



Annual financial statements as at December 31, 2020 and combined management report

TRANSLATION – AUDITOR'S REPORT

HENSOLDT AG
Taufkirchen, District of Munich

(until August 17, 2020: HENSOLDT GmbH)

KPMG AG Wirtschaftsprüfungsgesellschaft

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HENSOLDT AG

Taufkirchen, District of Munich

Annual financial statements
as per December 31, 2020

Balance Sheet

ASSETS	Dec. 31,	Dec. 31,
in € thousand	2020	2019
A. Fixed assets	2,670,063	1,650,000
I. Property, plant and equipment	63	-
II. Financial assets	2,670,000	1,650,000
B. Current assets	313,947	25
I. Receivables and other assets	125,920	-
II. Cash and cash equivalents	188,027	25
C. Prepaid expenses	9,080	-
Total assets	2,993,090	1,650,025

EQUITY AND LIABILITIES	Dec. 31,	Dec. 31,
in € thousand	2020	2019
A. Equity	1,906,799	1,649,735
I. Share capital	105,000	10,000
II. Capital reserve	1,785,025	1,640,025
III. Balance sheet profit / loss	16,774	-290
B. Provisions	7,349	289
1. Provisions for pensions and similar obligations	4,255	-
2. Other provisions	3,094	289
C. Liabilities	1,078,942	1
1. Liabilities to banks	950,968	-
2. Trade payables	7,583	-
3. Liabilities to affiliated companies	100,422	1
4. Other liabilities	19,969	-
Total equity and liabilities	2,993,090	1,650,025

Income Statement

in € thousand	Fiscal year	
	2020	2019
1. Revenue	8,251	-
2. Cost of sales	-8,490	-
3. Gross profit	-239	-
4. General administrative expenses	-33,640	-290
5. Other operating income	5,388	-
6. Other operating expenses	-6,002	-
7. Operating result	-34,492	-290
8. Financial result	-8,444	-
9. Loss after taxes	-42,936	-290
10. Loss carryforward	-290	-
11. Withdrawal from the capital reserve	60,000	-
12. Balance sheet profit / loss	16,774	-290

Notes to the financial statements

I. Basis of preparation and accounting policies

With the entry in the commercial register on August 17, 2020, HENSOLDT GmbH, Taufkirchen (local court of Munich, HRB 252143) was converted into HENSOLDT AG, Taufkirchen (local court of Munich, HRB 258711).

On September 24, 2020, the Company's shares were admitted to trading on the Frankfurt Stock Exchange with admission to the regulated market segment. Stock exchange trading commenced on the following day. The main shareholder of HENSOLDT AG is Square Lux Holding II S.à r.l., Luxembourg with a shareholding of 68.3 %. On December 21, 2020, the shares of HENSOLDT AG, which are traded under the stock exchange symbol HAG000, were included in the SDAX.

The annual financial statements of HENSOLDT AG were prepared in accordance with Sections 242 et seq. and 264 et seq. of the German Commercial Code (HGB), the relevant provisions of the German Stock Corporation Act (AktG) and the Articles of Association. The regulations for large companies apply.

The applicable valuation provisions under German commercial law were observed on a going concern basis. The valuation methods applied to the previous annual financial statements were retained.

For the purpose of clearer presentation, certain line items, which are broken down accordingly in the notes to the financial statements, have been combined in the balance sheet and in the income statement.

The annual financial statements have been prepared in euro.

The income statement has been prepared using the cost of sales method.

Accounting policies

The following accounting and valuation methods were used to prepare the annual financial statements.

Property, plant and equipment are reported at cost less depreciation. Scheduled depreciation of other equipment as well as operating and office equipment is predominantly based on a period of 2 to 10 years. The straight-line depreciation method is applied.

Additions to low-value assets with acquisition or production costs of up to €800 are immediately recognized as operating expenses in the year of acquisition or production.

Financial assets are carried at cost or, in the case of expected permanent impairment, at the lower fair value. This is the case if there is objective evidence, in particular events or changes in circumstances, indicating a significant or prolonged impairment. In the case of a previous write-down, a lower valuation may not be retained if the reasons for it no longer exist.

Receivables and other assets are stated at nominal value.

Cash and cash equivalents are stated at nominal value.

The difference between the higher settlement amount of a liability and the issue amount is included in **prepaid expenses**. Amortization occurs through scheduled annual depreciation spread over the entire term of the liability.

Provisions for pensions and similar obligations are stated at the settlement amount and calculated actuarially using the projected unit credit method.

The following assumptions were used for the calculation:

- Discount rate: 2.31 %
- Pension trend: 1.00 %
- Salary trend: 2.00 % - 3.00 %

The final age used in the calculation is largely based on the age limits set out in the Pension Insurance Age Limit Adjustment Act of 2007 and the current biometric mortality tables 2018 G from Heubeck. The funding final age was set at 63 years. In addition, assumptions were made regarding the payout options granted to pension beneficiaries.

In accordance with Section 253 (2) HGB, pension provisions as of December 31, 2020 are discounted at a flat rate using the average market interest rate of the past ten fiscal years, based on an assumed time to maturity of 15 years.

The designated plan assets for pensions and similar obligations, which are measured at fair value, are netted against the provisions pursuant to Section 246 (2) sentence 2 HGB.

In the income statement, interest expense from the calculation of pension obligations and comparable long-term obligations, and income or expenses from the fair value measurement of designated plan assets, are reported on a net basis in the financial result.

Other provisions reflect all contingent liabilities and are recognized at the settlement amount deemed necessary according to the principles of reasonable business judgment, taking into account, where appropriate, future price or cost increases. Non-current provisions are discounted to the date of expected utilization using the average interest rates for the past seven fiscal years with appropriate maturities published by the Deutsche Bundesbank.

Liabilities are stated at their settlement amounts.

Deferred taxes are calculated for temporary differences between the accounting and tax bases of assets, liabilities and prepaid expenses. Any resulting tax charge is recognized in the balance sheet as a deferred tax liability. In the event of tax relief, the option to capitalize pursuant to Section 274 (1) sentence 2 HGB is not exercised and no capitalization is made.

II. Explanatory notes to the balance sheet

1. Fixed assets

The development of the individual fixed asset items is shown in the appendix to the notes.

The financial assets consist of the investment in the subsidiary HENSOLDT Holding GmbH. The shares in HENSOLDT Holding GmbH contributed in the previous year as part of the capital increase through contributions in kind were contributed at fair value; this is regarded as acquisition cost. In the reporting year, the carrying amount of the investment increased by a contribution of cash to the capital reserve of HENSOLDT Holding GmbH.

2. Receivables and other assets

in € thousand	Dec. 31, 2020	Dec. 31, 2019
1. Receivables from affiliated companies	125,916	-
2. Other receivables	4	-
Receivables and other assets	125,920	-

Receivables from affiliated companies mainly relate to receivables from advance VAT declarations of controlled companies in the amount of €20,424 thousand (PY: €0 thousand), receivables from internal settlements including accrued interest in the amount of €1,767 thousand (PY: €0 thousand), as well as receivables from cash pooling in the amount of €103,725 thousand (PY: €0 thousand).

All receivables and other assets have a remaining term of less than one year.

3. Cash and cash equivalents

Cash and cash equivalents relate to bank balances.

4. Prepaid expenses

This balance sheet item mainly comprises directly attributable transaction costs in connection with the taking out of a long-term syndicated loan ("term loan") in the amount of €3,751 thousand (PY: €0 thousand) and a revolving credit facility in the amount of €5,131 thousand (PY: €0 thousand). These will be released on a straight-line basis over the term of the loan agreement of five years. In addition, the balance sheet item includes insurance premiums of €198 thousand (PY: €0 thousand).

5. Equity

The registered share capital of HENSOLDT AG amounts to €105,000 thousand as of December 31, 2020 and is divided into 105,000,000 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 €10,000 thousand by €70,000 thousand to €80,000 thousand from the Company's capital reserves by resolution of the shareholders on August 4, 2020 and entry in the commercial register on August 6, 2020 (capital increase from company funds).

At the time of the conversion of HENSOLDT GmbH into HENSOLDT AG, the share capital of HENSOLDT GmbH amounted to €80,000 thousand.

In the course of the initial public offering (IPO), the share capital of the Company was increased by an additional €25,000 thousand to €105,000 thousand on the basis of the resolution of the shareholders' meeting on September 3, 2020 and with entry in the commercial register on September 24, 2020 (cash capital increase).

The exceeding amount of €275,000 thousand from the issuance of the 25.0 million new shares was allocated to the capital reserve.

In accordance with the Articles of Association, the Management Board may, with the approval of the Supervisory Board, increase the Company's share capital on one or more occasions on or before August 11, 2025 by up to a total of €36,000 thousand by issuing new no-par value ordinary bearer shares against contributions in cash and/or in kind (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 €36,000 thousand as of December 31, 2020.

The share capital of the Company was further conditionally increased by up to €16,000 thousand by issuing up to 16,000,000 new no-par value bearer shares on or before August 11, 2025 against contributions in cash or in kind (Conditional Capital 2020/I). The conditional capital increase will only be implemented to the extent that the holders or creditors of option or conversion rights, or those obliged to exercise conversion or option rights, exercise their option or conversion rights or, to the extent that they are obliged to exercise conversion or option rights, fulfill their obligation to exercise the conversion or option rights, 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 €16,000 thousand as of December 31, 2020.

The previous year's figures relate to the share capital of HENSOLDT GmbH. HENSOLDT GmbH's share capital was fully paid in and amounted to €10,000 thousand as of December 31, 2019.

Equity includes amounts blocked from distribution in accordance with Section 253 (6) sentence 2 HGB in the amount of €342 thousand.

An amount of €60,000 thousand was withdrawn from the capital reserve in connection with the preparation of the annual financial statements and allocated to distributable profit.

The loss after taxes for the fiscal year ended December 31, 2019 amounts to €42,936 thousand (PY: €290 thousand). Taking into account the loss carryforward of €290 thousand and the dissolution of the capital reserve, the balance sheet profit and loss amounts to €16,774 thousand.

6. Provisions for pensions and similar obligations

The assets that have been transferred to Allianz Treuhand GmbH, Frankfurt am Main, within the framework of a Contractual Trust Arrangement (CTA) to cover the Company's pension obligations and which, thus, represent assets designated for the settlement of pension obligations, are designated plan assets within the meaning of Section 246 (2) sentence 2 HGB, and are, therefore, offset at their fair value against the corresponding pension obligations. During the fiscal year, the former managing directors and several employees transferred from HENSOLDT Holding GmbH to HENSOLDT AG. Corresponding provisions for pensions and similar obligations as well as designated plan assets were transferred to HENSOLDT AG at fair value. A comparison with the previous year is therefore not meaningful.

Disclosures on offsetting in accordance with Section 246 (2) sentence 2 HGB:

in € thousand	Fiscal year	
	2020	2019
Expected settlement amount for pensions and similar obligations	4,307	-
Acquisition cost of designated plan assets	55	-
Fair value of designated plan assets	52	-
Offset of expenses	1,430	-
Offset of income	-	-

The interest expense of the obligations, the current income generated by the designated plan assets as well as the income or expense from changes in the fair value of the designated plan assets are shown on a net basis in interest income.

The difference pursuant to Section 253 (6) sentence 3 HGB amounts to €342 thousand (PY: €0 thousand) and is blocked from distribution.

7. Other provisions

Other provisions mainly relate to provisions for personnel expenses such as variable remuneration components in the amount of €2,295 thousand (PY: €0 thousand) and provisions for audit and consulting fees in the amount of €428 thousand (PY: €289 thousand).

8. Liabilities to banks

Liabilities to banks include liabilities under the syndicated loan agreement "Senior Facility Agreement" consisting of a loan (term loan) in the amount of €600.0 million and a revolving credit facility (RCF) of up to €350.0 million. The syndicated loan agreement has a term lasting until September 30, 2025. As of the reporting date, the revolving credit facility was fully drawn in the amount of €350.0 million and is repayable in the short term including accrued interest.

The financing is secured, among other things, by pledges of the shares in the indirect investments HENSOLDT Sensors GmbH, HENSOLDT Optronics GmbH, HENSOLDT Holding France S.A.S. and Nexeya France S.A.S.

9. Trade liabilities

Trade liabilities amount to €7,583 thousand (PY: €0 thousand) and have a remaining term of less than one year.

10. Liabilities to affiliated companies

Liabilities to affiliated companies amounting to €100,422 thousand (PY: €1 thousand) are liabilities from cash pooling amounting to €98,781 thousand (PY: €0 thousand) and trade liabilities amounting to €1,641 thousand (PY: €0 thousand) and have a remaining term of less than one year.

11. Other liabilities

Other liabilities include liabilities from taxes (payroll tax and VAT) in the amount of €19,969 thousand (PY: €0 thousand).

All other liabilities have a remaining term of less than one year.

III. Explanatory notes on the income statement

12. Revenue

The Company provides administrative, consulting and other services to subsidiaries or affiliated companies in Germany.

13. Other operating income

Other operating income includes extraordinary cost recharges of €5,388 thousand to the former shareholder Square Lux Holding II S.à r.l., Luxembourg, for pro rata costs of the IPO.

14. General administrative expenses

General administrative expenses mainly include costs of the IPO and the refinancing, amounting to €24,812 thousand.

15. Other operating expenses

Other operating expenses mainly include costs for raising equity in the amount of €6,000 thousand in connection with the IPO.

16. Cost of materials

The cost of sales includes expenses for fuel amounting to €4 thousand (PY: €0 thousand).

17. Personnel expenses/number of employees

in € thousand	Fiscal year	
	2020	2019
Wages, salaries	2,638	-
Social security contributions and expenses for pensions and similar obligations	643	-
thereof pension plans: €623 thousand (PY: €0 thousand)		
Personnel expenses	3,281	-

During the fiscal year, HENSOLDT AG employed 3 employees on average.

18. Financial result

in € thousand	Fiscal year	
	2020	2019
Other interest and similar income	101	-
Interest and similar expenses	-8,545	-
Financial result	-8,444	-

Other interest and similar income includes interest income from affiliated companies from cash pooling in the amount of €101 thousand (PY: €0 thousand).

Interest and similar expenses include interest on credit lines taken out in the amount of €5,706 thousand (PY: €0 thousand), bank charges in the amount of €1,401 thousand (PY: €0 thousand) in connection with the IPO and the refinancing, expenses for pension obligations in the amount of €1,430 thousand (PY: €0 thousand), and cash pooling interest paid to affiliated companies in the amount of €7 thousand (PY: €0 thousand).

IV. Other disclosures

19. Contingent liabilities

Contingent liabilities amount to €11,525 thousand (PY: €0 thousand), were entered into for affiliated companies and relate to guarantees to third parties. These were not required to be recognized as liabilities, as the underlying liabilities can presumably be met as a result the creditworthiness of the debtors and, therefore, a claim is not expected.

20. Other financial obligations

There are no significant other financial obligations.

21. Profit appropriation proposal

The Management 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. Payment of the proposed dividend is subject to approval by the shareholders' meeting.

22. Composition and mandates of the Management Board and Supervisory Board

Members of the Management Board and mandates of the Management Board members

- Müller, Thomas (Munich), Chairman, Chief Executive Officer of the HENSOLDT Group, from August 17, 2020
- Salzmann, Axel Albert Hans (Großhansdorf), Chief Financial Officer of the HENSOLDT Group, from August 17, 2020
- Fieser, Peter (Warthausen), Chief Human Resources Officer of the HENSOLDT Group, from August 17, 2020

In the fiscal year 2020, the current members of the Management Board were initially employed by HENSOLDT Holding GmbH on the basis of management contracts. As of November 11, 2019, they were managing directors of HENSOLDT GmbH and were appointed as members of the Management Board of HENSOLDT AG as part of the change of legal form.

The following members of the Management Board are also members of the supervisory board of the following companies:

Name	Company
Axel Albert Hans Salzmann	<ul style="list-style-type: none"> • TeamViewer AG • HUGO BOSS AG (until 2020)
Peter Fieser	<ul style="list-style-type: none"> • Orlando Management Verwaltungs GmbH

Members of the Supervisory Board and mandates of the Supervisory Board members

The Supervisory Board consists of the following members:

Name	Born	Member since	Appointed until	Position	Profession
Johannes P. Huth	1960	2017	2025	Chairman of the Supervisory Board	Partner at KKR and Head of KKR in EMEA
Armin Maier-Junker	1962	2017	2021	Vice Chairman of the Supervisory Board	Chairman of the Works Council of HENSOLDT Sensors GmbH, Ulm ; Chairman of the General Works Council of HENSOLDT Sensors GmbH and Chairman of the Group Works Council
Jürgen Bühl	1969	2017	2021	Supervisory Board member	Head of Sector Policy Coordination in the Executive Board of IG Metall
Dr. Frank Döngi	1966	2020	2021	Supervisory Board member	Head of the Airborne, Space & ISR Radars business unit and the Eurofighter Radar business unit at HENSOLDT Sensors GmbH
Winfried Fetzer	1959	2017	2020	Supervisory Board member	Chairman of the Works Council of HENSOLDT Optronics GmbH, Oberkochen; Member of the Group Works Council
Prof. Wolfgang Ischinger	1946	2017	2025	Supervisory Board member	Chairman of the Munich Security Conference Foundation; Senior Professor of Security Policy and Diplomatic Practice at the Hertie School of Governance in Berlin; Honorary Professor at the University of Tübingen
Ingrid Jägering	1966	2017	2025	Supervisory Board member	Member of the management board, CFO and labor director at Leoni AG
Marion Koch	1978	2020	2021	Supervisory Board member	Member of the Works Council of HENSOLDT Sensors GmbH, Immenstaad; and member of the Group Works Council; Project Manager in the Airborne, Space & ISR Radars business unit of HENSOLDT Sensors GmbH
Christian Ollig	1977	2017	2025	Supervisory Board member	Partner at KKR and Head of KKR in Germany, Managing Director of Traviata B.V.
Prof. Dr. Burkhard Schw enker	1958	2017	2025	Supervisory Board member	Senior Fellow at Roland Berger; Academic Co-Director of the HHL Center for Scenario-Planning
Julia Wahl	1987	2019	2021	Supervisory Board member	Personal Assistant to the District Director of IG Metall Baden-Württemberg
Claire Wellby	1988	2020	2025	Supervisory Board member	Member of KKR's private equity team, Vice President of KKR Show Aggregator GP Limited
Ingo Zeeh	1983	2021	2021	Supervisory Board member	Member of the Works Council of HENSOLDT Optronics GmbH

In the fiscal year, the members of the Supervisory Board were appointed at the level of HENSOLDT Holding GmbH until the conversion of HENSOLDT GmbH into HENSOLDT AG, and at the level of HENSOLDT AG from August 17, 2020.

