	<i>6.5</i>	-	<i>6.5</i>
Effects of movements in exchange rates on cash and cash equivalents	-	1.1	-	<b>1.1</b>	-	<b>1.1</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>-0.4</b>	<b>-5.9</b>	<b>1.0</b>	<b>-5.2</b>	-	<b>-5.2</b>

Under corporate law, the non-controlling shareholder of GEW Technologies (Pty) Ltd. has a 25.0% interest in GEW Technologies (Pty) Ltd. and its subsidiary GEW Integrated Systems (Pty). The non-controlling shareholder was issued with 500 shares, of which 392 shares are treated as treasury shares until full payment of the purchase price. This results in a financial stake of non-controlling interests of 6.7%. In connection with the shares considered as treasury shares, there is a put option in favor of the non-controlling shareholder which

is recognized at market value under other non-current financial liabilities, if the shares exceed the deferred purchase price. Due to a decrease in the pro rata market value of GEW Technologies (Pty) Ltd., the value of the put option has been below the deferred purchase price since December 2019. Therefore, no other non-current financial liabilities were recognized as of this date. In 2019, fair value changes of €1.2 million have been recognized in the consolidated income statement and are presented within other finance result.

# 34 CAPITAL MANAGEMENT

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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 that optimizes capital costs of equity and debt is being targeted. The Group is not subject to any statutory capital requirements.

The non-current syndicated loan agreement (Term Loan) is, like the previous loan, tied to compliance with a financial covenant that refers to the ratio of net liabilities to adjusted earnings before interest, taxes, depreciation and amortization (consolidated EBITDA) as defined in the

Senior Facility Agreement. In 2020 the financing conditions were met at all times. The availability and conditions of the loan are tied to this financial covenant. In the event of a breach, the financing partners are authorized to terminate the syndicated loan. There are no indications that the covenant cannot be fully complied with in the foreseeable future (see Note 36).

In order to hedge against changes in interest rates and exchange rates, the Group concludes derivative hedging contracts for variable interest-bearing liabilities and loans in foreign currency.

# 35 NET DEBT

	Dec. 31,	Dec. 31,
in € million	2020	2019
Cash and cash equivalents	645.5	137.4
Non-current financial liabilities	-601.3	-887.7
Current financial liabilities	-363.3	-11.3
<b>Total</b>	<b>-319.2</b>	<b>-761.6</b>

## 35.1 Cash and cash equivalents

Cash and cash equivalents consist of the following items:

	Dec. 31,	Dec. 31,
in € million	2020	2019
Cash at bank and liquid funds	645.5	137.4
<b>Total</b>	<b>645.5</b>	<b>137.4</b>

## 35.2 Financing liabilities

Financial liabilities consist of current and non-current loans.

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

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

The conditions and repayment schedules of the loans as of December 31, 2019, are as follows:

Loans	Capital amount in € million	Issue date	Coupon or interest rate	Interest	Effective interest rate	Due date
		02/28/2017/ 04/18/2017/ 07/26/2017/ 02/28/2018/ 12/06/2018	3mEURIBOR + 3.25 %	variable	3.91 %	02/28/2024
Loan (Term Loan)	920.0		zero-floored 1MEuribor + 1.00 %	variable	1.07 %	11/30/2020
Loan (BPI France)	5.0	11/29/2017				

In connection with the IPO, HENSOLDT AG has restructured its liabilities as of September 30, 2020. For this purpose, a new syndicated loan agreement “Senior Facility Agreement” consisting of a term loan in the amount of €600.0 million and a revolving credit facility (RCF) in the amount of €350.0 million was concluded. As of the balance sheet date, the revolving credit facility was fully utilized in the amount of €350.0 million. This is repayable on a short-term.

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

The interest rate swap agreements concluded in previous years are continued to hedge the variable-rate term loan. The transaction costs incurred for obtaining the term loan

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

For the South African subsidiary Optronics (Pty) Ltd., there is a credit line in the amount of ZAR 120.0 million available, of which €6.4 million (ZAR 115.2 million) was drawn as of December 31, 2020.

In addition, the French subsidiary Nexeya S.A.S. drew two government-guaranteed loans with a total value of €10.0 million at an interest rate of 0% in the course of the Corona crisis. A further loan in the amount of €1.7 million exists since 2017. The loans are unsecured.

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

in € million	< 1 year	1 to 5 years	> 5 years	Total
Liabilities due to banks	363.3	601.3	0.0	964.7
<b>As of Dec. 31, 2020</b>	<b>363.3</b>	<b>601.3</b>	<b>0.0</b>	<b>964.7</b>

This includes liabilities from recourse factoring amounting to € 3.8 million (PY: €4.7 million). Furthermore, as of the reporting date other current financial liabilities in the amount

of € 91.3 million existed from cash receipts from transferred receivables, which shall be forwarded to the factor on the due date.

in € million	< 1 year	1 to 5 years	> 5 years	Total
Liabilities due to banks	11.3	887.7	0.0	899.0
<b>As of Dec. 31, 2019</b>	<b>11.3</b>	<b>887.7</b>	<b>0.0</b>	<b>899.0</b>



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

The following table shows the cash flows from financing activities in a reconciliation from the opening balances to the closing balances for the liabilities and

equity components attributable to financing activities including the accompanying financial assets and liabilities from hedging transactions of these financing activities.