The following members of the Supervisory Board of the Company are also members of the supervisory board or other governing body of the following companies:

Name	Position
Johannes P. Huth	<ul style="list-style-type: none"> • Member of the Supervisory Board of HENSOLDT Holding GmbH* (until 3rd quarter 2020) • Member of the Supervisory Board of Axel Springer SE • Member of the board of Coty Inc.
Armin Maier-Junker	<ul style="list-style-type: none"> • Member of the Supervisory Board of HENSOLDT Holding GmbH* (until 3rd quarter 2020) • Member of the Supervisory Board of HENSOLDT Sensors GmbH*
Jürgen Bühl	<ul style="list-style-type: none"> • Member of the Supervisory Board of HENSOLDT Sensors GmbH* (from Mar. 1, 2020) • Member of the Supervisory Board of HENSOLDT Holding GmbH* (until 3rd quarter 2020)
Dr. Frank Döngi	<ul style="list-style-type: none"> • Member of the Supervisory Board of HENSOLDT Holding GmbH* (until 3rd quarter 2020) • Member of the Supervisory Board of HENSOLDT Sensors GmbH* (from Feb. 15, 2020)
Winfried Fetzer	<ul style="list-style-type: none"> • Member of the Supervisory Board of HENSOLDT Holding GmbH* (until 3rd quarter 2020) • Member of the Supervisory Board of HENSOLDT Optronics GmbH*
Prof. Wolfgang Ischinger	<ul style="list-style-type: none"> • Member of the Supervisory Board of HENSOLDT Holding GmbH*
Ingrid Jägering	<ul style="list-style-type: none"> • Member of the Supervisory Board of HENSOLDT Holding GmbH* (until 3rd quarter 2020) • Independent member of the Board of Directors of SAF Holland S.A.
Christian Ollig	<ul style="list-style-type: none"> • Member of the Supervisory Board of HENSOLDT Holding GmbH*(until 3rd quarter 2020) • Member of the Supervisory Board of ETL AG Steuerberatungsgesellschaft • Member of the Supervisory Board of Wella AG • Member of the Supervisory Board of Upfield Holdings B.V.
Prof. Dr. Burkhard Schw enker	<ul style="list-style-type: none"> • Member of the Supervisory Board of HENSOLDT Holding GmbH* (until 3rd quarter 2020) • Member of the Supervisory Board of Hamburger Hafen und Logistik AG • Member of the Supervisory Board of Hamburger Sparkasse AG • Member of the Supervisory Board of Flughafen Hamburg GmbH • Member of the Supervisory Board of M.M. Warburg & Co. KGaA • Member of the Administrative Board of HASPA Finanzholding
Julia Wahl	<ul style="list-style-type: none"> • Member of the Supervisory Board of HENSOLDT Holding GmbH* (until 3rd quarter 2020) • Member of the Supervisory Board of HENSOLDT Sensors GmbH* (from Jan. 15, 2019)
Claire Wellby	<ul style="list-style-type: none"> • Member of the Supervisory Board of HENSOLDT Holding GmbH* (until 3rd quarter 2020) • Member of the Supervisory Board of LEONINE Licensing AG

Mandates within the HENSOLDT Group are marked with an asterisk (*). Members not mentioned have no mandates in other companies.

23. Management and Supervisory Board remuneration

Remuneration of the members of the Management Board

The remuneration of the members of the Management Board in the reporting year amounted to €1.2 million (PY: €0 million). The members of the Management Board were granted contributions to the BSAV in the amount of €0.2 million (PY: €0 million). The total remuneration and benefits granted to the members of the Management Board therefore amounted to €1.4 million (PY: €0 million).

Remuneration of the members of the Supervisory Board

The remuneration of the members of the Supervisory Board in the reporting year comprised basic remuneration and additional remuneration for committee activities and totaled €271 thousand, including attendance fees (PY: €0 thousand).

Individualized information on the remuneration of the Management Board and the Supervisory Board is presented in the remuneration report, which is part of the combined group management report.

24. Declaration of conformity with the German Corporate Governance Code

The Management Board and the Supervisory Board of HENSOLDT AG issued the declaration required by Section 161 AktG for the first time on March 5, 2021 and plan to make it publicly available on the Company's website on March 22, 2021.

25. Auditor's fees

KPMG AG Wirtschaftsprüfungsgesellschaft audited the annual financial statements and consolidated financial statements together with the combined management report of HENSOLDT AG and performed various audits of the annual financial statements of its subsidiaries, including statutory extensions of the engagement. Furthermore, other confirmation services, such as the issuance of comfort letters as well as other contractually agreed upon confirmation services in connection with the IPO, such as the review of the interim financial statements, were provided. Furthermore, tax consulting services were provided subsequent to company acquisitions. In addition, KPMG AG Wirtschaftsprüfungsgesellschaft provided further quality assurance services in connection with the IPO and advisory services in connection with financial due diligence on the buyer side.

Information on the auditor's fees is included in the consolidated financial statements of HENSOLDT AG. In accordance with the exemption pursuant to Section 285 No. 17 HGB for disclosure on a group level, they are not disclosed here.

26. List of shareholdings of HENSOLDT AG

Company	Registered office	Amount of the capital	Equity interest in € thousand	Result of the financial year in € thousand
Direct shareholdings				
HENSOLDT Holding GmbH ^{1, 10}	Taufkirchen / Germany	<100%	366,363	-46,326
Indirect shareholdings				
HENSOLDT Optronics GmbH ^{1, 8, 10}	Oberkochen / Germany	<100%	19,660	0
HENSOLDT Sensors GmbH ^{1, 10}	Taufkirchen / Germany	<100%	114,004	29,158
HENSOLDT France S.A.S. ¹	Paris / France	100.0%	12,056	1,838
HENSOLDT Australia Pty Ltd ⁵	Canberra / Australia	100.0%	2,730	428
HENSOLDT UK Limited ¹	Enfield / UK	100.0%	48,115	0
HENSOLDT Inc. ¹	Wilmington / USA	100.0%	-4,375	-1,714
HENSOLDT Cyber GmbH ¹	Taufkirchen / Germany	51.0%	-591	-2,317
HENSOLDT Holding Germany GmbH ^{1, 10}	Taufkirchen / Germany	<100%	46,014	0
HENSOLDT Avionics Holding GmbH (previously: EuroAvionics Holding GmbH) ^{1, 8}	Pforzheim / Germany	100.0%	38,852	0
HENSOLDT Avionics GmbH (previously: EuroAvionics GmbH) ^{1, 9}	Pforzheim / Germany	100.0%	38,029	0
EuroAvionics UK Ltd. ¹	Slinfold / UK	100.0%	924	238
EuroAvionics Schweiz AG ¹	Sissach / Switzerland	100.0%	916	-23
EuroAvionics US HoldCo. Inc. ¹	Sarasota / USA	100.0%	-1,397	-454
EuroAvionics USA LLC ¹	Sarasota / USA	100.0%	3,638	1,125
GEW Integrated Systems (Pty) Ltd. ²	Brummeria / South Africa	75.0%	n/a	n/a
GEW Technologies (Pty) Ltd. ¹	Brummeria / South Africa	75.0%	32,117	6,021
HENSOLDT Optronics (Pty) Ltd. ¹	Irene / South Africa	70.0%	32,190	4,405
KH Finance No.2 ¹	Enfield / UK	100.0%	19,038	-509
KH Finance Ltd. ¹	Enfield / UK	100.0%	-55,701	-4,386
Kelvin Hughes Ltd. ¹	Enfield / UK	100.0%	91,731	-215
Kelvin Hughes BV ¹	Rotterdam / Netherlands	100.0%	4,549	-48
A/S Kelvin Hughes ¹	Ballerup / Denmark	100.0%	-935	-222
Kelvin Hughes LLC ¹	Alexandria (Virginia) / USA	100.0%	-89	0
HENSOLDT Singapore Pte. Ltd. ¹	Singapore / Singapore	100.0%	3,507	90
HENSOLDT Holding France S.A.S. ¹	Paris / France	100.0%	42,042	-1,075
Kite Holding France S.A.S. ¹	Paris / France	100.0%	-36	-20
Nexeya France S.A.S. ⁶	Toulouse / France	100.0%	33,363	-2,199
Midi Ingénierie S.A.S. ⁶	Toulouse / France	85.0%	3,268	1,323
Antycip Technologies S.A.S. ⁶	Massy / France	100.0%	2,104	277
Penser Maitriser Technicité Logistique - P.M.T.L S.A.S. ⁶	Cologne / France	100.0%	1,244	129
HENSOLDT Space Consulting S.A.S. (previously: Nexeya Conseil et Formation S.A.S.) ⁶	Toulouse / France	100.0%	246	125
Nexeya Canada Inc. ⁵	Markham / Canada	100.0%	2,983	665
Nexeya USA Inc. ⁵	Beaufort (North Carolina) / USA	100.0%	1	-9
Antycip Iberica SL ¹	Barcelona / Spain	100.0%	21	3
PMTL-PEINTURE COMPOSITE S.A.S. ⁵	L'Isle-Jourdain / France	49.8%	79	-58
Atlas Optronics LLC ⁷	Abu Dhabi / UAE	49.0%	n/a	n/a
Deutsche Elektronik Gesellschaft für Algerien (DEGFA) GmbH ¹	Ulm / Germany	66.7%	10,373	-303
EURO-ART Advanced Radar Technology GmbH ³	Munich / Germany	25.0%	214	-3
EURO-ART International EWV ¹	Munich / Germany	50.0%	1,115	-1
EUROMIDS S.A.S. ¹	Paris / France	25.0%	3,215	266
LnZ Optronics Co., Ltd. ¹	Seoul / South Korea	50.0%	1,322	24
HENSOLDT do Brasil Segurança e Defesa Eletrônica e Óptica Ltda ¹	Belo Horizonte / Brazil	99.0%	-99	85
Société Commune Algérienne de Fabrication de Systèmes Electroniques (SCAFSE) SPA ¹	Sidi Bel Abbès / Algeria	49.0%	22,629	1,445
HENSOLDT Private Ltd. ⁴	Bangalore / India	100.0%	117	58

1) Equity as of Dec. 31, 2019 and net income 2019

2) No separate financial statements are published for the company, as it is fully consolidated into GEW Technologies (Pty) Ltd, Pretoria / South Africa

3) Equity as of Sep. 30, 2019 and net income for the year 2018/2019

4) Equity as of Mar. 31, 2020 and net income for the year 2019/2020

5) Equity as of Jun. 30, 2020 and net income for the year 2019/2020

6) Equity as of Dec. 31, 2019 and net income for the short year from Jul. 1, until Dec. 31, 2019

7) No capital has yet been paid into Atlas Optronics LLC, Abu Dhabi/UAE, which was founded on Oct. 30, 2016 and in which the company will hold 49% of the shares through Hensoldt Optronics GmbH.

8) Profit and loss transfer agreement with HENSOLDT Holding Germany GmbH

9) Profit and loss transfer agreement with EuroAvionics Holding GmbH

10) One share held by the Federal Republic of Germany

27. Disclosures pursuant to Section 160 (1) No. 8 AktG

With voting rights notifications dated September 28, 2020, KKR Management LLP, Wilmington, Delaware, United States of America, and KKR SP Limited, George Town, Grand Cayman, Cayman Islands, as persons subject to the reporting requirements pursuant to Section 40 of the German Securities Trading Act (WpHG), each reported that 66,666,666 voting rights were indirectly attributable to them. In relation to the share capital of HENSOLDT AG, which is divided into 105,000,000 shares, this represents a share of approximately 63.5 % of the voting rights. The voting rights are, in each case, held directly by Square Lux Holding II S.à r.l. as shareholder.

Further, KKR Management LLP, Wilmington, Delaware, United States of America, and KKR SP Limited, George Town, Grand Cayman, Cayman Islands, as persons subject to the reporting requirements pursuant to Section 40 WpHG, each reported, in the voting rights notifications of September 28, 2020, an instrument also attributable to them relating to the acquisition of a total of 5,000,000 voting rights with a term until November 5, 2020. In relation to the share capital of HENSOLDT AG, which is divided into 105,000,000 shares, this represents a share of approximately 4.8 % of the voting rights.

With voting rights notification dated September 30, 2020, the Federal Republic of Germany, Berlin, reported an acquisition right relating to a total of 26,355,000 shares and, thus, voting rights with an exercise period from October 1, 2020 to December 31, 2020. In relation to the share capital of HENSOLDT AG, which is divided into 105,000,000 shares, this corresponds to a share of 25.1 % of the voting rights. On December 17, 2020, the Federal Republic of Germany announced its intention to acquire 25.1 % of the shares in HENSOLDT AG from the holdings of Square Lux Holding II S.à r.l.

28. Parent company

HENSOLDT AG, Taufkirchen, as the ultimate German parent company in accordance with Section 290 HGB, prepares consolidated financial statements in accordance with Section 315e (1) HGB in accordance with IFRS as approved in the European Union. The consolidated financial statements of HENSOLDT AG include HENSOLDT AG and its significant subsidiaries.

The individual and consolidated financial statements of HENSOLDT AG, including the combined group management report, are published in the Federal Gazette (Bundesanzeiger) and filed with the commercial register Munich under HRB 258711 in German.

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 largest group of companies. Square Lux TopCo S.à r.l. has its registered office at 2 Rue Edward Steichen, 2450 Luxembourg, and is registered with the Registre de Commerce et des Sociétés under number B204231.

Taufkirchen, March 8, 2021

HENSOLDT AG

Management board

Thomas Müller

Axel Salzmann

Peter Fieser

Appendix

Statement of changes in fixed assets

in € thousand	Acquisition and production costs		Accumulated depreciation		Carrying amounts		
	Jan. 1, 2020	Additions	Dec. 31, 2020	Jan. 1, 2020	Additions	Dec. 31, 2020	Dec. 31, 2019
I. Property, plant and equipment							
Other operational and office equipment	-	76	76	-	-13	63	-
	-	76	76	-	-13	63	-
II. Financial assets							
Investments in associated companies	1,650,000	1,020,000	2,670,000	-	-	2,670,000	1,650,000
	1,650,000	1,020,000	2,670,000	-	-	2,670,000	1,650,000
Fixed assets	1,650,000	1,020,076	2,670,076	-	-13	2,670,063	1,650,000

HENSOLDT Group
Taufkirchen, District of Munich

Combined Management Report
for the year ended December 31, 2020

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I. Group fundamentals

1. Business model

The HENSOLDT Group (the “Group”, “HENSOLDT”) is a high-tech pioneer and specialized provider of defense and security sensor solutions, with a portfolio focus on high-performance sensors in the fields of radars, electronic warfare, avionics and optronics. The product portfolio as of December 31, 2020, included a variety of products with a lifecycle of ten years or more. HENSOLDT is constantly striving to increase and improve the current product offering through its own developments, industrial cooperation and acquisitions, in order to increase competitiveness and expand into new markets.

2. Organization and group structure

2.1. Legal structure

The HENSOLDT Group consists of HENSOLDT AG (the “Company”) with statutory seat in Taufkirchen, Germany (registered office: Willy-Messerschmitt-Str. 3, 82024 Taufkirchen, Germany, under file no. HRB 258711, Munich Local Court) and its subsidiaries. With registration in the commercial register on August 17, 2020, HENSOLDT GmbH was converted into HENSOLDT AG.

The consolidated financial statements include the financial statements of HENSOLDT AG and the financial statements of all significant subsidiaries directly and indirectly controlled by HENSOLDT AG. 32 entities (PY: 32) were fully consolidated. One entity was included in the Group using the equity method.

In preparation for the initial public offering (“IPO”) in the third quarter of 2020, the transformation of the legal form of HENSOLDT GmbH into a stock corporation (AG) was executed. The reporting for HENSOLDT AG is included in the Combined Management Report in chapter “X HENSOLDT AG”.

2.2. Locations and employees

HENSOLDT’s headquarters are located in Taufkirchen near Munich, an important innovation center of the defense industry in Germany. In addition, business activities in Germany are conducted in Ulm, Oberkochen and Pforzheim in particular. Other locations in Germany include Wetzlar, Immenstaad and Kiel. As of December 31, 2020, of the 5,605 (PY: 5,461) employees of HENSOLDT, among them 430 (PY: 410) trainees, interns etc., approx. 4,100 (PY: 4,000) were employed in Germany. HENSOLDT’s larger locations outside Germany are mainly located in France, South Africa and the UK.

2.3. Operating segments

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

Sensors segment

The Sensors segment provides system solutions and comprises the three divisions Radar, 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.

3. Goals and Strategies

The long-term goal for HENSOLDT is to become Europe's leading, platform-independent provider of defense and security sensor solutions with global reach. To achieve this, HENSOLDT developed a com-

prehensive strategic framework to promote its growth and business improvement strategy. The framework consists of the following five key components: innovation, customer, continuous improvement, strategic acquisitions and business culture.

3.1. Innovation

The development of high-performance sensor electronics is at the core of the HENSOLDT DNA. The technology portfolio is developed by nearly 1,900 engineers in all divisions at all locations. The widespread experience among the engineers paired with their long tenure at HENSOLDT play a key role in the quality and consistency of the research and development (“R&D”) efforts and the products and solutions the Group develops. HENSOLDT develops products and technologies for specific customer platforms and further invests in the product portfolio, leading to greater independence from specific customers and platforms. Compared to 2017, HENSOLDT increased self-funded R&D expenditure (including R&D costs and capitalized development costs) by 75.5 % in the fiscal year. In 2020, self-funded R&D expenditure for HENSOLDT was €87.2 million.

The combination of existing and newly developed technologies enables HENSOLDT to address additional markets and customer segments. An example is the Xpeller counter-UAV system, which combines know-how and products from across the HENSOLDT Group and can be used as multi-sensor fusion system against modern threats posed by unmanned aircraft and for the protection of airports, critical infrastructures or events. Another example for HENSOLDT’s innovative capacity is the production of the world’s first 3D-printed circuit board with ten layers in cooperation with the business partner Nano Dimension in 2020.

3.2. Customer

It is HENSOLDT’s goal to become a long-term partner for its customers. In order to achieve this, the Company focuses on two pillars: the bundling of technologies into comprehensive solutions for its customers, and the creation and maintenance of customer intimacy through its global sales force and service stations.

In addition to the focus on offering long-term platform integration, HENSOLDT follows a dedicated regional strategy, building on customer intimacy created through the global sales network to grow the geographically addressable market.

For the Company’s home country Germany, the long-term growth strategy is focused on positioning HENSOLDT on new European programs and capturing the anticipated increases in defense spending and, simultaneously, the shift to electronic content in such spending. The Company aims to leverage its status as a supplier of sensitive technologies and to secure the inclusion in platforms through partnerships with leading defense contractors.

The export strategy is centered on leveraging home country technologies for worldwide distribution. The Company aims to position itself in the most attractive markets by creating local proximity, increasing international business operations, and building local partnerships to support sales campaigns.

In order to achieve the goal of developing customer relationships domestically and abroad, HENSOLDT built up a sales organization which as of December 31, 2020, had around 100 FTEs distributed among the sales centers in Europe, the Middle East, Asia-Pacific, Africa, North America and Latin America.

3.3. Continuous Improvement

Driven by a culture of continuous improvement, HENSOLDT aims to create further value through enhanced project execution.

Since the carve-out from Airbus, the Company launched an extensive program under the name “HENSOLDT GO!” which has already delivered a number of improvements to date and continues to drive operational progress. In the area of continuous improvements HENSOLDT already almost optimized the operation and development efficiency as well as the procurement organization. In the future the Company intends to focus on enhancing production, further boosting development efficiency, and improving supply chain management. In the area of central functions HENSOLDT was already able to increase the efficiency of the general administrative functions.

3.4. Strategic Acquisitions

HENSOLDT uses acquisitions to speed up growth and has a clear M&A strategy to identify the right targets, which follows four key aspects:

- Accessing new and disruptive technologies, especially in the areas of artificial intelligence (AI), data fusion and analytics, autonomous capabilities, as well as intelligence and cyber.
- Strengthening the focus regions and entering into new markets, particularly in Europe, Asia-Pacific and North America.
- Expanding the product portfolio, especially solution offerings, connectivity and communication, lower-end security products and other sensor capabilities complimentary to the existing portfolio.
- Increasing corporate value and scale from consolidation by leveraging HENSOLDT's current position in Germany and joining forces with partners in Europe.

HENSOLDT has made a number of acquisitions since its carve-out from Airbus, each with a unique strategic rationale. Since 2018, the following acquisitions have been made:

- The largest acquisition thus far – the Nexeya Group – not only provided an addition to the product portfolio through its test and integration services, but also access to the French regional market.
- The reason for acquiring HENSOLDT Australia Pty Ltd (formerly: IE Asia-Pacific Pty Ltd) was predominantly a regional expansion to Australia and the expansion of the product portfolio by offering local customer support services.
- The purchase of two business units (ATM and Defence Division) of Tellumat Proprietary Limited not only enabled a South African expansion and access to new regional markets but also strengthened the technology portfolio, specifically for radar offerings in South African locations.
- The acquisition of SAIL LABS Technology GmbH in the first quarter of 2021 supplements the existing capabilities in signal reconnaissance with the increasingly important segment of open source intelligence.

3.5. Corporate Culture

HENSOLDT strives for a culture of mutual success, which is predominantly characterized by the diversity of its employees. Overarching cooperation between all stakeholders, paired with demand for excellence, personal responsibility and innovation spirit create the entrepreneurship, which lays the foundation for continued success.

Other key aspects of the corporate culture are the responsible treatment of employees, protection of natural resources and integrity of management. An extensive description of these topics can be found in the separate sustainability report. The sustainability report for the fiscal year 2020 is published simultaneously with the annual report and can then be found on the HENSOLDT website.

4. Financial performance indicators

HENSOLDT uses certain key performance indicators (“KPIs”) to measure performance, identify trends and make strategic decisions. Besides revenue, the most important KPIs are order intake and adjusted EBITDA¹. In addition, HENSOLDT uses two more non-IFRS performance indicators, the adjusted pre-tax unlevered free cash flow² and the adjusted EBIT³, as well as one additional operating metric (besides order intake), the order backlog as performance indicator. In the first half of 2020, the adjusted pre-tax unlevered free cash flow was added to the steering system. In connection with the IPO, the importance of adjusted EBITDA has increased, which is also reflected accordingly in the financial reporting.

Adjusted EBITDA is used as a key indicator of the economic performance of the Group, in particular to illustrate the non-recurring effects on the operating results from acquisitions and other non-recurring effects. In addition, non-financial performance indicators are partly used to manage the Group. To this end, starting in the fiscal year 2021, an additional remuneration element geared towards long-term, sustainable success of the HENSOLDT Group will be included in the management remuneration (see chapter V. “Non-financial group statement”).

€ million	Performance Indicators		
	Fiscal year		
	2020	2019	% Change
Revenues	1,206.9	1,114.2	8.3%
Adjusted EBITDA	219.3	215.6	1.7%
Adjusted EBIT	167.2	160.8	4.0%
Adjusted pre-tax unlevered free cash flow	196.4	74.9	162.2%
Order intake	2,541.3	1,040.0	144.3%
Order backlog	3,424.0	2,202.3	55.5%

5. Research and Development

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

R&D costs amounted to €25.1 million in fiscal year 2020 (PY: €31.0 million). This corresponds to 2.1 % of revenue (PY: 2.8 %). This does not include capitalized development costs of €62.1 million in the reporting year (PY: €55.1 million), with the increase being in particular due to air traffic control and naval & ground radar programs within the Sensors segment and land, sea and air programs within the Op-tronics segment. This reflects a capitalization rate of 71.2 % (PY: 64.0 %) in terms of total research and

¹ Defined as EBIT adjusted for depreciation and amortization (including effects on earnings from purchase price allocations), as well as certain non-recurring effects relating to transaction costs, separation costs, and other non-recurring effects.

² Defined as free cash flow adjusted for non-recurring effects as well as interest, tax and M&A activities. The free cash flow is defined as sum of the cash flows from operating and investing activities as reported in the consolidated statement of cash flows.

³ Defined as EBIT adjusted for certain non-recurring effects relating to transaction costs, separation costs, and other non-recurring effects.

development spend of €87.2 million (PY: €86.1 million). Amortization of capitalized development costs amounted to €9.0 million in the fiscal year (PY: €9.7 million).

6. HENSOLDT on the capital market

The IPO of HENSOLDT AG in 2020 represented an important milestone in the Company's history.

In the preparation for the IPO, the CEO and CFO held talks with many institutional investors as part of a virtual roadshow. During this process, HENSOLDT was supported by BofA Securities, J.P. Morgan, KKR Capital Markets, as well as Deutsche Bank, which operated as Joint Global Coordinators and Joint Bookrunners. Citigroup, COMMERZBANK, UniCredit Bank AG and Crédit Agricole CIB were mandated as further Joint Bookrunners. Mizuho International plc accompanied the transaction as Co-Lead-Manager. The role of the Designated Sponsor was taken over by J.P Morgan.

On September 23, 2020, the final allotment price for the shares of HENSOLDT AG was set at €12.00 per share and a total of 33,333,333 bearer shares with no par value (plus additional shares to cover potential over-allotments) were placed to investors. On September 25, 2020, trading in the Prime Standard of the Frankfurt Stock Exchange commenced. Starting with an opening price of €12.00 at XETRA, the share price of HENSOLDT AG rose to €14.70 (December 15, 2020) over the course of the year 2020 and closed at €13.95 on the last trading day of the year. At end of trading on December 30, 2020, HENSOLDT AG had a market capitalization of almost €1.5 billion.

Development of the share price

With the inclusion of HENSOLDT AG in the SDAX, the small-cap index of the Frankfurt Stock Exchange, the Company's successful growth was recognized on the trading floor and beyond. The announcement of the exercise of the German federal government's acquisition right for 25.1 % of the shares of HENSOLDT AG currently still held by KKR is further proof of the great confidence in the capabilities of HENSOLDT and its role as central supplier of key technologies for the security and defense sector. Thus, the Company gains further visibility on the capital market and, with the Federal Republic of Germany, obtains a strong long-term oriented cornerstone shareholder.

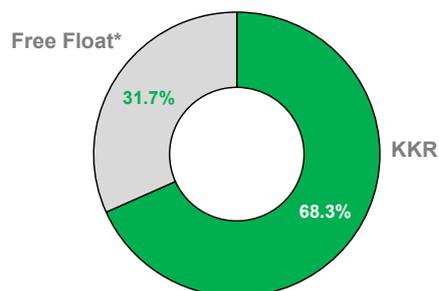
Shareholder structure

Square Lux Holding II S.à r.l., a KKR company, held approximately 68.3 % of the shares of HENSOLDT AG as of December 31, 2020. Thus the free float of shares was at 31.7 %.

On December 17, 2020, the Federal Republic of Germany announced that it would exercise the granted acquisition right for 25.1 % of the shares – the acquisition shall take place in 2021.

On September 30, 2020, HENSOLDT AG was informed by means of a voting rights notification that CI Investments Inc. exceeded the 3 % voting rights notification threshold on September 30, 2020.

Shareholders structure of HENSOLDT AG as of December 31, 2020



* Free Float includes all shares that are not held by major shareholders (share of more than 5 % in the share capital) (definition of Deutsche Börse AG).

Analyst Coverage

At the end of 2020, the following well-known national and international banks and local research houses were monitoring and evaluating the HENSOLDT stock:

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

All seven analysts issued a buy recommendation at the start of their coverage. This remained unchanged until the end of 2020. Based on existing inquiries, it can be assumed that further analysts will initiate coverage in 2021.

Investor Relations – Communication with the capital market

HENSOLDT strives to maintain a transparent and continuous dialogue with the capital market. Therefore, it is an important concern of HENSOLDT to constantly deepen the relationship with investors, analysts and financial journalists through individual meetings, telephone calls, roadshows, conferences as well as Company visits (if possible) and to expand the confidence of capital market participants in the Company. In the fiscal year 2020, the Management Board held an analyst call following the publication of the 9-month financial figures and presented the recent developments of the Company, the current business performance and the growth prospects to institutional investors and analysts.

In addition, 14 virtual investor and analyst meetings were held following the publication of the financial figures for the third quarter. In order to meet the requirements of the capital market, another focus was on establishing the necessary structures and processes in the area of investor relations.

Basic information and key data on HENSOLDT shares in 2020

ISIN:	DE000HAG0005
WKN:	HAG000
Symbol:	HAG
Stock exchange listing:	Frankfurter Stock Exchange
Stock exchange segment:	Regulated market (Prime Standard)
Index:	SDAX
Designated Sponsor:	J.P. Morgan
Number of shares:	105,000,000

Share type:	Bearer shares without par value (no par value shares)
Highest share price in Xetra-trading in €:	14.70
Lowest share price in Xetra-trading in €:	9.71
Closing share price in Xetra-trading (December, 30 2020) in €:	13.95
Market capitalization (December 30, 2020) in €:	1.465 billion
Free float (December 31, 2020):	31.7 %

II. Economic report

1. Economic conditions

1.1. General economic conditions

In its press release on the economic situation in Germany in January 2021, the German federal government published a price-adjusted German GDP decline of 5.0 % for 2020. This signaled a strong hit by the 2020 coronavirus crisis on the German economy after ten successive years of expansion (Source: Federal Statistical Office, January 14, 2021). This was predominantly driven by a reduction in private spending and investments, while the increase in public spending had a stabilizing effect. Simultaneously, the coronavirus SARS-CoV-2 (“COVID-19”) pandemic negatively impacted the labor market, with employee salaries declining to a significantly lesser extent than corporate and property income. The COVID-19 pandemic had a considerable impact on foreign trade and caused the first reduction in exports and imports since 2009.

Value creation declined in almost all parts of the economy. The production industry (excluding construction), in particular, as well as the service industry experienced significant declines, whereas the construction industry actually reported an increase in value added. This led the German economy into a deep recession. There are first indicators, however, that the German economy was hit less severely by the lockdown toward the end of 2020 when compared with the spring lockdown. The impact of tightened COVID-19 measures as well as the governmental support measures will be key decisive factors for the future economic development. However, in an international comparison, the German economy seems to have fared relatively well throughout the crisis (Source: Federal Statistical Office, January 14, 2021).

The International Monetary Fund’s (“IMF”) World Economic Outlook from January 2021 projects the global economy to grow by 5.5 % in 2021 (2020: -3.5 %), an increase of 0.3 percentage points compared to the October 2020 forecast (Source: World Economic Outlook (“WEO”), January 2021).

According to the IMF, the global economy is slowly recovering from the effects of the COVID-19 pandemic, although renewed lockdowns to protect the population are having a decelerating effect. The speed of recovery will vary considerably from country to country. In this context, economic data released after the October 2020 forecast suggest that economic activity in the second half of 2020 will be, on average, stronger than forecast in all regions. GDP results for the third quarter were mostly positively or in line with expectations. Private consumption showed the strongest recovery, while investments – with the exception of China – recovered relatively slowly.

The downturn triggered by the COVID-19 pandemic differs significantly from past recessions. In contrast to previous crises, a more pronounced decline in the service sector than in manufacturing is apparent for 2020 (Source: WEO, October 2020). In 2020, global trade is expected to contract by over 9.6 % and fall back on a level seen during the 2009 global financial crisis. However, in line with the recovery of the global economy, world trade volume is forecast to grow by around 8.1 % in 2021 before slowing to 6.3 % in 2022 (Source: WEO, January 2021).

After the recovery in 2021, global growth is expected to stabilize at around 3.5 % in the medium term. This implies only limited progress in achieving pre-pandemic forecasts, both for the industrialized countries and for emerging and developing countries. While growth in the USA is expected to be at 5.1 % in 2021 (2020: -3.4 %), the eurozone expects an increase of 4.2 % in 2021 (2020: -7.2 %). Recovery in China has been faster than expected, which is why growth is expected to increase to 8.1 % in 2021 (2020: 2.3 %). The uncertainties in these forecasts are unusually high due to the ongoing pandemic (Source: WEO, January 2021).

1.2. Conditions in the defense and security sector

The global security situation remains tense, which is also reflected in increasing defense spending worldwide. Developments in Germany, Europe and other NATO members are particularly relevant for HENSOLDT. In principle, NATO members continue to work to achieve the goals formulated at the NATO Summit in Wales in 2014. An important aspect is the declaration of intent to move toward a defense spending of 2.0 % of GDP. This goal was reaffirmed by the NATO foreign ministers' statement on the occasion of NATO's 70th anniversary in April 2019. The economic consequences caused by the COVID-19 pandemic, however, put pressure on national budgets for defense. Because effects on budget planning generally occur with some delay, many NATO members have not seen immediate negative effects on defense spending in 2020. These effects are expected from 2021 onwards.