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

in € million	Jan. 1, 2019	Net cash changes	Non-Cash changes			Dec. 31, 2019
			Change in Consol. group	Changes in fair value	Other changes	
<b>Non-current borrowing</b>						
Repayment TLB	349.6	-	-	-	-349.6	-
Proceeds TLB	880.4	-	-	-	7.3	887.7
Bank loans (net)	-	-	-	-	-	-
<b>Current borrowing</b>						
Current borrowing	3.4	3.6	4.2	-	0.1	11.3
Other financing liabilities	1.2	-1.2	4.7	-	3.0	7.7
<b>Change in financial liabilities due to financing activities</b>	<b>1,234.5</b>	<b>2.4</b>	<b>8.9</b>	<b>-</b>	<b>-339.1</b>	<b>906.7</b>
<b>Lease liabilities (current/non-current)</b>	<b>-</b>	<b>-11.3</b>	<b>11.1</b>	<b>-</b>	<b>160.8</b>	<b>160.5</b>
Share capital	0.0	0.0	10.0	-	-0.0	10.0
Treasury shares	-10.6	-	-	-	10.6	-
Capital reserve	46.3	-	-10.0	-	360.4	396.7
Other reserves	-12.2	-	-	-	-37.5	-49.8
Retained earnings	-220.7	-	-	-	4.9	-215.8
Non-Controlling interests	10.9	-0.2	0.6	-	2.3	13.6
<b>Change in equity due to financing activities</b>	<b>-186.3</b>	<b>-0.2</b>	<b>0.6</b>	<b>-</b>	<b>340.7</b>	<b>154.8</b>
Change in assets (-) and liabilities (+) to hedge non-current borrowing	14.1	-	-	-55.4	-	-41.3
<b>Cash Flow from financing activities</b>		<b>-9.1</b>				<b>-9.1</b>

# 36 INFORMATION ON FINANCIAL INSTRUMENTS

## 36.1 Financial risk management

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

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

The Group's financial risk management is generally carried out by Treasury 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 consolidated group management report, which is prepared in addition to the IFRS consolidated financial statements.

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

### Market risk

#### *Foreign exchange risk*

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

For orders received that are invoiced in foreign currency, the Group concludes forward exchange transactions in order to rule out or minimize foreign exchange risks. Forward exchange contracts are exclusively concluded with prime international banks. The necessary measures and rules related to the hedging of orders not invoiced in euro are set out in the Group-wide treasury policy.

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

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

In the fiscal year a gain on foreign currency translation of €0.5 million (PY: €2.1 million) was recognized in the consolidated income statement

#### *Sensitivity of 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, etc. against the EUR. The change is the value applied 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.

The effects on the consolidated profit and other comprehensive income are as follows:

If the EUR had appreciated/depreciated by 20.0% or 50.0% against the USD, ZAR and GBP as of December 31, 2020/2019, the consolidated profit and

other comprehensive income would have changed in the manner shown below:

in € million	Changes in the amount of	Dec. 31,	Changes in the amount of	Dec. 31,
		2020		2019
EUR/GBP	+/- 20.0 %	-5.3/8.0	+/- 10.0 %	-3.1/4.7
EUR/ZAR	+/- 50.0 %	-1.3/2.0	+/- 10.0 %	1.1/-3.2
EUR/USD	+/- 20.0 %	-5.3/7.9	+/- 10.0 %	-1.4/2.0

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

#### *Interest rate risk*

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

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

#### *Sensitivity of interest rate risk*

A change of +/- 50 basis points in interest rates as of the reporting date would have decreased/increased equity and the consolidated loss by €5.5 million or €0.1 million (PY: €6.4 million or €4.9 million). The main drivers being the loans and swaps taken out by HENSOLDT. This analysis assumes 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:

**Dec. 31, 2020**

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

**Dec. 31, 2019**

in € million	Carrying amount	Contractual cash flows	< 1 year	1 to 5 years	> 5 years
<b>Non-derivative financial liabilities</b>					
Banks	899.0	1,032.3	26.8	1,005.5	-
Other	176.4	176.4	176.4	-	-
<b>Derivative financial liabilities</b>					
Interest rate swaps	9.5	10.0	4.4	5.6	-
Forward exchange transactions	1.4	1.4	1.4	-	-
Lease liability	160.5	222.0	23.0	85.7	113.2
<b>As of December 31, 2019</b>	<b>1,246.9</b>	<b>1,442.1</b>	<b>232.1</b>	<b>1,096.8</b>	<b>113.2</b>

HENSOLDT Group's liquidity risk relates primarily to the compliance with the financial covenants agreed upon with the banks in the context of corporate financing, which in the course of the restructuring of the liabilities, were renegotiated in 2020.

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

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

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

For short-term liquidity management, group-wide rolling liquidity planning, updated bi-weekly, is used and this constitutes the operative instrument for short-term liquidity management of the HENSOLDT Group. Moreover, liquidity is ensured at all times via a revolving credit facility of €350.0 million.

**Credit risk**

The Group is exposed to a credit risk from non-fulfillment of financial instruments, either by customers

or counterparties to the financial instruments. However, the Group prepared guidelines in order to avoid the concentration of credit risks and to ensure that the credit risk remains limited.

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

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

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

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

#### Assessment of the expected credit losses for customers

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

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

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

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	0.5 %	226.1	-1.0	No
Rating 7-9: moderate risk	BB -to BB+	0.4 %	230.8	-1.0	No
Rating 10: below average	B- to CCC-	1.1 %	14.1	-0.2	No
Classification 11: doubtful	C to CC	-	-	-	Yes
Classification 12: loss	D	-	-	-	Yes
Allowance step 1 and 2				-2.2	
Specific allowance step 3				-12.0	
<b>As of Dec. 31, 2019</b>			<b>470.9</b>	<b>-14.2</b>	

	Dec. 31,	Dec. 31,
in € million	2020	2019
Contract assets	204.4	165.9
Trade receivables	282.0	290.8
<b>Total</b>	<b>486.4</b>	<b>456.7</b>

The change in loss rates compared with the previous year is mainly due to the shortening of the estimated maturity of the receivables on the basis of actual maturities.

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

## 36.2 Carrying amounts and fair values of financial instruments

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

Within the Group, derivatives that are not designated as hedging relationships in accordance with IFRS are

classified as 'measured at fair value with changes in value recognized through profit or loss'.

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

Dec. 31, 2020				
in € million	Category	Carrying amount	Fair value	Level
<b>Assets</b>				
Other investments and other non-current financial assets <sup>1</sup>	FVtOCI	11.3	11.3	-
Other non-current financial assets, due at short-notice	AC	11.2	11.2	-
Trade receivables	AC	240.1	240.1	-
Trade receivables (intented for factoring) <sup>1</sup>	FVtOCI	41.9	41.9	-
Other financial assets:				
Derivative istruments for cash flow hedges	FVtOCI	0.4	0.4	2
Other derivative instruments	FVtPL	5.0	5.0	2
Non-derivative instruments <sup>1</sup>	AC	2.7	2.7	-
Cash and cash equivalents	AC	645.5	645.5	1
<b>Total financial assets</b>		<b>958.1</b>	<b>958.1</b>	
<b>Liabilities</b>				
Financial liabilities				
Liabilities to banks	FLAC	964.7	971.1	2
Trade payables	FLAC	164.0	164.0	-
Other financial liabilities:				
Other derivative instruments	FVtPL	6.4	6.4	2
Liability from put option	FVtPL	-	-	3
Other miscellaneous financial liabilities	FLAC	91.7	91.7	-
<b>Total financial liabilities</b>		<b>1,226.8</b>	<b>1,233.1</b>	

<sup>1</sup> Fair Value corresponds to cost due to materiality

Dec. 31, 2019				
in € million	Category	Carrying amount	Fair value	Level
<b>Assets</b>				
Other investments and other non-current financial assets <sup>1</sup>	FVtOCI	14.7	14.7	-
Other non-current financial assets, due at short-notice	AC	3.0	3.0	-
Trade receivables	AC	290.8	290.8	-
Other financial assets:				
Other derivative instruments	FVtOCI	0.1	0.1	2
Other derivative instruments	FVtPL	56.3	56.3	2
Non-derivative instruments <sup>1</sup>	AC	2.6	2.6	-
Cash and cash equivalents	AC	137.4	137.4	1
<b>Total financial assets</b>		<b>504.8</b>	<b>504.8</b>	
<b>Liabilities</b>				
Financial liabilities				
Liabilities to banks	FLAC	899.0	961.9	2
Trade payables	FLAC	168.8	168.8	-
Other financial liabilities:				
Derivative instruments for cash flow hedges	FVtOCI	-	-	-
Other derivative instruments	FVtPL	10.9	10.9	2
Liability from put option	FVtPL	-	-	3
Other	FLAC	9.6	9.6	-
<b>Total financial liabilities</b>		<b>1,088.3</b>	<b>1,151.2</b>	

<sup>1</sup> Fair Value corresponds to cost due to materiality

There is a put option (fair value €0.0) in favor of the non-controlling shareholder of GEW Technologies (Pty) Ltd. (see Note 33.3).

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

in € million	Remaining term nominal amounts					
	under 1 year		over 1 year		Total	
	2020	2019	2020	2019	2020	2019
Interest rate futures						
Swaps	-	-	920.0	920.0	920.0	920.0
Forward exchange transactions	-20.4	-80.1	-5.8	-5.8	-26.2	-86.0
Average EUR:USD forward rate	1.22	1.14	1.23	1.17	-	-
Average EUR:GBP forward rate	0.90	0.85	-	-	-	-

The fair values of derivative financial instruments were as follows:

	Assets		Liabilities	
	Dec. 31,		Dec. 31,	
in € million	2020	2019	2020	2019
Foreign exchange contracts				
Cashflow Hedges	0.4	0.1	-	-
not designated in a hedging relationship	5.0	5.4	0.8	1.4
Interest rate derivatives				
Component of embedded derivative	-	50.9	-	-
Interest rate swaps	-	-	5.6	9.5
<b>Total</b>	<b>5.4</b>	<b>56.4</b>	<b>6.4</b>	<b>10.9</b>

### 36.3 Disclosures on hedge accounting

The development of hedging instruments for foreign exchange risks recorded in other comprehensive income as of December 31, 2020/2019, is as follows:

in € million	Equity attributable to owners of HENSOLDT AG	Non- controlling interests	Total
<b>As of Jan. 1, 2019</b>	<b>-3.4</b>	<b>-0.2</b>	<b>-3.7</b>
Unrealized valuation gains (+) and losses (-)	-1.4	-0.1	-1.6
Reclassification to consolidated income/loss	1.1	0.1	1.2
Deferred taxes on unrealized valuation gains	-0.3	-0.0	-0.3
<b>Change</b>	<b>-0.7</b>	<b>-0.0</b>	<b>-0.7</b>
<b>As of Dec. 31, 2019</b>	<b>-4.1</b>	<b>-0.3</b>	<b>-4.4</b>
Unrealized valuation gains (+) and losses (-)	-1.7	-0.6	-2.3
Reclassification to consolidated income/loss	0.9	0.1	0.9
Deferred taxes on unrealized valuation gains	0.3	0.1	0.4
<b>Change</b>	<b>-0.6</b>	<b>-0.4</b>	<b>-1.0</b>
<b>As of Dec. 31, 2020</b>	<b>-4.7</b>	<b>-0.7</b>	<b>-5.5</b>

The carrying amount of the derivatives used as hedging instruments is €0.4 million (PY: €0.1 million) and is shown within other financial assets. In the fiscal year, an amount of €0.9 million (PY: €1.0 million) from due cash flow hedges was reclassified from equity primarily to revenue. There were no

material inefficiencies from hedging relationships in both 2020 and 2019.

The nominal value of derivative financial instruments used as hedging instruments amounts to €0.4 million (PY: €0.5 million) and has a maturity of less than one year.