In 2017, Germany and France agreed on intensive cooperation for defense projects. They are jointly developing several platforms, such as the Future Combat Air System ("FCAS") (together with Spain), the Main Ground Combat System ("MGCS"), and the Maritime Airborne Warfare System ("MAWS"). Germany and France committed to the development of the FCAS in April 2018, with Spain joining in 2019. In February 2020, with the award of an initial framework contract, the three countries officially launched the demonstrator phase of the FCAS, which is expected to culminate in the development of the first test aircraft by 2026. The technology maturation phase, which comprises the development of demonstrators, is expected to last until about 2026, with expected first orders and start of production thereafter. As part of the FCAS, an unmanned weapon carrier is expected to be developed from the mid-2020s onwards. From 2040 onwards, this is supposed to successively take over all offensive and defensive air operations. HENSOLDT as consortium leader, together with Diehl Defence, ESG and Rohde & Schwarz, is part of the Future Combat Mission System (FCMS) consortium, which has assumed joint responsibility for the complex topic of the networked use of sensors and effectors in the FCAS project (Source: Report of the Federal Ministry of Defense (BMVg) on armament matters, December 2020).

The binational agreement between France and Germany on arms exports was adopted in 2019 and has already been partially implemented. The implementation of joint regulations on the export of defense equipment through industrial cooperation is still pending. The agreement is one aspect of the "Aachen Treaty" signed in 2019. According to the provisions of the treaty, both countries also intend to develop a joint strategic framework in respect of military deployment and drive the consolidation of the European defense industry. To this end, a new Franco-German defense and security council is to be established which shall meet regularly and steer collaboration.

For HENSOLDT, bilateral and multilateral cooperation projects offer a long-term strategic perspective in terms of product development and high-volume procurements.

2. Business development

Over the past few months, HENSOLDT has monitored the situation around the COVID-19 pandemic at all sites with the objective of protecting the health and well-being of all employees, customers, partners as well as securing the business. The local business continuity management teams have reviewed and updated their plans accordingly to enable maximum resilience of business activities. Key processes were tested and changed if necessary to not only ensure ongoing operations but also minimize the spread of the virus. As part of the COVID-19 action plan, HENSOLDT has decided to fully draw the previously unused revolving credit facility ("RCF").

So far, despite short-term plant closures, the COVID-19 pandemic has not significantly influenced HENSOLDT's business as a provider of defense and security electronics. Apart from delays and postponements in the project business, there have been neither formal cancellations of large orders from defense

sector customers nor significant effects on the order backlog or future prospects in the defense sector due to the pandemic.

HENSOLDT AG successfully completed its IPO in the third quarter of 2020. In preparation of the IPO, the share capital was increased in August 2020 by €70.0 million from the capital reserve and the legal form was changed from HENSOLDT GmbH, a limited liability company, to a stock corporation (AG). The issue of new shares led to a gross increase in equity by €300.0 million. The proceeds from the primary offering were used to strengthen the capitalization of, and to deleverage, the HENSOLDT Group. In connection with the IPO, HENSOLDT replaced its existing debt financing with a new facilities agreement comprising a new term loan of €600.0 million and a new revolving credit facility of €350.0 million, which has been still fully drawn.

Overall, HENSOLDT Group's business operations were marked by ongoing profitable developments in 2020. During the reporting year, HENSOLDT won a number of major contracts, in particular large orders of €1.5 billion for the joint development and production of the Eurofighter Common Radar System Mk1. Revenue saw a significant rise of 8.3 % (€1,206.9 million; PY: €1,114.2 million), which was mainly attributable to the acquisition of Nexeya in October 2019 and revenue from the Eurofighter Common Radar System Mk1. Adjusted EBITDA improved by 1.7 % (€219.3 million; PY: €215.6 million). To a large extent, this resulted from an improved gross profit due to higher revenue as well as decreased development costs not eligible for capitalization. These effects were, however, partly neutralized by higher functional costs.

3. Assets, liabilities, financial position and financial performance

3.1. Financial Performance

Order intake, revenue and order backlog

	Order intake			Revenues			Order backlog		
	Fiscal year			Fiscal year			Dec. 31,	Dec. 31,	
in € million	2020	2019	% Change	2020	2019	% Change	2020	2019	% Change
Sensors	2,238.1	657.5	>200%	923.6	837.1	10.3%	2,825.5	1,567.8	80.2%
Optronics	308.3	383.3	-19.6%	288.1	277.4	3.9%	600.0	634.5	-5.4%
Elimination / Transversal / Others	-5.1	-0.8		-4.8	-0.3		-1.5	-	
HENSOLDT	2,541.3	1,040.0	144.3%	1,206.9	1,114.2	8.3%	3,424.0	2,202.3	55.5%

Order intake

Despite delays and postponements in project business due to the COVID-19 pandemic, order intake at a Group level increased significantly, mainly as a result of the strong increase in order intake in the Sensors segment.

Growth within the Sensors segment was mainly driven by major orders worth over €1.5 billion for the Eurofighter Common Radar System Mk1. Within the Sensors segment, 78.5 % (PY: 26.8 %) was attributable to the Radar, IFF & COMMS division. The Spectrum Dominance & Airborne Solutions division accounted for 10.6 % (PY: 45.0 %) of order intake and 10.6 % (PY: 28.0 %) was attributable to the Customer Services division.

The overall decrease in order intake within the Optronics segment compared to the previous year resulted from lower order intake in the Naval and Ground Based Systems product lines, which was only partially offset by higher order intake in the South African company. The decrease seen in the Naval product line is mainly due to some significant orders which had been won in the previous year.

Revenue

Revenue increased significantly, primarily due to the acquisition of the Nexeya business in October 2019 and the revenue generated by the Eurofighter Common Radar System Mk1. This was offset to a limited extent by delays and postponements of order intake due to the COVID-19 pandemic.

The growth within the Sensors segment was mainly driven by the Radar, IFF & COMMS and the Customer Services divisions. Within the Sensors segment, the Radar, IFF & COMMS division contributed 42.8 % (PY: 43.2 %) and the Spectrum Dominance & Airborne Solutions division contributed 27.4 % (PY: 33.0 %) to revenue. The rise in revenue within the Radar, IFF & COMMS division is predominantly the result of higher revenue with Eurofighter radars and was partially offset by lower revenue in the Surveillance Radars and Air Traffic Control product lines. There has been a slight decline of revenue in the Spectrum Dominance & Airborne Solutions division in the fiscal year. The Customer Services division was responsible for 29.4 % (PY: 23.0 %) of revenue with the acquisition of the Nexeya Group contributing an amount in the mid €60 million range to this increase.

In the Optronics segment, the growth in the Industrial Commercial Solutions and Aerospace & Protection product lines was partially offset by lower revenue in the Naval product line and the South African subsidiary.

Order backlog

The order backlog at Group level rose sharply driven by high order intake in Sensors segment.

Within the Sensors segment, 72.5 % (PY: 45.9 %) of order backlog was attributable to the Radar, IFF & COMMS division. The increase compared to the previous year was mainly caused by the order intake for the Eurofighter Common Radar System Mk1. 14.9 % (PY: 28.6 %) was attributed to the Spectrum Dominance & Airborne Solutions division and 12.1 % (PY: 23.7 %) was attributable to the Customer Services division.

Despite a book-to-bill ratio of more than 1, the Optronics segment saw an overall decrease on account of an order being cancelled because export clearance had unexpectedly not been granted.

Earnings⁴

in € million	Profit			Profit margin	
	Fiscal year		% Change	Fiscal year	
	2020	2019			2020
Sensors	156.2	162.5	-3.8%	16.9%	19.4%
Optronics	65.6	54.3	20.9%	22.8%	19.6%
Elimination / Transversal / Others	-2.5	-1.2			
Adjusted EBITDA	219.3	215.6	1.7%	18.2%	19.3%
Depreciation and amortization	-120.8	-133.8			
Non-recurring effects	-30.0	-19.7			
Earnings before finance result and income taxes (EBIT)	68.5	62.1	10.3%	5.7%	5.6%
Finance result	-143.7	-26.5			
Income taxes	10.7	-27.4			
Group result	-64.5	8.2	>-200%		
Earnings per share					
Basic and diluted earnings per share (EUR)	-0.75	0.07			

Adjusted EBITDA

Adjusted EBITDA increased slightly compared to the previous year, mainly as a result of improved gross profit due to higher revenue and lower development costs not eligible for capitalization. These effects were partly offset by higher functional costs.

The slight decrease in adjusted EBITDA in the Sensors segment is predominantly due to a declining gross margin because of lower project margins for pass-through revenue. In addition, there was an increase in functional costs mainly due to the acquisition of the Nexeya group in October of the previous year, higher bid budgets and the costs of the global sales organization being fully included for the first time. Those effects were partially offset by lower development costs not eligible for capitalization.

The increase in adjusted EBITDA in the Optronics segment compared to the prior year can largely be explained by the improved gross margin due to higher revenue and efficient project management.

⁴ The profit margins are calculated in relation to the corresponding revenue.

Earnings before interest and tax (EBIT)

Lower amortization of intangible assets led to an overall decrease in amortization. The non-recurring effects⁵ included in the EBIT increased due to higher other non-recurring effects in administration costs, which mainly resulted from preparations for the IPO.

Group result

The lower earnings and increased expenses in the financial result are mainly caused by a change in fair value of a derivative embedded in the Term Loan repaid on September 30, 2020, which was recognized in the income statement under interest expense in accordance with IFRS 9, in the amount of €50.9 million (PY: interest income of €54.2 million). Further, there were expenses due to the premature repayment of the replaced long-term loan in the amount of €27.9 million. The figures of the previous year included interest payments for former shareholder loans, while no such payments were recognized in the reporting year.

In the reporting year, income of €10.7 million (PY: expenses of €27.4 million) was recognized under income taxes. This includes a current income tax expense of €9.4 million (PY: €8.8 million) and an effect from deferred tax income of €20.1 million (PY: expenses of €18.6 million). The deferred tax income for the current year relates to the change in temporary differences amounting to €12.4 million and the utilization of deferred tax assets for loss and interest carryforwards in the amount of €7.7 million.

Earnings per Share

Earnings per share decreased from €0.07⁶ in the previous year to €-0.75, predominantly due to a decline in the financial result and an increase in non-recurring effects.

The Management Board intends to propose to the Supervisory Board the distribution of a dividend of €0.13 per share to shareholders entitled to such dividends. This corresponds to an expected total payment of around €13.7 million. Payment of the proposed dividend is subject to approval by the shareholders' meeting.

Overall Assessment

The Management Board assessed the overall economic performance as positive. Despite the temporarily challenging environment due to the COVID-19 pandemic, the revised but still ambitious targets⁷ for sales and order intake were achieved. Due to the achieved increase in business volume and the consistent implementation of efficiency improvement measures, adjusted EBITDA fully met the revised expectations.⁸

⁵ Includes transaction costs, separation costs and other non-recurring effects.

⁶ Calculated on the basis of the number of shares at the time of the change of the legal form of HENSOLDT AG

⁷ In the first half of the year, the planning for the reporting year was revised to take account of the business and economic environment including the impact of the COVID-19 pandemic. In addition, adjusted EBITDA replaced adjusted EBIT as one of the most important KPIs.

⁸ Regarding adjusted EBIT, a slight increase was achieved compared to the previous year.

3.2. Asset position

	Dec. 31,	Dec. 31,	
in € million	2020	2019	% Change
Non-current assets	1,313.4	1,392.6	-5.7%
<i>therein: Goodwill</i>	637.2	637.2	0.0%
<i>therein: Intangible assets</i>	386.2	403.3	-4.2%
<i>therein: Property, plant and equipment</i>	103.1	92.9	10.9%
<i>therein: Right-of-use assets</i>	143.5	154.9	-7.3%
<i>therein: Non-current other financial assets</i>	1.0	53.2	-98.2%
Current assets	1,634.2	1,063.1	53.7%
<i>therein: Inventories</i>	403.7	411.1	-1.8%
<i>therein: Contract assets</i>	204.4	165.9	23.2%
<i>therein: Trade receivables</i>	282.0	290.8	-3.0%
<i>therein: Other current assets</i>	78.7	46.1	70.8%
<i>therein: Cash and cash equivalents</i>	645.5	137.4	>200%
Total assets	2,947.6	2,455.7	20.0%

As of December 31, 2020, assets increased by 20.0 % to €2,947.6 million. The rise resulted from the increase in current assets by €571.1 million or 53.7 %, but was partly compensated by the decrease in non-current assets by €79.2 million or 5.7 %.

This decrease from €1,392.6 million as of December 31, 2019, to €1,313.4 million as of December 31, 2020, was mainly due to the derecognition of the derivative embedded in the replaced long-term loan in the amount of €50.9 million, which had previously been reported under other non-current financial assets. Intangible assets decreased mainly due to the amortization of assets from acquisitions and capitalized development costs in the amount of €79.5 million (PY: €91.5 million), which was partially offset by the capitalization of development costs in 2020 in the amount of €62.1 million (PY: €55.1 million). The increase in property, plant and equipment resulted, in particular, from higher investments in technical equipment and machinery, of €16.7 million (PY: €8.8 million), and other equipment, factory and office equipment of €7.6 million (previous year: €6.4 million), and was partially offset by depreciation.

In contrast to non-current assets, current assets increased by €571.1 million in 2020, from €1,063.1 million as of December 31, 2019, to €1,634.2 million as of December 31, 2020. This rise resulted primarily from the increase in cash and cash equivalents by €508.1 million, mainly from the precautionary utilization of the full revolving credit facility in the amount of €350.0 million and also from the positive cash flow from operating activities. The increase in contract assets by €38.5 million to €204.4 million as of December 31, 2020 resulted primarily from the provision of services prior to invoicing for some major projects. Current other assets increased from €46.1 million as of December 31, 2019 to €78.7 million as of December 31, 2020, mainly due to higher advance payments made.

The Management Board assesses the asset position of the HENSOLDT Group as positive. The liquidity position was further strengthened by the positive cash flow.

3.3. Financial position

Basic principles of financial management

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

Capital structure

In connection with the IPO, HENSOLDT replaced its existing debt financing with a new credit facility agreement consisting of a term loan amounting to €600.0 million and a revolving credit facility amounting to €350.0 million, which was fully drawn as of the reporting date.

The availability and conditions of the long-term syndicated loan are tied to the compliance with a financial covenant, which refers to the ratio of net debt to adjusted EBITDA as defined in the Senior Financing Agreement. In 2020, these conditions were met at all times. In case of a breach, the financing partners are entitled to terminate the syndicated loan. There are no indications at the moment that the covenant will not be complied with in full in the near future. The loan agreement that was replaced was also tied to a financial covenant, which was complied with throughout the entire term.

in € million	Dec. 31, 2020	Dec. 31, 2019	% Change
Equity, total	346.8	154.8	124.0%
<i>therein: Share capital / capital reserve</i>	701.8	406.7	72.5%
<i>therein: Other reserve</i>	-86.3	-49.8	73.4%
<i>therein: Retained earnings</i>	-281.6	-215.8	30.5%
Non-current liabilities	1,257.1	1,517.9	-17.2%
<i>therein: Non-current provisions</i>	482.6	413.6	16.7%
<i>therein: Non-current financing liabilities</i>	601.3	887.7	-32.3%
<i>therein: Non-current lease liabilities</i>	140.3	147.5	-4.9%
Current liabilities	1,343.7	783.0	71.6%
<i>therein: Current provisions</i>	193.6	185.1	4.6%
<i>therein: Current financing liabilities</i>	363.3	11.3	>200%
<i>therein: Current contract liabilities</i>	416.8	317.1	31.4%
<i>therein: Trade payables</i>	164.0	168.8	-2.8%
<i>therein: Other current financial liabilities</i>	97.8	20.5	>200%
Total equity and liabilities	2,947.6	2,455.7	20.0%

As of December 31, 2020, liabilities increased by €491.9 million or 20.0 % to €2,947.6 million compared to €2,455.7 million as of December 31, 2019.

This increase was primarily due to an increase in current liabilities by €560.7 million to €1,343.7 million as of December 31, 2020. The main reason for this increase was primarily the utilization of the full revolving credit facility with a nominal amount of €350.0 million. In addition, current contract liabilities increased by €99.7 million mainly due to higher invoicing and additional advance payments received for

some major projects. Current other financial liabilities resulted from the fact that the collection of payments to be collected by the factoring company in connection with factoring contracts were not yet due at the reporting date.

Equity increased by €192.0 million from €154.8 million as of December 31, 2019, to €346.8 million as of December 31, 2020. This increase mainly resulted from the proceeds from the IPO of €300.0 million less €4.9 million in transaction costs, which cannot be offset. Other reserves decreased by €36.5 million mainly due to the remeasurement of pension plans. The consolidated loss in the reporting period of €64.5 million also reduced equity.

In contrast, non-current liabilities decreased by €260.8 million, from €1,517.9 million as of December 31, 2019 to €1,257.1 million as of December 31, 2020, which is mainly attributable to the reduction in non-current financing liabilities in the course of the refinancing through the IPO proceeds. Of the non-current financing liabilities with banks, €591.6 million related to a term loan. Non-current provisions increased by €69.0 million in the reporting period, primarily due to the increase in pension provisions.