## 36.4 Net gains or net losses

The following net gains or net losses on measurement of the financial assets and financial liabilities were recognized in profit or loss in 2020 and 2019.

in € million	Fiscal year	
	2020	2019
Financial assets or liabilities at fair value through profit or loss	-45.8	56.1
Financial assets at amortized costs	-4.3	-1.3
Financial liabilities at amortized costs	-63.5	-59.6
<b>Net gains or net losses</b>	<b>-113.6</b>	<b>-4.8</b>

## 36.5 Impairment losses

The following impairment losses on financial assets were recognized in profit or loss in 2020 and 2019:

in € million	Kategorie	2020	2019
<b>Impairment losses for:</b>			
Trade receivables and contract assets (Stage 1 and 2)	AC	0.9	0.9
Trade receivables and contract assets (Stage 3)	AC	2.9	4.6
<b>Impairment losses (gross) on financial assets and contract assets</b>		<b>3.8</b>	<b>5.5</b>
Reversals of impairment losses		-1.6	-1.4
<b>Impairment losses (net) on financial assets and contract assets</b>		<b>2.3</b>	<b>4.1</b>

# VII ADDITIONAL COMMENTS

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# 37 AUDITOR'S FEE AND SERVICES

The HENSOLDT Group, its subsidiaries and other companies included in the consolidated financial statements recognized the following expenses for the fees and services of KPMG AG for the fiscal years 2020 and 2019:

	Parent company		Subsidiaries		Total	
	Fiscal year		Fiscal year		Fiscal year	
in € million	2020	2019	2020	2019	2020	2019
Audit services	0.5	0.3	0.5	0.5	1.0	0.8
Other assurance services	0.5	-	0.2	0.2	0.7	0.2
Tax advisory services	0.2	-	0.1	0.1	0.3	0.1
Other services	0.1	-	0.8	0.6	0.9	0.6
<b>Total</b>	<b>1.3</b>	<b>0.3</b>	<b>1.6</b>	<b>1.4</b>	<b>2.9</b>	<b>1.7</b>

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

Fees for the other assurance services mainly relate to the issuance of comfort letters and other contractually agreed upon assurance services in conjunction with the Company's IPO like the review of the Company's interim financial statement.

Furthermore, tax advisory services were provided in connection with business acquisitions. In addition, KPMG AG provided other quality assurance services in connection with the IPO and consulting services in connection with financial due diligence (buyer's side).

# 38 FUTURE PAYMENT OBLIGATIONS

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There were purchase commitments especially for inventories and services in the amount of €658.7 million as of December 31, 2020 (PY: €253.5 million).



# 39 EVENTS AFTER THE REPORTING DATE

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For information on acquisitions after the balance sheet date, please refer to Note II.7.1

The Executive Board and the Supervisory Board propose the distribution of a dividend of €0.13 per share to holders entitled to dividends. This corresponds to an

expected total payment of around €13.7 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

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Thomas Müller

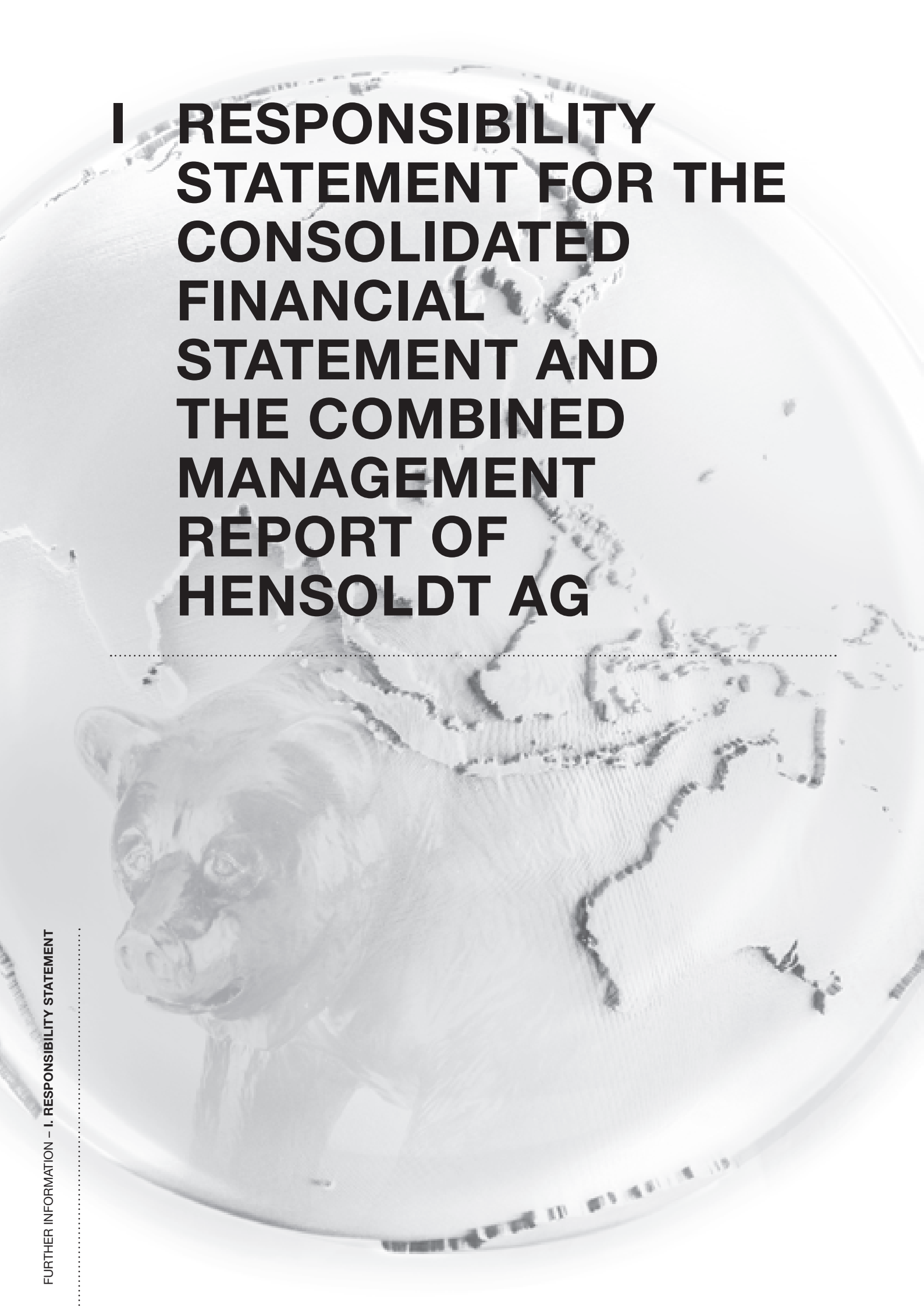
Axel Salzmann

Peter Fieser



# FURTHER INFORMATION





# **I RESPONSIBILITY STATEMENT FOR THE CONSOLIDATED FINANCIAL STATEMENT AND THE COMBINED MANAGEMENT REPORT OF HENSOLDT AG**

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To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group, and the Group management report, which is

combined with the management report of HENSOLDT AG, includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

Taufkirchen, March 8, 2021

**HENSOLDT AG**

Management Board

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Thomas Müller

Axel Salzmann

Peter Fieser

# II INDEPENDENT AUDITOR'S REPORT

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## Report on the Audit of the Consolidated Financial Statements and 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, 2020, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from January 1, 2020 to December 31, 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of HENSOLDT AG and the HENSOLDT Group (hereinafter: “combined management report”) for the financial year from January 1 to December 31, 2020.

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.

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, 2020, and of its financial performance for the financial year from January 1, 2020 to December 31, 2020, 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.

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, principles and standards 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) (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 judgement, were of most significance in our audit of the consolidated financial statements for the financial year from January 1, 2020 to December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

### Recoverability of goodwill

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

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

## RISKS FOR THE FINANCIAL STATEMENTS

Goodwill with a carrying amount of EUR 637.2 million as at December 31, 2020 represents a significant proportion (21.6%) of total assets.

Goodwill is tested for impairment annually in the fourth quarter of the financial year at the level of the Sensors and Optronics operating segments, irrespective of any indication of impairment. If an indication of an impairment loss on goodwill arises during the year, this also triggers an impairment test to be performed during the year. For the purposes of impairment testing, the carrying amount of goodwill is compared with the recoverable amount of the relevant operating segment. If the carrying amount is higher than the recoverable amount, an impairment loss is required to be recognized. The recoverable amount is determined as the value in use of the operating segment. The valuation date for the impairment test was September 30, 2020. HENSOLDT engaged the services of an external expert to assist in the performance of the impairment test.

Testing goodwill for impairment is a complex matter and is based on a number of discretionary assumptions.

These include the forecast revenue growth, the forecast level of long-term EBITDA margins and the discount rate to be used, given that even minor changes in these assumptions can have a material impact on estimated recoverable amounts.

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

## OUR AUDIT APPROACH

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

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

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

In order to take account of forecasting uncertainties and the early valuation date selected for the impairment test, we examined the effects of possible changes in the above-mentioned assumptions on the recoverable amount by calculating alternative scenarios and comparing them with the Company's values (sensitivity analysis).

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

## OUR CONCLUSIONS

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

## Measurement of pension provisions

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

Further information is provided in section "IV. Operating assets and liabilities (note 32. Pension benefits)" in the notes to the consolidated financial statements.

## RISKS FOR THE FINANCIAL STATEMENTS

Provisions for retirement benefits amounting to EUR 429.8 million are recognized in the consolidated financial statements as at December 31, 2020, representing the net liability arising by setting off the defined benefit obligation (DBO) relating to pension plans (EUR 488.3 million) and deferred compensation (EUR 167.1 million) against the fair value of plan assets amounting to EUR 211.8 million and EUR 13.9 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 judgment applied when determining various assumptions such as the discount factor, the future salary trend, life expectancy and the exercise of options relating to the disbursement of pensions. The measurement of retirement benefit 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 values of these assets depends on the judgment applied when determining various assumptions such as the amount of future rental

income to be generated and the discount factor. HENSOLDT engaged the services of an external expert to assist in determining 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 benefit 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 measuring 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 traced the amounts recognized in the consolidated financial statements as well as disclosures in the notes, based on 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. 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 used by the Group to measure its retirement benefit obligations and plan assets are, in each case, considered appropriate overall. The notes to the consolidated financial statements contain the necessary information on assumptions underlying the valuation.

## Revenue recognition in the project business of the Sensors operating segment

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

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

### RISKS FOR THE FINANCIAL STATEMENTS

Group revenue totaled EUR 1,206.9 million in the financial year 2020. The Sensors operating segment accounted for EUR 922.5 million of this amount, including EUR 480.5 million recognized on the basis of a point in time and EUR 442.7 million recognized over time.

Customer contracts in the project business of the Sensors operating segment are predominantly complex, in some cases involving high order volumes and long terms. Customer-specific requirements often means 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 judgment, 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 customer and the judgement required when assessing the criteria for determining the point in 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 the 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

costs incurred, expected total costs, the method used for measuring the progress of contracts and the procedures applied by project controlling for recognizing revenue.

For new contracts entered into during the year under report, 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 cost 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 cost and risk included and for updating forecasts of expected total costs on the occurrence of triggering events. In this context, we discussed the estimation of total expected costs for the selected projects with the relevant project managers from both the commercial and the technical side. The total amount of revenue underlying the selected projects was agreed 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 to recognize project business revenue relating to the Sensors operating segment is appropriate. The assumptions underlying the accounting treatment are appropriate.

### Other Information

The management board and the 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 non-financial Group declaration to which reference is made in the combined management report, and
- the corporate governance statement included in section VIII. of the combined management report.

The other information also includes 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 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.

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

The management board is responsible for the preparation of 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, the management board 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, the management board 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, the management board 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, the management board 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 the 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 the combined management report.