Investment and liquidity analysis

in € million	Fiscal year		
	2020	2019	Change
Cash flows from operating activities	196.9	83.2	113.7
<i>therein: Contract balances</i>	61.4	-89.4	150.8
<i>therein: Trade receivables</i>	5.3	56.4	-51.1
Cash flows from investing activities	-95.0	-165.6	70.6
<i>therein: Acquisition/addition of intangible assets and property, plant and equipment</i>	-97.4	-80.5	-16.9
<i>therein: Acquisition or subsidiaries net of cash acquired</i>	6.4	-83.8	90.2
Free cash flow	101.9	-82.4	184.3
Non-recurring effects ⁹	50.4	15.2	35.2
Interest ¹⁰ , income tax ¹¹ and M&A-activities ¹²	44.1	142.1	-98.0
Adjusted pre-tax unlevered free cash flow	196.4	74.9	121.5
Cash flows from financing activities	411.0	-9.1	420.1
<i>therein: Proceeds from / Repayment of financial liabilities (syndicated loan)</i>	30.0	2.4	27.6
<i>therein: Increase of other financial liabilities</i>	97.1	0.0	97.1
<i>therein: Issue of shares</i>	300.0	-	300.0
Cash and cash equivalents	645.5	137.4	508.1

Free cash flow

The improvement in cash flow from operating activities was primarily due to an increase in contract liabilities mainly due to advance payments received in 2020, while these declined sharply in 2019. This was partially offset by an increase in contract assets after a reduction in the previous years and a lower reduction in trade receivables.

The decrease of the negative cash flow from investing activities is mainly due to high payments made for the acquisition of subsidiaries in the previous year. The decrease was partially compensated by higher investments in property, plant and equipment and intangible assets.

Investments include capital expenditure used to acquire, upgrade and maintain physical assets such as property, plant and equipment as well as intangible assets, such as software or licenses. In addition, capital expenditure includes development costs that were capitalized as internally generated intangible

assets. The increase in capital expenditure is mainly due to higher investments in technical equipment and machinery and higher capitalized development costs (see chapter I.5 “Research and development” in the combined management report).

Adjusted pre-tax unlevered free cash flow

The increase in non-recurring effects⁹ was mainly caused by higher other non-recurring effects, especially from the preparation for the IPO. The decrease in interest payments¹⁰, income tax¹¹ and M&A activities¹² was primarily a result of high payments made for the acquisition of subsidiaries in the previous year.

Cash flow from financing activities

The increase in cash flow from financing activities was largely due to the drawing of the full revolving credit facility, while there was no such drawing in the period for comparison. The proceeds from the IPO were used to reduce the non-current financing liabilities in the course of the refinancing. Further cash inflows resulted from factoring agreements, for which payments for collection by the factoring company were not yet due at the reporting date.

Cash and cash equivalents

As of December 31, 2020, cash and cash equivalents were exclusively composed of bank balances amounting to €645.5 million. The increase compared with the previous year resulted primarily from the precautionary use of the full revolving credit facility and the positive cash flow from operating activities.

Overall Assessment

Overall the Management Board assesses the financial situation as positive. The proceeds from the IPO further strengthened the capital structure and improved the debt-to-equity ratio of the HENSOLDT-Group. The liquidity of the Group was ensured at all times during the fiscal year.

⁹ Includes transaction costs, separation costs and other non-recurring effects.

¹⁰ Defined as “Interest paid” as reported in the consolidated cash flow statement.

¹¹ Defined as “Income tax payments / refunds as reported in the consolidated cash flow statement.

¹² Defined as sum of “Share of profit in entities accounted for using the equity method”, “Acquisition of associates, other investments and other non-current investments”, “Disposal of associates, other investments and other non-current investments (only in the reporting year)”, “Proceeds from sale of intangible assets and property, plant and equipment”, “Acquisition of subsidiaries net of acquired cash” and “Other cash flows from investing activities” as reported in the consolidated statement of cash flow.

III. Forecast

1. Development of overall economic conditions

The IMF expects a decline in the global economic output of 3.5 % in 2020, an improvement of 0.9 percentage points compared to the October 2020 forecast, due to stronger dynamics in the second half of 2020.

For 2021, the IMF forecasts a global economic growth of 5.5 %. This forecast, which has been revised upwards by 0.3 percentage points compared to the October 2020 forecast, reflects the expectation of an economic recovery later in 2020 triggered by vaccinations and additional financial support in some major economies. The additional fiscal measures announced in late 2020, particularly in the U.S. and Japan, are expected to further support the global economy in the years 2021-22. The speed of recovery will, however, vary widely depending on the country (Source: WEO, January 2021).

For the euro area, the IMF projects significantly stronger growth than in previous years of 4.2 % on average, based on the low 2020 baseline. Compared with the last forecast, there was a downgrade of 1.0 percentage points, reflecting the observed slowdown in economic activity toward the end of 2020, which is expected to continue into early 2021 because of rising infections and renewed lockdowns. For 2022, the IMF expects a growth of 3.6 % on average.

The uncertainty surrounding these forecasts is unusually high because they are based on health and economic factors that are by nature difficult to predict. Although new restrictions and increases in infections (particularly in Europe) suggest that growth may be weaker than projected in early 2021, other factors pull the distribution of risk in the opposite direction. Continued public health and economic policy efforts are needed to limit the lingering damage from the sharp declines in 2020 and to ensure a sustainable recovery. In addition, the situation requires strong multilateral cooperation from the global community (source: WEO, January 2021).

Apart from the pandemic, the agreement reached in December on the terms of the United Kingdom's withdrawal from the European Union removed a key risk (i.e., a "no-deal Brexit"). The agreement negotiated between the EU and the United Kingdom entered into force on January 1, 2021 on a provisional basis. The approval of the European Parliament is currently still outstanding for the agreement to become legally binding. Among other things, the agreement establishes a comprehensive economic partnership and is essentially based on a free trade agreement, without tariffs or quotas and thus averts significant trade barriers.

2. Development in the defense and security sector

On the basis of supplementary budgets, the German budget for defense in 2020 was €45.2 billion (Source: BMVG, Verteidigungshaushalt 2020). Compared to 2019, the budget increased by €1.8 billion, which corresponds to 4.2 %. This positive trend continues in 2021 and the budget for defense is set to increase even further to €46.93 billion. Overall, €12.2 billion are planned for investment expenditure. This includes, in particular, the joint developments FCAS and MGCS and the planned submarine design to be realized together with Norway along with missiles (Source: BMVG, November 2020). The German government explained to NATO its two-stage approach to achieving the two-percent goal. Until 2024, 1.5 % of the GDP is supposed to go toward the budget for defense and until 2031 this is supposed to increase to 2.0 % of GDP. The Federal Minister of Defense, Annegret Kramp-Karrenbauer publicly affirmed Germany's commitment to work toward the two-percent goal and, in this context, even demanded that investments should clearly surpass this threshold (Source: Neue Zürcher Zeitung, December 2020).

Germany had taken over the presidency of the EU Council for the second half of 2020, which was characterized by the global pandemic and its health-related, social and economic consequences. The reaction to the COVID-19 pandemic also became a defense policy focus. Furthermore, the first collective threat analysis was carried out as part of the Strategic Compass and an agreement for regulation regarding third state involvement in PESCO projects (Permanent Structured Cooperation) was reached (Source: Rückschau auf die deutsche EU-Ratspräsidentschaft aus Sicht des BMVg, December 2020).

From 2021 onwards, research and development projects in the defense industry are supposed to be supported by €7.9 billion in aid from the European Defence Industrial Development Programme (EDIDP). Like the perennial financial framework of the EU, the EDIDP shall apply for seven years (2021-2027) (Source: Euractive, December 2020).

With regard to Great Britain and the Brexit, Germany confirmed ongoing integration of United Kingdom in the European security architecture and the establishment of an E3-format with France, United Kingdom and Germany. In August 2020, the first formal meeting of this format took place, to consult about the crises in the immediate vicinity, the partial reorientation of the USA as well as the consequences of the COVID-19 pandemic (Source: BMVg, August 2020).

In France, defense spending continues to rise according to the military planning act for 2019-2025. This law determines that the budget for defense is set to increase by €1.7 billion annually until 2022 and by €3 billion annually from 2022 until 2025 in order to achieve the two-percent goal set out by NATO by 2025. In 2021, the budget for defense will be €39.2 billion, which corresponds to an increase of €1.7 billion from 2020. Within this budget, France spends 26.5 % on major procurement and on research and development (Source: Ministry for Europe and Foreign Affairs, December 2020).

In November 2020, the government of the United Kingdom announced that military spending will be increased gradually by an additional £16.5 billion over the course of the next four years. Currently, the budget for defense amounts to approximately £40 billion (2020) (Source: Deutsche Welle/Defense News, November 2020).

How defense spending develops in Eastern European countries remains to be seen due to the consequences of the COVID-19 pandemic, although all NATO members in Eastern Europe and South-Eastern Europe as well as the Baltic states continue to aim at reaching the goal set in Wales and securing the safety of NATO's eastern border and the airspace above the Baltic area.

After significant growth in previous years, it remains to be seen what the development in the Asia Pacific region as well as the BRIC countries will be. The export environment for defense and security goods, particularly in non-European customer countries, is currently subject to a restrictive export approval policy.

3. Outlook

In the operational planning for the Group, the Management Board expects a significant growth in revenue for 2021 for both segments, in particular, due to the high order backlog. Furthermore, management expects a moderate increase in order intake in the Sensors segment for 2021, given the current developments in the defense and security industry. A strong increase in order intake is expected for 2021 in the Optronics segment.

Adjusted EBITDA is anticipated to increase significantly in 2021, whereby declining earnings effects are assumed from the adjustment items purchase price allocation and other non-recurring effects. The expected increase in adjusted EBITDA will mainly be driven by the Sensors segment.

This expectation does not account for possible implications from additional waves of infection or further lockdowns in connection with the global COVID-19 pandemic.

The forecast strongly depends on the conditions mentioned in the opportunities and risks report and, besides the macroeconomic developments described above, is based on the multi-year business plan of the Group. This forecasts a US dollar exchange rate of \$1.20/€1.00 and an inflation rate of 2.0 % for the planning period. Furthermore, a 3.0 % increase in personnel costs is forecasted for Germany and a 2.0 % increase for France and Great Britain. In addition, the forecast volumes for revenue and order intake highly depend on the reliability and stability of the political framework.

HENSOLDT plans to achieve insignificant total revenue and order intake attributable to end-customers and business customers in the UK for 2021 to 2023. In view of the negotiated comprehensive economic partnership as part of the Brexit agreement negotiated between the EU and the United Kingdom, HENSOLDT expects only marginal effects regarding the administrative effort for imports and exports.

Overall, the Management Board is confident that HENSOLDT can build on the strong 2020 fiscal year and expects another positive development for 2021.

IV. Opportunities and risks report

1. Risk report

1.1. Basic principles of the HENSOLDT risk management

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

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

1.2. Risk management system

The risk management system, applicable to the entire HENSOLDT Group, considers relevant legal requirements and is based on generally accepted principles set out in external frameworks and standards, such as COSO. The HENSOLDT risk management system represents an integral part of the systems and instruments, which the HENSOLDT Management Board is using for a value- and success-oriented corporate management. The central objective is the early and systematic identification, assessment and management of significant risks. For this purpose, valid procedures and methods, which are applicable for all entities, are defined on HENSOLDT Group level. The overall responsibility for the risk management system lies with the Head of "Internal Audit, Risk Management & ICS". The HENSOLDT risk management team permanently monitors the HENSOLDT risk management system to support a continuous improvement process. The Group policy "Enterprise Risk Management (ERM)" issued by the Management Board defines the methodical and organizational standards dealing with risks and opportunities. No changes were made to the risk management system in 2020.

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

- Making assumptions and setting goals,
- Determining roles and responsibilities,
- Identifying risks and opportunities,
- Assessing the impact of these identified risks and opportunities,
- Responding in the form of implementing appropriate measures,
- Monitoring the effectiveness of these response measures, and
- Regular preparation of risk management reports.

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

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

Probability [%]	<i>Min</i>	<i>Max</i>	<i>Risk matrix (p.26)</i>
Very unlikely	0.00 %	4.99 %	Low
Unlikely	5.00 %	24.99 %	Low
Possible	25.00 %	49.99 %	Medium
Likely	50.00 %	74.99 %	High
Very likely	75.00 %	100.00 %	High

Impact on group level [€ million]	<i>Min</i>	<i>Max</i>	<i>Risk matrix (p.26)</i>
Low	0.000	0.999	Low
Medium	1.000	1.999	Medium
High	2.000	4.999	High
Very high	5.000	9.999	High
Critical	10.000	200.000	Critical

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

For the reporting of risks, the heads of the central departments of the HENSOLDT Group and the ERM point of contact in each legal entity are responsible for providing their risk portfolio to the ERM Officer at the group level in time for the quarterly risk reporting. Besides, the site managers have to provide their risk information related to health and safety also in time for the reporting.

The ERM Officer prepares the quarterly ERM report for the Management Board and the Supervisory Board by consolidating the received information. For operative risks and if the likelihood is below 50.0 %, risk contingencies are recognized. If the likelihood exceeds 50.0 %, the accountable risks are added to the expected costs but are not weighted for purposes of risk reporting. However, these risks above 50.0 % are included in the existing risk reporting for monitoring purposes.

1.3. Accounting-related internal controls and risk management

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

To set binding guidelines and internal regulations in the context of preparing the monthly, quarterly and annual Group financials, respective accounting policies and manuals are in place, which have to be

adhered to by any member of staff involved in accounting and closing processes. In addition, every legal entity uses a uniform Group chart of accounts.

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

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

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

External auditors audit the HENSOLDT Group financial reporting per year-end. This audit is performed according to the existing and relevant regulations and accounting standards. Because of the listing, the half-year financial statements are also subject to a review by external auditors. Further, the financial statements are reviewed and signed off by the management and presented to the respective statutory bodies.

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

1.4. Risks

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

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

Operative risks refer to operational activities in particular in the context of HENSOLDT's project business. HENSOLDT has defined further sub-categories of operative risks; these are project specific.

FUNCTIONAL RISKS AND OPPORTUNITIES

Strategic risks and opportunities (Economy and competition)

Strategy (incl. Brexit)

M&A

Controlling

Compliance risks and opportunities

Compliance/Corruption

Data protection

Export control

Health, safety, environment

OPERATIVE RISKS AND OPPORTUNITIES

Construction/Technology

HR

Information management/Security

Legal

Operational quality

Procurement

IP rights

Production/Product risk

Sale/Offset obligations

FINANCIAL RISKS AND OPPORTUNITIES

Currency and exchange rate risks

Credit and interest rate risks

Liquidity risks

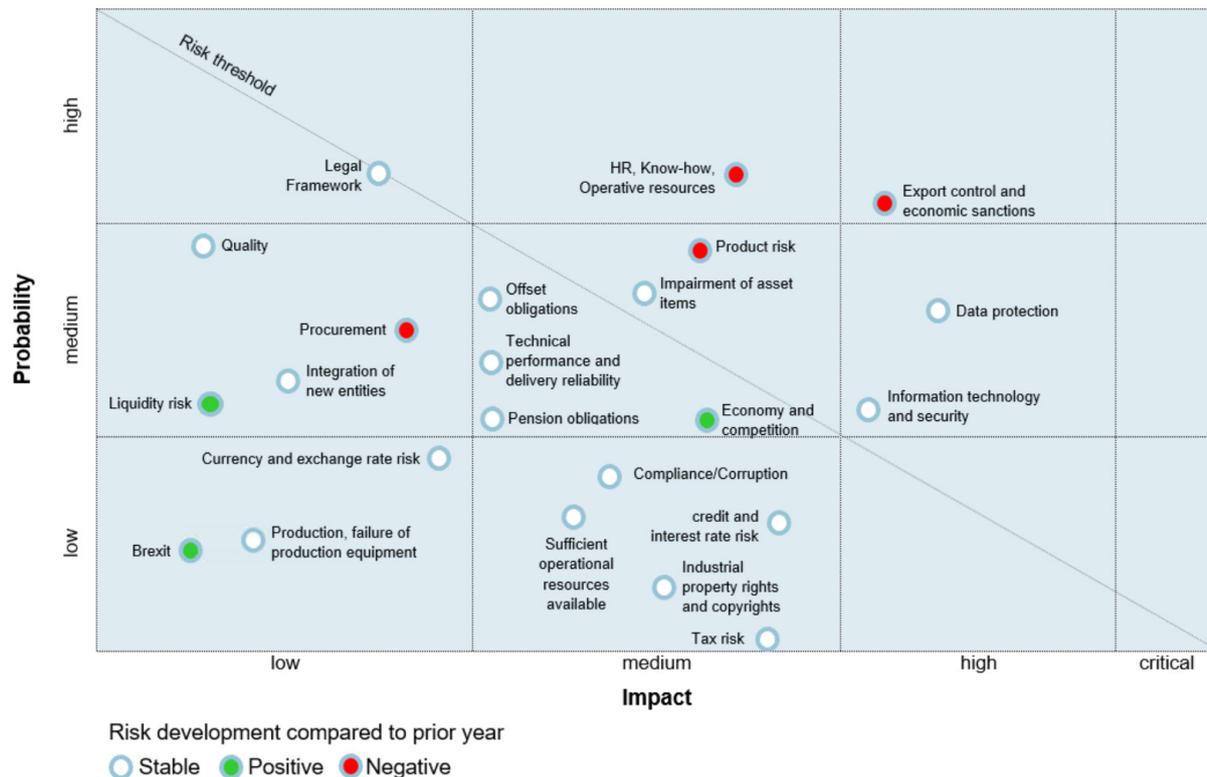
Impairment of assets

Taxes

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

Functional Risks

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



Risks related to strategy & planning

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

To anticipate and mitigate negative consequences due to such new circumstances, the program "HENSOLDT GO!" was initiated. This focuses on five long-term, strategic policies:

- Innovation
- Customer
- Continuous improvement
- Strategic acquisitions
- Corporate culture

Improvement measures of this program include strengthening the distribution network, expanding the global partner network, increasing operating efficiency and optimization, a market-oriented expansion of the product portfolio and review of efficiency in the support functions such as HR, finance and communication. In 2020, significant increases in operating efficiency could already be achieved. In the second phase of this program, "Wave 2", further saving potentials shall be realized in the next two years, 2021 and 2022.

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

Although being a leading provider of defense and civil technology with a profound growth in size and know how in recent years, the HENSOLDT Group is constantly facing competitive risks. In Germany, its key market, HENSOLDT competes for contracts with a number of international competitors purely on market terms, which is not always the case for procurements on certain competitors' domestic markets and therefore may result in competitive challenges for HENSOLDT. While the small and mid-sized competitors are typically specialized in certain market niches, HENSOLDT also competes with large defense companies, which might have more resources, and may therefore be better positioned to develop and market new products and take advantage of economies of scale. An additional aspect to consider are national promotion programs and political support, which could put competitors in a better position.

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

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

Risks related to compliance

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

HENSOLDT has implemented a number of preventive measures to identify currently relevant laws and regulations on an ongoing basis and ensure they are taken into account in all decisions and operative processes. One of these measures is the regular compliance risk assessment across the group. With

the risk assessment, systemic and Company-specific compliance risks can be identified, rated and necessary measures can be taken. In relation to this, there are regular training and Q&A sessions (in English and German). HENSOLDT also issued standards for the Company and all employees for the most important ethical questions and compliance issues in its directive “Standards of Business Conduct”. All employees receive regular training on this. To further minimize compliance risks, HENSOLDT introduced processes and procedures (e.g., for dealing with third parties, including sales representatives, gifts and invitations as well as memberships and donations, processes for regulating export controls and international sanctions).

In connection with the current compliance directive, HENSOLDT employees are obliged to promptly report all compliance violations to their supervisors, their contacts in the HENSOLDT compliance team, the head of the compliance department or any other employee of the HENSOLDT compliance team. In addition, employees have the option of anonymously reporting violations to the “OpenLine” (anonymous telephone and email hotline).

Data protection risks

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

Operative risks

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

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

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

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

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

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

For both segments, the procurement of raw materials, components and other modules is exposed to risks regarding delivery shortfalls or delays, supply bottlenecks, quality issues and price increases. A variety of different materials at low volumes characterizes the supply chain. In addition, these materials are also used in other industries, which is why the HENSOLDT Group only purchases small fractions of the suppliers’ total output. The HENSOLDT Group also procures highly customized products, which are only available from a small number of suppliers or even only from a single source. To mitigate these procurement risks, a number of measures are in place: suppliers are involved in projects at an early stage, preferred suppliers are specified and, moreover, suppliers are selected on the basis of fact- and competition-oriented factors. There is also a management system in place for supplier relationships.

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

Financial risks

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

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

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

Currency and exchange rate risks

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

Credit and interest rate risks

To secure the cash requirements of the Group's business operation, the HENSOLDT Group uses interest-rate-sensitive financial instruments. The interest rate risks associated with these instruments are mitigated by way of interest rate hedges. The aim of interest rate management is to limit the impact of interest rates on the financial performance as well as on assets and liabilities of the Group.

In conjunction with the IPO in the third quarter of 2020, HENSOLDT replaced its existing debt financing with a new credit facility agreement, consisting, among others, of a new term loan amounting to €600.0 million (nominal value). The long-term syndicated loan is tied to compliance with a financial covenant. In the event of a breach, the financing partners are authorized to terminate the syndicated loan. There are no indications that the covenant cannot be fully complied with in the foreseeable future.

Liquidity risks

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

In 2020, the IPO proceeds were used by the HENSOLDT Group to improve liquidity and reduce debt. To ensure the liquidity of the Group, the Company replaced the existing revolving credit facility with a new revolving credit facility amounting to €350.0 million in the context of the IPO. In order to plan the required utilization of this facility, there is a comprehensive process in place for planning future liquidity requirements and thus to adequately cover the associated risk. At the end of December 2020, the revolving credit facility was drawn in full as a precautionary measure as part of the COVID-19 action plan.

Risks related to pension plans

The HENSOLDT Group has certain obligations with respect to defined benefit plans for employees in Germany. Under these plans, HENSOLDT is required to ensure specific retirement, invalidity, and survivor's benefits levels for employees participating in the plans. The plans are partly financed through

contractual trust arrangements (“CTAs”). The calculation of expected liabilities arising from defined benefit plans is based on actuarial estimates and demographic and financial assumptions. The HENSOLDT Group is obliged to fund the CTAs only with respect to the employee-funded part of the pension plan. The HENSOLDT Group expects to make significant contributions in the future, in particular if the CTAs funding status deteriorates due to the developments of their assets or defined benefit obligations. The funding status of existing pension plans could be affected both by a change in actuarial assumptions, including the discount rate, and by changes in the financial markets or a change in the composition of invested assets. Opportunities and risks arise depending on changes in these parameters.

Risks of impairment of assets

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

Tax Risks

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

COVID-19

In the last months, HENSOLDT has tracked the situation around the COVID-19 pandemic at all sites to protect the health and well-being of all employees, customers, partners as well as the business itself. The local business continuity management teams have reviewed and updated their plans to enable maximum resilience of business activities. Key processes were tested and changed where necessary to not only ensure ongoing operations but also minimize the spread of the virus. So far, the COVID-19 pandemic has not significantly affected the business of HENSOLDT as a supplier of defense and security electronics. With the exception of delays and postponements in project business and of order intakes, there have been no formal cancellations of large orders from defense sector customers nor other significant effects on the order backlog or future prospects for the defense sector caused by the COVID-19 pandemic. Potential effects of further waves of infection and lockdowns due to the global COVID-19 pandemic have not yet been considered.

1.5. Overall risk assessment

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

2. Opportunity report

2.1. Opportunities

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

Functional opportunities

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

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

From the year 2017 to 2020, the German government's defense equipment expenditure was the most significant driver for revenue. The fact that military budgets in Germany and allied NATO countries are expected to increase in the nearer future is highly relevant for the business of the HENSOLDT Group. Germany is one of the leading participants and decision-makers for major European and other international defense projects. When the political environment in Germany supports military spending, it not only directly affects HENSOLDT's project business, it also indirectly results in business prospects with respect to such projects. Due to the long-term nature of military projects, such commitments to increase budgets should ensure cash flows for many years.

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

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

Operative opportunities

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

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

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

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

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

2.2. Overall opportunity assessment

The most significant opportunities for the HENSOLDT Group result from the current increase in defense budgets. This is supported by the further diversification of the product range and the expansion of the service business as well as HENSOLDT's ability to act as a leading innovator within its industry.

V. Non-financial group statement

Sustainability (Environment Social Governance or “ESG”) is an important topic for HENSOLDT, which is continuously expanded. The protection of natural resources, the responsible treatment of employees as well as a corporate governance with integrity have been the key aspects of the company’s culture since the start. HENSOLDT has set itself goals and entered into obligations to protect the planet, strengthen society, develop the potential of its employees, and to maintain and promote a corporate culture of integrity. Those goals are also anchored in the sustainability strategy of the Company.

This year, HENSOLDT issues a sustainability report, which will be compliant with the requirements for capital market-oriented companies, which describes the sustainability-related activities of HENSOLDT and extensively deals with the Company’s influence on the environment and society. For this purpose, current initiatives and relevant KPIs, especially, regarding relevant topic areas will be included and a forecast for future measures and initiatives will be given. Currently, business integrity as well as health and safety were identified as central topics. Other key areas for the Company are product responsibility, the potential and development of employees as well as diversity within the Company.

The sustainability report contains the non-financial declaration pursuant to sections 315b und 315c of the German Commercial Code (HGB). The sustainability report for the fiscal year 2020 is published simultaneously with the annual report and can be found on HENSOLDT’s website.

VI. Remuneration report

The remuneration report for the fiscal year 2020 has been prepared in accordance with the commercial law provisions valid until December 31, 2019, which pursuant to Article 83 (1) sentence 2 of the Introductory Act to the German Commercial Code (EGHGB) are still applicable. In accordance with the remuneration systems for the members of the Management Board and the members of the Supervisory Board, which the shareholders' meeting of HENSOLDT AG will resolve to approve in 2021, it explains the main elements of the remuneration systems for the Management Board and the Supervisory Board of HENSOLDT AG and reports on the amount of remuneration granted to the individual members of the Management Board and the Supervisory Board for the fiscal year 2020. The remuneration report already takes into account various requirements arising from section 162 of the German Stock Corporation Act (AktG) which is to be applied in the future.

HENSOLDT AG was formed by change of legal form of HENSOLDT GmbH registered with the commercial register on August 17, 2020. On September 25, 2020, the shares of HENSOLDT AG were listed for the first time on the Frankfurt Stock Exchange. In the fiscal year 2020 the current members of the Management Board, Thomas Müller, Axel Salzmann and Peter Fieser were initially employed on the basis of Managing Director service contract by the HENSOLDT Holding GmbH. In the context of the change of legal form they were appointed as members of the Management Board of HENSOLDT AG. They were also appointed as Managing Directors of HENSOLDT GmbH.

In the context of the change of legal form, the remuneration system was adapted to the needs of a listed company. The following principles were decisive in this adjustment:

- Alignment of the remuneration of the Management Board with the strategic objectives of the HENSOLDT Group and to support long-term financial and sustainable performance.
- Focus on further growth as well as the profitability of the Company.
- Orientation of the remuneration system on sustainability criteria and consideration of the variety of stakeholder interests, in particular, through the introduction of diversity and environmental targets.
- Performance orientation of variable remuneration components.
- Harmonization of the remuneration structure: Targets set for the Management Board regarding the development of the Company as a whole are applied accordingly to broader employee groups and in particular to executive staff.
- Ensuring the competitiveness of the remuneration system.

1. Principles of Management Board remuneration

The structure of the remuneration and the amounts paid to the members of the Management Board are determined and regularly reviewed by the Supervisory Board. In the review, the assessment criteria recommended in recommendations G.2, G.3 and G.5 of the German Corporate Governance Code as amended on December 16, 2019 ("GCGC") are applied and the requirements pursuant to section 87 AktG are implemented.

The recommendation G.4 of the GCGC has not been complied with yet.

2. Overview of the remuneration system

For the revision of the remuneration system and the review the level of remuneration, an independent external expert was consulted. The benchmark used for a market comparison is based on a German peer group of listed companies of comparable size with a focus on industrial, mechanical engineering

and automotive suppliers, as well as listed companies of comparable size from the information technology sector.¹³

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

The Management Board service agreements replaced the Managing Director employment agreements with the HENSOLDT Holding GmbH at the time of the appointment of the previous Managing Directors as Management Board members.

As a rule, the remuneration for the period prior to the change of legal form (pre-form change phase) is based on the remuneration conditions in accordance with the service contracts of the previous Managing Directors of the HENSOLDT Holding GmbH.

In contrast, the remuneration for the period after the change of legal form (post-form change phase) is based on new remuneration conditions, which besides a short-term remuneration component (STI) provide for a long-term variable remuneration component (LTI). The introduction of the LTI as a remuneration component is aimed at aligning the incentives through the remuneration of the Management Board members with the long-term developments and successes of the HENSOLDT Group. In the new remuneration system, the variable remuneration resulting from the achievement of long-term targets exceeds the share resulting from short-term targets.

In the event of entry or withdrawal of the members of the Management Board during the year, all remuneration is calculated pro rata temporis.

3. Remuneration components of the Management Board

3.1. Fixed remuneration components

Basic remuneration

The members of the Management Board receive a fixed annual base remuneration for their services from the Company, payable in twelve equal installments.

In the reporting period the basic remuneration amounted to:

- for Mr. Müller €600,000 (gross) p.a. within the pre-form change phase and €600,000 (gross) p.a. within the post-form change phase
- for Mr. Salzmann €600,000 (gross) p.a. within the pre-form change phase and €600,000 (gross) p.a. within the post-form change phase
- for Mr. Fieser €300,000 (gross) p.a. within the pre-form change phase and €400,000 (gross) p.a. within the post-form change phase

Additional benefits

The members of the Management Board are also granted additional benefits. These mainly comprise a company car, employer contributions to private and statutory health insurance, continued payment of wages in the event of incapacity for work due to illness or death, preventive health checks at the Com-

¹³ The following 15 businesses were included in the peer group benchmarking: Brenntag, Dürr, Fraport, GEA, KION, Knorr-Bremse, MTU Aero Engines, Nemetscheck, Osram, Rational, Rheinmetall, Siltronic, Software, TeamViewer, Varta.

pany's expense, group accident insurance, term life insurance, reimbursement of home travel expenses,¹⁴ and a housing cost subsidy for a secondary residence¹⁵. The additional benefits are limited to a maximum amount in accordance with section 7 of the Management Board Service Agreement (within the post-form change phase).

Pension benefits

For the duration of the Managing Director service contract (pre-form change phase) and respectively the Management Board service contract (post-form change phase), the Management Board members are entitled to participate in the pension plan "P3 – personal pension plan for managers and executives" (or a comparable successor plan) in its currently valid version. The annual contribution is 1.75 % of the eligible remuneration plus 14 % of the proportion of the remuneration which exceeds the contribution assessment limit in the statutory pension insurance (§§ 159, 275a SGB VI, as applicable) applicable to the employee at the time the contribution is provided.

3.2. Variable Remuneration

In addition to the fixed basic remuneration, the members of the Management Board receive an STI annual bonus depending on the annual performance and an additional LTI bonus relating to the long-term, sustainable success of the HENSOLDT-Group from the first fiscal year beginning in the post-from change phase (i.e., starting from the fiscal year 2021) in accordance with the applicable compensation regulations.

Subsequent changes to the target values or reference parameters for the STI bonus and the LTI bonus are generally excluded. The Supervisory Board does, however, have the option of taking appropriate account of extraordinary developments when assessing targets.

STI annual bonus

The members of the Management Board have the opportunity to receive an STI annual bonus depending on the annual performance of the Company. The STI annual bonus is rewarding the achievements of the short- to medium-term business objectives of the HENSOLDT-Group. The corresponding target values are approved by the Supervisory Board as part of the determination of the annual budget. The STI annual bonus is payable within thirty workdays after the approval of the consolidated financial statements for the past fiscal year.

For the fiscal year 2020 an annual target bonus was set, which depends on the achievement of certain equally weighted financial targets of the HENSOLDT Group (based on the target values for: adjusted free cash flow, adjusted EBITDA and order intake). The target achievement of the STI annual bonus for the reporting year is based on the performance targets for the 2020 annual bonus applicable under the original Managing Director service contracts (in conjunction with the applicable bonus plan thereunder).

Effective from January 1, 2021, the STI annual bonus is measured by the three equally weighted STI-bonus components: free cash flow, EBITDA and annual revenue, which are determined on a consolidated basis for the HENSOLDT Group.

The target bonus for 100 % target achievement amounts to:

- for Mr. Müller €600,000 (gross) p.a. within the reporting period and €550,000 (gross) p.a. from fiscal year 2021
- for Mr. Salzmann €550,000 (gross) p.a. within the reporting period and €500,000 (gross) p.a. from fiscal year 2021

¹⁴ This only concerns the Management Board member Axel Salzmann.

¹⁵ This only concerns the Management Board member Axel Salzmann.

- for Mr. Fieser €300,000 (gross) p.a. within the reporting period and €300,000 (gross) p.a. from fiscal year 2021

Terms of payment of the STI in the fiscal year 2020:

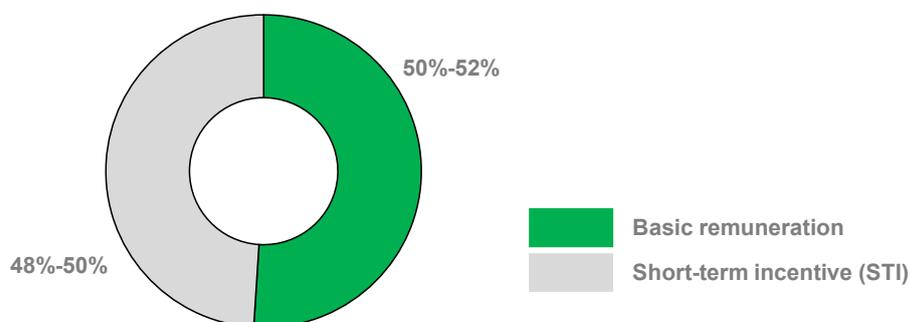
Bonus component	weighting	Disbursement % of target value				
		<80% of target value	>80% and <100% of target value*	target value	>100% and <120% of target value*	>120% of target value**
adjusted Free Cash Flow	33%	0%	linear reduction in the ratio 1:5	100%	linear increase in the ratio 1:2.5	150%*
adjusted EBITDA	33%	0%	linear reduction in the ratio 1:5	100%	linear increase in the ratio 1:2.5	150%*
Order Intake	33%	0%	linear reduction in the ratio 1:5	100%	linear increase in the ratios 1:2.5	150%*

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

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

The relative proportion of the STI annual bonus varies between the different positions within the Management Board and is based on a contractually agreed target value of 90-100 % of the basic remuneration.