We exercise professional judgement and maintain professional skepticism throughout the assurance engagement. 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 controls.
- 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 the management board and the reasonableness of estimates made by the management board and related disclosures.
- Conclude on the appropriateness of the management board'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 the management board in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the management board 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

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

We have performed an assurance engagement in accordance with Section 317 (3b) HGB to obtain reasonable assurance about whether the electronic reproduction of the consolidated financial statements and the combined management report (hereinafter the "ESEF documents") contained in the file that can be downloaded by the issuer from the electronic client portal with access protection,

hensoldtag-2020-12-31.zip" (SHA256-Hashwert: 9ec430fb528e8236a87 c1f127cc29aabece4c587e4210b-2243fac59035c8d624)]

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 engagement only extends to the conversion of the information contained in the consolidated financial

statements and the combined management report into the ESEF format and therefore relates neither to the information contained in this reproduction nor any other information contained in the above-mentioned electronic file.

In our opinion, the reproduction of the consolidated financial statements and the combined management report contained in the above-mentioned electronic file and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. We do not express any opinion on the information contained in this reproduction nor on any other information contained in the above-mentioned file beyond this reasonable assurance conclusion 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, 2020 contained in the "Report on the Audit of the Consolidated Financial Statements and of the Combined Management Report" above.

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

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

In addition, the management board is responsible for the internal controls they consider necessary to enable the preparation of ESEF documents that are free from material non-compliance with the requirements of Section 328 (1)

HGB for the electronic reporting format, whether due to fraud or error.

The management board is also responsible for the submission of the ESEF documents together with the auditor's report and the attached audited consolidated financial statements and audited combined management report as well as other documents to be published to the operator of the German Federal Gazette [Bundesanzeiger].

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

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error. We exercise professional judgement and maintain professional skepticism throughout the assurance engagement. We also:

- Identify and assess the risks of material non-compliance with the requirements of Section 328 (1) HGB, whether due to fraud or error, 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 conclusion.
- Obtain an understanding of internal control relevant to the assessment of the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing a conclusion on the effectiveness of these controls.

- Evaluate the technical validity of the ESEF documents, i.e. whether the electronic file containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815 on the technical specification for this electronic file.
- Evaluate whether the ESEF documents enable an XHTML reproduction with content equivalent to the audited consolidated financial statements and the audited combined management report.
- Evaluate whether tagging the ESEF documents with Inline XBRL technology (iXBRL) provides an appropriate and complete machine-readable XBRL copy of the XHTML reproduction.

#### **Further Information pursuant to Article 10 of the EU Audit Regulation**

We were elected as group auditor at the annual general meeting on August 11, 2020. We were engaged by the supervisory board on December 2, 2020. We have been the group auditor of HENSOLDT AG (in its capacity as a capital-market-oriented entity) since financial year 2020.

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

#### **German Public Auditor Responsible for the Engagement**

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

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Munich, March 8, 2021

KPMG AG  
Wirtschaftsprüfungsgesellschaft

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Leistner  
Wirtschaftsprüfer

Peschel  
Wirtschaftsprüfer



# **III SUPERVISORY BOARD REPORT**

ON THE CONSOLIDATED  
FINANCIAL STATEMENTS  
AND ANNUAL FINANCIAL  
STATEMENTS OF  
HENSOLDT AG  
(PREVIOUSLY: HENSOLDT  
GMBH) FOR THE 2020  
FINANCIAL YEAR

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Dear Shareholder,

In addition to the challenges posed by the COVID-19 pandemic, the 2020 financial year was characterised for the HENSOLDT Group by the initial public offering (IPO) of HENSOLDT AG.

Based on a resolution passed by the shareholders on 11 August 2020 and registration in the commercial register on 17 August 2020, HENSOLDT AG was established by changing the legal form of HENSOLDT GmbH, which had been founded in September 2019. The shares of HENSOLDT AG were listed for the first time on the Frankfurt Stock Exchange on 25 September 2020 and were included in the SDAX index on 21 December 2020.

In preparation for the IPO, the first supervisory board of HENSOLDT GmbH, now HENSOLDT AG, was established in August 2020: employee representatives were appointed in a decision passed by the Munich Local Court (Amtsgericht München) on 6 August 2020; shareholder representatives were appointed in a resolution passed by the shareholders on 7 August 2020. The supervisory board thus created for HENSOLDT GmbH has been maintained unchanged at HENSOLDT AG after the company's conversion into a joint-stock company as part of a change of its legal form.

#### **Cooperation with the management board**

Since its constitution, the supervisory board of HENSOLDT AG has discharged the tasks incumbent on it by law, the articles of association and the rules of procedure. We have provided the management board with regular advice in the management of the company and monitored its activities. The supervisory board was directly involved at an early stage in all decisions of fundamental importance to the company. The management board informed us regularly, promptly and comprehensively, both in writing and verbally, on corporate planning, the course of business, strategic developments and the current situation of the group.

Deviations of the actual business development from the plans were explained to us in detail. The management board coordinated the company's strategic orientation with us. We discussed the transactions of major importance to the company in detail on the basis of the reports provided by the management board.

The supervisory board, in particular the chairman of the supervisory board, was in regular contact with the management board, even beyond the supervisory board meetings, and obtained information on the current development of the business situation and major transactions. The supervisory board was hereby always aware of the business policy being pursued, corporate planning including financial, investment and personnel planning, the course of business, the profitability of the company and the situation of the group.

#### **Corporate governance and working methods of the supervisory board**

Further explanations on corporate governance can be found in the corporate governance statement (including the corporate governance report), which can be accessed on the company's website. This will also give you explanations on the current statement of the management board and supervisory board pursuant to section 161 of the German Stock Corporation Act (AktG), which was approved by the supervisory board on 5 March 2021. In addition, detailed information on the working methods of the supervisory board and its committees can be found there. The members of the supervisory board undergo basic and advanced training on their own responsibility. The company supports the supervisory board in this to an appropriate extent. In the past financial year, the members of the supervisory board received advanced training based on their individual needs, for example, on the subject of annual financial statements and accounting.