The targeted direct remuneration granted to all Management Board members in the reporting period therefore comprises basic remuneration and variable remuneration as follows:



In the case of premature termination of the employment relationship for a material reason within the meaning of section 626 of the German Civil Code (BGB) for which the Management Board member is responsible the entitlement of the Management Board member to any STI annual bonus shall expire.

Apart from that in the event of a termination of the contract during the year, the Management Board member's outstanding claims to an STI annual bonus attributable to the period up to termination of the contract will be paid out in installments in accordance with the agreed targets and comparison parameters and the defined due date.

Long-Term Incentive

The Management Board members participate starting with the first fiscal year beginning in the post-form change phase (fiscal year 2021) in the respective applicable LTI bonus. Each fiscal year a new evaluation period (Performance Period) begins, in accordance with the terms and conditions of the applicable LTI bonus, after which the achievement of certain predefined targets is measured. The first LTI bonus applies for the fiscal year 2021 with the performance period 2021 - 2024.

At the beginning of the respective four-year evaluation period of an LTI bonus tranche, the Supervisory Board shall determine at its reasonable discretion the terms and conditions for each LTI bonus component and the corresponding target values of the relevant bonus tranche. Unless the Supervisory Board resolves to redefine the LTI terms, the conditions of the current LTI bonus will apply to the respective next performance period.

The terms of the currently applicable LTI bonus provide for the assignment of virtual shares (Performance Share Units) at the beginning of each fiscal year within the performance period from 2021 - 2024. The initially allocated Tranche of Performance Share Units serves as measurement parameter for the subsequent determination of any LTI bonus payout amount, taking into account the performance measurement/ target achievement after the end of the four-year assessment period. At the beginning of the respective measurement period, the Management Board member receives a number of virtual shares ('stock rights') calculated by dividing the target amount of the LTI target bonus by the average price of the shares of HENSOLDT AG.

The assignment value (target amount) amounts to €650,000 for Mr. Müller, €600,000 for Mr. Salzmann and €400,000 for Mr. Fieser.

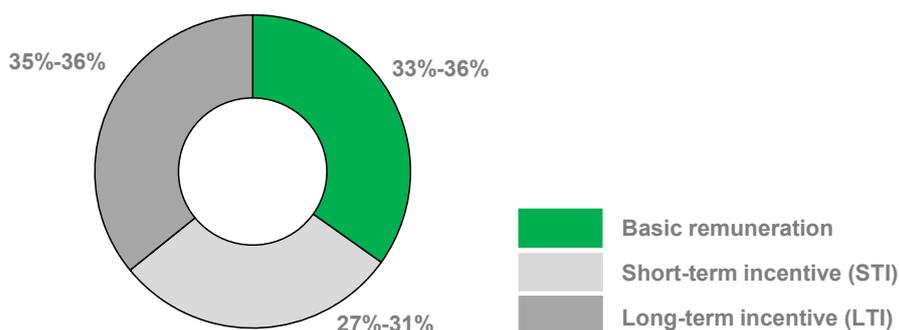
At the end of the respective measurement period, an overall target achievement level is determined for the performance targets set by the Supervisory Board before the start of the performance period.

On the basis of the currently applicable conditions of the LTI bonus the final number of performance share units is determined at the end of the performance period by multiplying the initial number of performance share units with the overall target achievement. The overall degree of target achievement is determined from the degree of target achievement of the individual targets set by the Supervisory Board for the respective performance period. As part of the LTI bonus for the performance period 2021 - 2024 the targets include at least (i) one target relating to the share price/ share return, (ii) one long-term financial target and (iii) one sustainable target.

The LTI bonus to be paid out as a cash entitlement is determined by multiplying the final number of performance share units with the average closing price of the shares of HENSOLDT AG. If the share price remains unchanged and the target achievement equals 100% (without intervention of clawback offenses) the payout amount of the LTI bonus would thus equal the initial assignment value. As a rule, the maximum payout amount of a LTI tranche can (before consideration of clawback offenses) not exceed 200% of the LTI target value.

The relative share of the LTI bonus varies between the position of the Management Board members and is based on the contractually agreed target value of 100%-110% of the basic remuneration.

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



Clawback

The STI annual bonus and the LTI bonus are subject to clawback conditions as from the IPO onwards. This means the Company has a claim against the Management Board member for repayment of the STI annual bonus and LTI bonus paid out if, after payment of the STI annual bonus and LTI bonus, it turns out that objectively incorrect audited and approved consolidated financial statements and/or management report, which requires subsequent correction, was used in calculating the amount of the bonus payment. In this respect the fault of the Management Board member is not important – or if the Management Board member has breached his duties to the Company in a grossly negligent manner, in particular his compliance duties.

The Supervisory Board decides on the amount of the repayment claim at its due discretion. Variable remuneration amounts already paid out can be reclaimed if a clawback event occurs. The claim for repayment also exists if the Management Board appointment and/or the service contract with the Management Board member has already ended at the time the claim for repayment becomes due.

3.3. Maximum remuneration

The remuneration of the Management Board members consisting of the basic annual remuneration, the STI annual bonus and the LTI bonus as well as additional benefits and pension contributions according to the Management Board service agreements amounts to a maximum of:

- for Mr. Müller €3.5 Million (gross) p.a.
- for Mr. Salzmann €3.3 Million (gross) p.a. and
- for Mr. Fieser €2.5 Million (gross) p.a.

3.4. Shares retention program

The members of the Management Board are obliged to hold shares of HENSOLDT AG for the duration of their appointment as a member of the Management Board, whereby this obligation must be fulfilled for the first time latest four years after the initial appointment as a member of the Management Board. The share retention program is designed to support the Company's equity story and incentivize the members of the Management Board to increase the value of the Company in the interest of the shareholders.

The share retention obligation is determined based on the (gross) basic annual remuneration and amounts for the chairman of the Management Board to 150 %, for the CFO 120 % and for all other ordinary members of the Management Board 100 % of the basic annual remuneration.

Until the end of the Management Board service agreement the Management Board member must not transfer, assign, pledge or otherwise dispose or undertake to dispose in any other way HENSOLDT AG

shares held under the share retention program. From the end of the Management Board service agreement on, the Management Board member can sell each year up to 50 % of the HENSOLDT AG shares held.

3.5. Benefits in the event of premature termination of employment

In the event of premature termination of the appointment, the Management Board members are entitled to a severance payment. The severance payment is limited to two years' remuneration and is reduced on a pro rata temporis basis if the remaining term of the Management Board service contract is less than two years. The amount of the annual remuneration is determined by the sum of the annual basic remuneration and the STI target value for the last full fiscal year before the end of the Management Board service agreement. Any claims of the Management Board member to the LTI bonus shall remain unaffected by the severance payment.

A deviating regulation applies for the early termination of the Management Board service agreement due to permanent incapacity to work. In this case the Management Board member receives a severance payment in the amount of one annual basic remuneration, which is reduced on a pro rata temporis basis if the remaining term of the Management Board service agreement is less than one year. If the Management Board activity ends prematurely due to the death of the Management Board member, the heirs are entitled to 1/12 of the annual basic remuneration for the month in which the Management Board service agreement ends as well as for the six following months, but at the longest until the end of the contractual term stipulated in the Management Board service agreement.

In the event of an effective extraordinary termination of the Management Board service agreement for a material cause by the Company or in the event of resignation by the Management Board member without a material cause, the Management Board member does not receive a severance payment.

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

A so-called "Change-of-Control" clause, which means a special right of termination in the event of a change of control, existed only within the previous Managing Director employment contracts of the HENSOLDT Holding GmbH. Such a special right of termination is not part of the Management Board service agreements concluded in September 2020.

4. Remuneration of the Supervisory Board

Within the pre-form change phase at HENSOLDT GmbH there was no shareholder resolution about the remuneration of the Supervisory Board members. After the effectiveness of the form change, the remuneration of the Supervisory Board members is based on section 12 of the articles of association of HENSOLDT AG.

According to the articles of association, the fixed annual remuneration of each Supervisory Board member amounts to €40,000 after the change of the legal form. The chairman of the Supervisory Board receives twice the amount, thus €80,000, the vice Chairman receives one and a half times this amount, thus €60,000. For their work on the Executive Committee, Nominating Committee, Audit Committee, Compliance Committee, the members receive additional fixed compensation amounting to €10,000. The Chairpersons of these Committees receive €15,000 each.

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

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

5. Individual disclosure of the remuneration granted or paid to the Management Board in the fiscal year 2020

Grants awarded for the reporting period – Group (January 1 to December 31, 2020)

in €	Thomas Müller* CEO				Axel Salzmann* CFO				Peter Fieser* CHRO			
	Fiscal year				Fiscal year				Fiscal year			
	2020	2020(min)	2020(max)	2019	2020	2020(min)	2020(max)	2019	2020	2020(min)	2020(max)	2019
Annual basic remuneration	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	339,288**	339,288	339,288	300,000
Additional benefits	37,707	37,707	37,707	44,002	138,627	138,627	138,627	140,952	36,614	36,614	36,614	51,914
Total	637,707	637,707	637,707	644,002	738,627	738,627	738,627	740,952	375,902	375,902	375,902	351,914
STI annual bonus	600,000	-	900,000	600,000	550,000	-	825,000	550,000	300,000	-	450,000	300,000
LTI bonus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total	1,237,707	637,707	1,537,707	1,244,002	1,288,627	738,627	1,563,627	1,290,952	675,902	375,902	825,902	651,914
Pension expense	174,127	174,127	174,127	177,744	166,252	166,252	166,252	169,869	98,418	98,418	98,418	83,244
Total remuneration	1,411,834	811,834	1,711,834	1,421,746	1,454,878	904,878	1,729,878	1,460,821	774,319	474,319	924,319	735,158

* The holder of the position was appointed as Managing Director of HENSOLDT GmbH by shareholder resolution from October 28, 2019, and was previously employed by HENSOLDT Holding GmbH (former parent Company of the group).

** The annual basic remuneration of Peter Fieser increased from €300,000 to €400,000 effective from August 17, 2020. This results in an annual average of €339,288.

Inflow in the reporting period – Group (January 1 to December 31, 2020)

in €	Thomas Müller* CEO		Axel Salzmann* CFO		Peter Fieser* CHRO	
	Fiscal year		Fiscal year		Fiscal year	
	2020	2019	2020	2019	2020	2019
Annual basic remuneration	600,000	600,000	600,000	600,000	339,286	300,000
Additional benefits	37,707	44,002	138,627	140,952	36,614	51,914
Total	637,707	644,002	738,627	740,952	375,900	351,914
STI annual bonus	450,000	660,000	412,500	605,000	225,000	302,500
LTI bonus	n/a	n/a	n/a	n/a	n/a	n/a
Others	-	-	-	-	-	-
Total	1,087,707	1,304,002	1,151,127	1,345,952	600,900	654,414
Pension expense	174,127	177,744	166,252	169,869	98,418	83,244
Total remuneration	1,261,834	1,481,746	1,317,378	1,515,821	699,317	737,658

* The holder of the position was appointed as Managing Director of HENSOLDT GmbH by shareholder resolution from October 28, 2019 and was previously employed by HENSOLDT Holding GmbH (former parent Company of the group).

Total grants by the Company according to HGB – Group (January 1 to December 31, 2020)

in €	Thomas Müller* CEO		Axel Salzmänn* CFO		Peter Fieser* CHRO	
	Fiscal year		Fiscal year		Fiscal year	
	2020	2019	2020	2019	2020	2019
Fixed remuneration	600,000	600,000	600,000	600,000	339,286	300,000
Additional benefits	37,707	44,002	138,627	140,952	36,614	51,914
Total	637,707	644,002	738,627	740,952	375,900	351,914
Variable remuneration	600,000	450,000	550,000	412,500	300,000	302,500
Total variable remuneration	600,000	450,000	550,000	412,500	300,000	225,000
Pension expenses	174,127	177,744	166,252	169,869	98,418	83,244
Total remuneration	1,411,834	1,271,746	1,454,878	1,323,321	774,317	660,158

* The entry date corresponds to the beginning of the appointment as Managing Director of the same Company. The holder of the position was appointed as Management Board member by resolution on August 11, 2020, in the course of the change of legal form and became member of the Management Board upon registration of the change of legal form on August 17, 2020.

Grants awarded for the reporting period – HENSOLDT AG (August 17 to December 31, 2020)

in €	Thomas Müller* CEO				Axel Salzmänn* CFO				Peter Fieser* CHRO			
	from August 17, 2020				from August 17, 2020				from August 17, 2020			
	2020	2020(min)	2020(max)	2019	2020	2020(min)	2020(max)	2019	2020	2020(min)	2020(max)	2019
Basic remuneration, pro rata**	235,710	235,710	235,710	n/a	235,710	235,710	235,710	n/a	157,140	157,140	157,140	n/a
Additional benefits	12,820	12,820	12.820***	n/a	47,324	47,324	47.324***	n/a	9,293	9,293	9.293***	n/a
Total	248,530	248,530	248,530	n/a	283,034	283,034	283,034	n/a	166,433	166,433	166,433	n/a
STI annual bonus, pro rata	235,710	-	353,565	n/a	216,068	-	324,101	n/a	117,855	-	176,783	n/a
LTI bonus	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total	484,240	248,530	602,095	n/a	499,101	283,034	607,135	n/a	284,288	166,433	343,216	n/a
Pension expense	67,909	67,909	67,909	n/a	64,838	64,838	64,838	n/a	38,383	38,383	38,383	n/a
Total remuneration	552,150	316,440	670,004	n/a	563,940	347,872	671,973	n/a	322,671	204,816	381,598	n/a

* The entry date corresponds to the beginning of the appointment as Managing Director of the same Company. The holder of the position was appointed as Management Board member by resolution on August 11, 2020, in the course of the change of legal form and became member of the Management Board upon registration of the change of legal form on August 17, 2020.

** The daily pro rata billing is based on the number of tax days.

*** The additional benefits are limited in accordance with Article 7.1 of the Management Board service agreement.

Inflow in the reporting period – HENSOLDT AG (August 17 to December 31, 2020)

in €	Thomas Müller* CEO		Axel Salzmann* CFO		Peter Fieser* CHRO	
	from August 17, 2020		from August 17, 2020		from August 17, 2020	
	2020	2019	2020	2019	2020	2019
Annual basic remuneration	235,714	n/a	235,714	n/a	157,143	n/a
Additional benefits	12,820	n/a	47,324	n/a	9,293	n/a
Total	248,535	n/a	283,038	n/a	166,436	n/a
STI annual bonus	-	n/a	-	n/a	-	n/a
LTI bonus	n/a	n/a	n/a	n/a	n/a	n/a
Others	-	n/a	-	n/a	-	n/a
Total	248,535	n/a	283,038	n/a	166,436	n/a
Pension expense	67,909	n/a	64,838	n/a	38,383	n/a
Total remuneration	316,444	n/a	347,876	n/a	204,819	n/a

* The entry date corresponds to the beginning of the appointment as Managing Director of the same Company. The holder of the position was appointed as Management Board member by resolution on August 11, 2020, in the course of the change of legal form and became member of the Management Board upon registration of the change of legal form on August 17, 2020.

Total grants by the Company according to HGB – HENSOLDT AG (August 17 to December 31, 2020)

in €	Thomas Müller* CEO		Axel Salzmann* CFO		Peter Fieser* CHRO	
	from August 17, 2020		from August 17, 2020		from August 17, 2020	
	2020	2019	2020	2019	2020	2019
Fixed remuneration	235,714	n/a	235,714	n/a	157,143	n/a
Additional benefits	12,820	n/a	47,324	n/a	9,293	n/a
Total	248,535	n/a	283,038	n/a	166,436	n/a
Variable remuneration	235,710	n/a	216,068	n/a	117,855	n/a
Total variable remuneration	235,710	n/a	216,068	n/a	117,855	n/a
Pension expenses	67,909	n/a	64,838	n/a	38,383	n/a
Total remuneration	552,154	n/a	563,944	n/a	322,674	n/a

* The entry date corresponds to the beginning of the appointment as Managing Director of the same Company. The holder of the position was appointed as Management Board member by resolution on August 11, 2020, in the course of the change of legal form and became member of the Management Board upon registration of the change of legal form on August 17, 2020.

6. Individual disclosure of the remuneration for the Supervisory Board in the fiscal year 2020

Calculation for the remuneration of the Supervisory Board at the level of HENSOLDT Holding GmbH (January 1 to August 16, 2020)

in €	Until August 16, 2020		
	Total 2020	Fixed remuneration	Committee remuneration
Johannes Huth	33,333	26,667	6,667
Christian Ollig	-	-	-
Claire Wellby	26,667	26,667	-
Prof. Wolfgang Ischinger	33,333	26,667	6,667
Ingrid Jägering	33,333	26,667	6,667
Prof. Burkhard Schw enker	33,333	26,667	6,667
Armin Maier-Junker	33,333	26,667	6,667
Winfried Fetzer	33,333	26,667	6,667
Thomas Hoepfner	33,333	26,667	6,667
Peter Härtle	8,333	6,667	1,667
Dr. Frank Döngi	25,000	20,000	5,000
Jürgen Bühl	33,333	26,667	6,667
Julia Wahl	33,333	26,667	6,667

Calculation for the remuneration of the Supervisory Board at the level of HENSOLDT AG (August 17 to December 31, 2020)

in €	from August 17, 2020		
	Total 2020	Fixed remuneration	Committee remuneration
Johannes Huth	45,833	33,333	12,500
Christian Ollig	-	-	-
Claire Wellby	16,667	16,667	-
Prof. Wolfgang Ischinger	25,000	16,667	8,333
Ingrid Jägering	27,083	16,667	10,417
Prof. Burkhard Schw enker	22,917	16,667	6,250
Armin Maier-Junker	29,167	25,000	4,167
Winfried Fetzer	20,833	16,667	4,167
Marion Koch	20,833	16,667	4,167
Frank Döngi	20,833	16,667	4,167
Jürgen Bühl	20,833	16,667	4,167
Julia Wahl	20,833	16,667	4,167

VII. Takeover-relevant information and explanatory report

The takeover-relevant information and the explanatory report for the fiscal year 2020 are made in accordance with section 289a (1) and section 315a (1) HGB, in each case in the version applicable to this report pursuant article 83 (1) sentence 2 EGHGB.