#### **Deliberations and resolutions in plenary sessions of the supervisory board**

The supervisory board of what is now HENSOLDT AG was established in August 2020 (when the company was still HENSOLDT GmbH). In total, one supervisory board meeting of HENSOLDT GmbH and two supervisory board meetings of HENSOLDT AG have taken place since the supervisory board of the current HENSOLDT AG was established. The supervisory board passed its resolutions as part of a written procedure, where necessary.

The constituent meeting of the supervisory board took place on 11 August 2020. At this meeting, the supervisory board issued rules of procedure for itself and its committees, as well as for the management board. In addition, the respective committee members were appointed.

The IPO, including the associated measures and decisions, was the focus of the supervisory board's work over the past financial year, especially in the meetings of 11 August 2020 and 27 August 2020. In this respect, the supervisory board mainly dealt with meeting the requirements placed on HENSOLDT AG's corporate governance in the context of the IPO. For example, the supervisory board appointed the Labour Director (Arbeitsdirektor) pursuant to section 33 of the German Co-Determination Act (MitbestG) and approved further management mandates for management board members pursuant to section 88(1) sentence 2 AktG and the service agreements for management board members. In addition, targets were set for the proportion of women on the supervisory and management boards pursuant to section 52(2) of the German Private Limited Companies Act (GmbHG). Moreover, the supervisory board members issued statements on the approval of the formation audit report and on the conversion of HENSOLDT GmbH to HENSOLDT AG as part of a change of the company's legal form. The supervisory board declared its consent to the IPO of HENSOLDT AG and approved further agreements entered into in connection with the IPO.

At the supervisory board meeting of 3 December 2020, the management board reported in detail on business development, the order situation, the status of major orders and M&A activities, the acquisition of engineering capacity and the funding status. In a resolution passed in writing in lieu of a meeting, the shareholder representatives on the supervisory board requested that the gender quota of 30% each for women and men on the supervisory board be separately complied with by both the shareholder and employee representatives in the election of employee representatives to the supervisory board of HENSOLDT AG, to be initiated in 2020.

The members of the management board regularly attended supervisory board and committee meetings. In the past financial year, there were no discussions on personnel matters or internal supervisory board matters that would have required a discussion without the management board from the supervisory board's point of view.

Measures for which the provisions of the articles of association, the rules of procedure for the supervisory board or the rules of procedure for the management board require the supervisory board's approval were submitted to the

supervisory board for a decision, allowing sufficient intervening time. The supervisory board approved each of the management board's resolution proposals after thorough examination and discussion. Apart from the individual measures outlined above, no other transactions requiring approval are reported for the past financial year.

### Committees of the supervisory board

To perform its duties efficiently, the supervisory board has established an executive committee, as well as five other permanent committees and one temporary committee. These committees prepare the resolutions of the supervisory board and the topics to be dealt with in a plenary session. The supervisory board's decision-making powers have been transferred to the corresponding committees to the extent permitted by law.

There was no **executive committee** meeting in the past financial year.

The **audit committee** held two meetings. On 3 November 2020, the audit committee discussed the interim financial information (9M2020 quarterly statement) with the HENSOLDT Group's CFO, as well as the pre-approval of the assurance services in connection with the non-financial statement in the sustainability report by KPMG AG Wirtschaftsprüfungsgesellschaft as a permissible non-audit service. At its meeting of 1 December 2020, in the presence of the auditor and the CFO, the audit committee dealt with the planning of the audit of the 2020 annual and consolidated financial statements and the update on the current status of the audit. In addition, the audit intensity (limited assurance) and the audit scope requested by the audit committee were determined with regard to the sustainability report. Moreover, a report concerning the internal audit was presented. The audit committee issued rules of procedure for the internal audit department. In a resolution passed in writing in lieu of a meeting, the members of the audit committee also approved permissible non-audit services provided by KPMG AG Wirtschaftsprüfungsgesellschaft. The **compliance committee** held one meeting in the past financial year. On 1 December 2020, the compliance committee dealt with the compliance organisation of HENSOLDT AG in general and, in particular, with a benchmarking audit, which had been requested for HENSOLDT's compliance systems, and an update on the implementation of the HENSOLDT Anti-Corruption Compliance Programme.

The chairpersons of the committees reported on the committees' work in the plenary session of 3 December 2020.

The **mediation committee, the committee for transactions with related parties** and the **nomination committee** did not need to be convened during the financial year.

The **IPO committee**, established for a limited period of time, held four meetings in September 2020. The IPO committee dealt with the preparation and implementation of the IPO (in particular with regard to the further implementation of the prospectus approval procedure

and the preparation of the admission of HENSOLDT AG shares to trading on the stock exchange), as well as the planned capital increase and the contracts to be entered into in this context. The IPO committee existed over the period from 11 August 2020 to 31 October 2020.

#### Attendance of the supervisory board members at the meetings

The following section provides information on the supervisory board members' attendance at the supervisory board and committee meetings, which were actually held during the period since the resolution to change the company's legal form was passed on 11 August 2020:

	Supervisory board plenary session		IPO committee		Audit committee		Compliance committee	
(Number of meetings / attendance in %)	Number	in %	Number	in %	Number	in %	Number	in %
<b>Johannes P. Huth</b> <b>Chairman of the Supervisory Board</b>	3/3	100	3/3	100	-	-	-	-
<b>Armin Maier-Junker<sup>1</sup></b> <b>Deputy Chairman of the Supervisory Board</b>	3/3	100	3/3	100	-	-	-	-
Jürgen Bühl <sup>1</sup>	3/3	100	3/3	100	-	-	-	-
Dr Frank Döngi <sup>1</sup>	3/3	100	-	-	-	-	1/1	100
Winfried Fetzner <sup>1</sup>	3/3	100	-	-	-	-	1/1	100
Prof. Dr. h.c. Wolfgang Ischinger	3/3	100	-	-	-	-	-	-
Ingrid Jägering	3/3	100	-	-	2/2	100	-	-
Marion Koch <sup>1</sup>	3/3	100	-	-	2/2	100	-	-
Christian Ollig	3/3	100	3/3	100	2/2	100	1/1	100
Prof. Dr. Burkhard Schwenker	2/3	66.67	-	-	-	-	1/1	100
Julia Wahl <sup>1</sup>	3/3	100	-	-	2/2	100	-	-
Claire Wellby	3/3	100	-	-	-	-	-	-
		<b>97.2</b>		<b>100</b>		<b>100</b>		<b>100</b>

<sup>1</sup> Employee representative

In addition, the supervisory board held a meeting as the supervisory board of the then HENSOLDT GmbH before the shareholders passed the resolution to change the company's legal form. This meeting was attended by all of the supervisory board members who were in office in the 2020 financial year.

During the period after the resolution on the change of the company's legal form, the meetings of the supervisory board in the past financial year were thus attended by 97.2% and those of the committees

by 100% (without exception) of the members. Over the course of the reporting year, no supervisory board member attended only half or fewer meetings of the supervisory board and the committees to which the given member belonged.

#### Conflicts of interest on the supervisory board

There were no conflicts of interest of management board or supervisory board members that should have been disclosed to the supervisory board in the past financial year.



### Changes to the management board and supervisory board

There were no changes to the management board – or, prior to the change of the company's legal form, to the management team – in the past financial year.

Mr Winfried Fetzner resigned from the supervisory board with effect from the day after 31 December 2020. In his place, Mr Ingo Zeeh was appointed to the supervisory board by decision of the register court of 12 January 2021.

### Audit of the annual and consolidated financial statements

KPMG AG Wirtschaftsprüfungsgesellschaft was appointed as auditor for the 2020 financial year by a resolution passed by the shareholders in their meeting of 11 August 2020. KPMG AG Wirtschaftsprüfungsgesellschaft had previously confirmed that there were no circumstances that might compromise its independence or cast doubt on its independence as an auditor. KPMG AG Wirtschaftsprüfungsgesellschaft also provided information on the extent to which non-audit services were provided to all HENSOLDT Group companies in the previous financial year. KPMG AG Wirtschaftsprüfungsgesellschaft and Mr Martin Leistner, as the responsible audit partner, have audited HENSOLDT AG according to the provisions of section 319a(1) sentence 4 of the German Commercial Code (HGB) since it was founded in 2019 as HENSOLDT GmbH, and the HENSOLDT Group since the first preparation of consolidated financial statements by HENSOLDT Holding GmbH in 2017.

The management board of HENSOLDT AG prepared the annual financial statements, the combined management report of HENSOLDT AG and the group and the consolidated financial statements for the 2020 financial year.

KPMG AG Wirtschaftsprüfungsgesellschaft audited the annual financial statements and the combined management report of HENSOLDT AG and the consolidated financial statements for the 2020 financial year, and issued an unqualified audit opinion dated 8 March 2021 in each case. The consolidated financial statements were prepared pursuant to section 315a HGB on the basis of the International Financial Reporting Standards (IFRS), as applicable in the EU, and the supplementary German statutory regulations applicable pursuant to

section 315e(1) HGB. The annual financial statements and the combined management report were prepared in accordance with the provisions of German commercial law.

The auditor audited the annual financial statements and consolidated financial statements pursuant to section 317 HGB and the German Generally Accepted Standards on Auditing, as promulgated by the German Institute of Public Auditors (IDW), while additionally auditing the consolidated financial statements in accordance with the International Standards on Auditing (ISA).

The aforementioned documents were distributed to us by the management board in good time. They were discussed in depth in the audit committee on 19 March 2021. The auditor's report was available to all members of the supervisory board and was discussed in detail at the supervisory board's financial statement meeting on 19 March 2021 in the presence of the auditor, who reported on the main results of his audit. At this meeting, the annual financial statements and the consolidated financial statements were discussed with the management board and the scope, focus and costs of the audit were presented.

We agree with the results of the audit. No objections are to be raised based on the final result of the audit by the audit committee and our own audit. The supervisory board approved the annual financial statements and the consolidated financial statements, which were both prepared by the management board. The annual financial statements have thus been adopted. The management board proposed using EUR 13,650,000.00 of the total accumulated profits of EUR 16,774,423.65 for distribution of a dividend of EUR 0.13 per no-par value share eligible for dividends. We have agreed to this proposal.

As part of its examination, the supervisory board also reviewed the group's non-financial statement in the sustainability report, which was to be prepared pursuant to section 315b HGB, and reached the conclusion that it meets the existing requirements and that no objections were to be raised. An external audit by KPMG AG Wirtschaftsprüfungsgesellschaft had previously confirmed that no matters had come to the attention of the auditors that would cause them to believe that the group's non-financial statement had not been prepared pursuant to the provisions of section 315c HGB in all material respects.



## **Review of the management board's report on relations with affiliated companies**

The management board of HENSOLDT AG prepared a report on the relations with affiliated companies (dependency report) pursuant to section 312 AktG for the period from 17 August to 31 December 2020 and submitted it to the supervisory board in due time. The dependency report was reviewed by the auditor pursuant to section 313 AktG. As there were no objections to be raised in view of the final result of his audit, the auditor issued the following unqualified audit opinion pursuant to section 313(3) AktG: "Having duly examined and assessed the report in accordance with our professional duties, we confirm that (1) the factual statements made in the report are correct; (2) the consideration given by the company for the legal transactions listed in the report was not unreasonably high; (3) there are no circumstances that would support a materially different assessment of the measures listed in the report than that made by the management board."

The dependency report and the auditor's report were submitted to and reviewed by the audit committee

and the supervisory board. This review did not lead to 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 statement on the relations with affiliated companies. The result of the examination of the dependency report by the auditor has been approved.

Thanks to the management board and staff

The supervisory board would like to thank the members of the management board, the employees and the employee representatives of all group companies for their work and especially for their contribution to the successful IPO of HENSOLDT AG. They have contributed to a very successful business year for the HENSOLDT Group.

On behalf of the Supervisory Board

The Chairman of the Supervisory Board