1. Composition of share capital

As of December 31, 2020, the share capital of HENSOLDT AG amounts to €105.0 million and is divided into 105,000,000 ordinary bearer shares (no-par value shares). The shares are fully paid up. All shares carry the same rights and obligations. The rights and obligations of shareholders arise in detail from the provisions of the German Stock Corporation Act (AktG), in particular sections 12, 53a et seqq., 118 et seqq. and 186 AktG.

2. Restrictions on voting rights or transfer of shares

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

The German Federal Ministry for Economic Affairs and Energy ("BMWi") may examine the direct or indirect acquisition of shares in the Company by a foreign acquirer if, following the acquisition, the acquirer will directly or indirectly hold 10 % or more of the voting rights in the Company. According to the provisions in sections 60 et seqq. of the Foreign Trade and Payments Ordinance, the intended acquisition must be notified in writing to the BMWi, which will only approve the acquisition if it does not conflict with any essential security interests of the Federal Republic of Germany. If section 60 of the Foreign Trade and Payments Ordinance is not applicable, the BMWi may nevertheless prohibit or restrict the acquisition if this would endanger public order or security in Germany or in another EU member state (cross-sectoral examination).

In the course of the IPO of HENSOLDT AG, Square Lux Holding II S.à r.l. entered into a lock-up obligation vis-à-vis the syndicate banks for the shares held by it or its affiliates for a period of six months from the date of the IPO on September 25, 2020. Certain transactions are excluded from this.

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

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

3. Shareholdings exceeding 10.0 % of the voting rights

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

- With voting rights notifications dated September 28, 2020, KKR Management LLP, Wilmington, Delaware, United States of America, and KKR SP Limited, George Town, Grand Cayman, Cayman Islands, as persons subject to the reporting requirements pursuant to section 40 WpHG, each reported that 66,666,666 voting rights were indirectly attributed to them. In relation to the share capital of HENSOLDT AG, which is divided into 105,000,000 shares, this represents a share of approximately 63.5 % of the voting rights. The voting rights are, in each case, held directly by Square Lux Holding II S.à r.l. as shareholder.
- Further, KKR Management LLP, Wilmington, Delaware, United States of America, and KKR SP Limited, George Town, Grand Cayman, Cayman Islands, as persons subject to the reporting requirements pursuant to section 40 WpHG, each reported, in the voting rights notifications of September 28, 2020, an instrument also attributable to them relating to the acquisition of a total of 5,000,000 voting rights with a term until November 5, 2020. In relation to the share capital of HENSOLDT AG, which is divided into 105,000,000 shares, this represents a share of approximately 4.8 % of the voting rights.
- With voting rights notification dated September 30, 2020, the Federal Republic of Germany, Berlin, reported an acquisition right relating to a total of 26,355,000 shares and, thus, voting rights with an exercise period from October 1, 2020 to December 31, 2020. In relation to the share capital of HENSOLDT AG, which is divided into 105,000,000 shares, this corresponds to a share of 25.1 % of the voting rights. On December 17, 2020, the Federal Republic of Germany announced its intention to acquire 25.1 % of the shares in HENSOLDT AG from Square Lux Holding II S.à r.l. in exercise of this acquisition right (execution expected in 2021).

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

4. Shares with special rights of control

Shares with special rights of control do not exist.

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

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

There are no stock option programs under which control rights are not exercised directly. Employees who hold shares of HENSOLDT AG exercise their control rights in the same way as other shareholders in accordance with legal requirements and the articles of association.

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

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

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

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

7. Authority of the Management Board to issue or repurchase shares

7.1. Conditional capital

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

the share capital of up to €16.0 million in total, in accordance with the respective terms and conditions of these bonds.

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

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

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

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

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

The Management Board is also authorized, subject to the approval of the Supervisory Board, to exclude shareholders' subscription rights to bonds issued against contributions in kind with option or conversion rights or option or conversion obligations, in particular in the case of the acquisition of companies, parts

of companies, equity interests in companies or other assets, including rights and receivables, or in connection with business combinations.

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

7.2. Authorized capital

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

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

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

In accordance with section 186 (5) AktG, the new shares may also be subscribed by a credit institution or a company operating in accordance with section 53 (1) sentence 1 or section 53b (1) sentence 1 or

(7) of the German Banking Act (KWG) with the obligation to offer them to the shareholders for subscription (indirect subscription right).

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

7.3. Share buyback

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

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

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

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

- The Management Board is authorized, subject to the approval of the Supervisory Board, to sell the treasury shares acquired on the basis of the authorization granted at the shareholders' meeting on August 18, 2020, also in a way other than via the stock exchange or by means of an offer to all shareholders, provided that the sale is for cash and at a price which is not significantly lower than the stock market price of shares in the Company at the time of the sale (simplified exclusion of subscription rights pursuant to section 186 (3) sentence 4 AktG). The shares sold on the basis of this authorization may not exceed a total of 10.0 % of the share capital, either at the time the resolution is adopted by the shareholders' meeting or at the time this authorization is exercised. The maximum limit of 10.0 % of the share capital shall be reduced

by the pro rata amount of the share capital attributable to those shares issued during the term of this authorization with exclusion of subscription rights in direct or analogous application of section 186 (3) sentence 4 AktG. Furthermore, this limit shall be reduced by shares issued or issuable to service option or conversion rights, provided that the bonds were issued during the term of this authorization under exclusion of subscription rights in accordance with section 186 (3) sentence 4 AktG.

- The Management Board is authorized, subject to the approval of the Supervisory Board, to transfer the treasury shares acquired on the basis of the authorization granted by the shareholders' meeting on August 18, 2020 to third parties in return for contributions in kind, in particular in connection with the acquisition of companies, parts of companies, or equity interests in companies, or in connection with business combinations, as well as in connection with the acquisition of other assets, including rights and receivables.
- The Management Board is authorized, subject to the approval of the Supervisory Board, to use the treasury shares acquired on the basis of the authorization granted by the Annual shareholders' meeting on August 18, 2020 to fulfill obligations arising from conversion or option rights or conversion obligations from convertible bonds or bonds with warrants or profit participation rights or income bonds (or combinations of these instruments) issued by the Company or its subordinated Group companies which grant a conversion or option right or stipulate a conversion or option obligation.
- The Management Board is authorized, subject to the approval of the Supervisory Board, to use the treasury shares acquired on the basis of the authorization granted by the shareholders' meeting on August 18, 2020 to grant holders of convertible bonds or bonds with warrants or profit participation rights or participating bonds (or combinations of these instruments) issued by the Company or its subordinated Group companies, which grant a conversion or option right or stipulate a conversion or option obligation, treasury shares to the extent that they would be entitled to a subscription right to shares of the Company after exercising the conversion or option right or after fulfillment of the conversion or option obligation.
- The Management Board is authorized to offer for purchase the treasury shares acquired on the basis of the authorization granted by the shareholders' meeting on August 18, 2020 to persons who are or were employed by the Company or one of its affiliated companies (employee shares).

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

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

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

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

On September 7, 2020, HENSOLDT AG concluded a credit agreement with a number of lenders under which HENSOLDT AG expects to extend loans in the total amount €950.0 million. This credit agreement contains a so-called “change of control” clause, which is triggered if a person other than the person specified in the agreement directly or indirectly acquires more than 50.0 % of voting rights in HENSOLDT AG. In the case of a change of control, the loan may be called in for repayment immediately.

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

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

VIII. Corporate governance statement

In this corporate governance statement, we report on the principles of corporate management and corporate management practices and on significant structures of our corporate governance for the past fiscal year in accordance with sections 289f and 315d HGB, each in the applicable version pursuant to section 83 (1) sentence 2 EGHGB. It also includes the Declaration of Conformity pursuant to section 161 AktG.

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

1. Fundamentals

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

2. Declaration of conformity pursuant to section 161 AktG as amended on December 16, 2019, published in the Federal Gazette on May 20, 2020

The Management Board and Supervisory Board of HENSOLDT AG were not subject to the obligation under section 161 AktG to issue a declaration of conformity with the Code throughout the entire fiscal year. With the admission of shares of HENSOLDT AG to the Frankfurt Stock Exchange on September 24, 2020, this obligation arose for the Management Board and the Supervisory Board. The Management Board and Supervisory Board issued the following declaration on the Code on March 5, 2021:

"The Management Board and the Supervisory Board declare that since the admission of the shares of HENSOLDT AG, the Company has complied with the Government Commission on the German Corporate Governance Code in the version of December 16, 2019, published in the official section of the Federal Gazette (Bundesanzeiger) on May 20, 2020, with the following exception:

Until now, recommendation G.4 has not been complied with as the Supervisory Board will only deal with the remuneration topics in connection with the adoption of the proposed resolution on the remuneration system at the shareholders' meeting in 2021. The Supervisory Board intends to take recommendation G.4 into account. The Company will thus comply with all recommendations in the future.

Taufkirchen, March 5, 2021

HENSOLDT AG

Management Board

Supervisory Board"

The latest declaration of Conformity, as printed above, is available on the Company's website. Future declarations of conformity by the Company shall also be published there, and in the future, the respective declarations of conformity for the last five fiscal years will be available.

3. Disclosures on corporate governance practices

3.1. Principles

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

3.2. Suggestions of the Code

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

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

3.3. Standards of Business Conduct

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

HENSOLDT’s Standards of Business Conduct are available on the Company’s website.

3.4. Compliance

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

HENSOLDT has implemented several compliance policies and procedures, including a counterparty due diligence directive, a gifts and hospitality directive, an investigation policy, a privacy policy and an offset compliance policy. One of the focal points of the compliance system is the prevention of corrup-

tion; to this end, HENSOLDT has developed an anti-corruption policy and has devoted particular attention and resources to dealing with the typical industry risk of engaging commercial agents and other third parties.

HENSOLDT's compliance process is further supported by the internal audit department, which is involved in conducting regular compliance-focused audits. HENSOLDT additionally conducts regular risk analysis to update risk assessments and improve compliance processes.

In addition, HENSOLDT has established a whistleblower system, which allows employees and external parties to report violations in person or anonymously via an "OpenLine" (anonymous telephone and e-mail hotline). HENSOLDT's compliance organization includes eleven employees as of December 31, 2020, and reports directly to the general counsel, who reports to the CEO. The Head of Compliance also reports regularly to the Compliance Committee of HENSOLDT's Supervisory Board. In addition to the Head of Compliance, eight Compliance Officers (full-time) are currently employed. Besides, there are compliance contacts in subordinate companies who report to the central compliance organization. Training courses are held both virtually and in person. For this purpose, IT tools are being used. These tools are used in particular as part of due diligence to screen potential business partners. The Management Board of HENSOLDT regularly communicates on the compliance organization via internal communication media.

Further information on the compliance organization can be found on the Company's Website.

3.5. Risk and control management

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

3.6. Sustainability

HENSOLDT is aware of the special responsibility and knows the impact of the activities on society and the environment. HENSOLDT is committed to conducting its business sustainably and responsibly at all times. The Long Term Incentive bonus components for the Management Board members are among other criteria based on the achievement of the ESG targets "Diversity" and "Climate Impact". Further information on sustainability (ESG) can be found in chapter V. "Non-financial group Statement" and on the Company's website and further information on the Management Board remuneration and relevant target criteria in the chapter VI. "Remuneration report".

3.7. Shareholders and shareholders' meeting

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

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

The first shareholders' meeting after the IPO of HENSOLDT AG will take place on May 18, 2021. Due to the ongoing COVID-19 pandemic and the resulting uncertainty with regard to holding a meeting in person, the shareholders' meeting will be held as a virtual meeting without the physical presence of shareholders or their representatives in order to protect employees and shareholders in accordance with applicable legal requirements.

3.8. Management Board and Supervisory Board Shareholdings

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

A process is established to properly disclose these transactions in the event of such notification. The reported transactions are available on HENSOLDT's website in the Corporate Governance section.

3.9. Corporate communication and transparency

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

The Company's statute, the rules of procedure of the Supervisory Board, as well as the report of the Supervisory Board, the Declaration of Conformity, and the Corporate Governance Report, each as of the 2020 fiscal year, are available on our website in the Corporate Governance section. A remuneration report on the last fiscal year pursuant to section 162 AktG and an auditor's report pursuant to section 162 AktG as well as the resolutions of the shareholders' meeting on the remuneration of the Management Board and Supervisory Board have not yet been prepared or adopted in accordance with the applicable transitional regulations. A remuneration report containing further information on the remuneration system for the Management Board and the Supervisory Board as well as the individualized disclosure of the remuneration of the members of these Boards in the 2020 fiscal year is available under "VI. Remuneration report". The remuneration resolutions for the Management Board and Supervisory Board will be on the agenda of the first annual shareholders' meeting on May 18, 2021; the corresponding explanations on the remuneration systems required by law will be included in the notice of the annual shareholders' meeting. Immediately after the annual shareholders' meeting, the above-mentioned documents will also be available on the Company's website where they will remain publicly accessible in accordance with statutory requirements.

4. Working methods of Management Board and Supervisory Board

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

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

4.1. Management Board of HENSOLDT AG

Working methods of the Management Board

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

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

The current Management Board has three functional responsibilities, namely the position of Chief Executive Officer (CEO), Chief Financial Officer (CFO) and Chief Human Resources Officer (CHRO), with the CHRO also serving as Labor Director. The business allocation plan assigns specific business areas to the respective Management Board members; the business allocation plan is reviewed by the Supervisory Board in regular intervals and adjusted as necessary. At present, the CEO's portfolio includes responsibility for the division Radar, IFF & COMMS, the division Spectrum Dominance & Airborne Solutions, the Division Optronics and the Division Customer Services. The CEO is also responsible for Business Development and Sales, as well as Customer Support/Space, Operations/Productions (including R&D), Legal & Compliance, HENSOLDT France, as well as Strategic Programs and Strategy/M&A activities and PMI. The CFO is primarily responsible for the departments Finance & Controlling, Treasury, Investor Relations, Commercial & Offset, Internal Audit, as well as other related programs and tasks (Enterprise Risk Management, Information Management and "HENSOLDT GO!"). In addition to Human Resources, the CHRO is also responsible for Security and Corporate Social Responsibility, Facility Management and Health, Safety and Environment. Within their respective functional areas of responsibility, the members of the Management Board each have – relating to all parts of the Company – the authority to issue directives, the duty of supervision and the duty to coordinate, without prejudice to the continuing overall responsibility of the Management Board. This also applies towards the heads

of entities with their own legal form and towards HENSOLDT-Group companies abroad, unless this is not legally permissible in individual cases.

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

Composition of the Management Board

Pursuant to section 6 (1) of the statute, the Management Board of HENSOLDT AG consists of at least two persons. In the reporting period, the Management Board comprised three members: Thomas Müller as Chairman (CEO), Axel Salzmann as CFO and Peter Fieser as CHRO.

Further information on the composition as well as the CVs, term of appointment and areas of responsibility of the individual Management Board members can be found on the Company's website, as is information on other mandates held by members of the Management Board. In addition, the composition of the Management Board is presented in the Notes to the Consolidated Financial Statements.

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

The current members of the Management Board were already part of the management of the HENSOLDT-Group prior to the IPO. It was intended not to make any changes to the proven composition of the management team in the context of the IPO. Therefore, both Thomas Müller and Axel Salzmann will be 66 years old at the currently scheduled end of their respective terms of appointment at September 20, 2024, which leads to a deviation from the standard age limit set for the Management Board. In future appointment decisions including the event of a possible expansion of the Management Board, the Supervisory Board will take the diversity aspects mentioned above into account in its decision-making and, will in consideration of the professional competencies of the candidates, strive for the most diverse possible composition of the Management Board.

For further information on the representation of women in the Boards, please refer to the chapter "4.4 Disclosure on the representation of women on the Management Board and Supervisory Board and at the top management levels of HENSOLDT AG".

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

Management Board remuneration

Information on the remuneration and the remuneration system for the Management Board in the past fiscal year can be found in the chapter "VI. Remuneration report".

4.2. Supervisory Board of HENSOLDT AG

Working methods of the Supervisory Board

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

At least two Supervisory Board meetings are held each calendar half-year. Extraordinary meetings are held as required. The committees also hold regular meetings. The resolutions of the Supervisory Board require a majority of the votes cast, unless otherwise stipulated by law. If a vote results in a tie, each member of the Supervisory Board has the right to demand a new vote on the same matter. If this also results in a tie, the Chairman has two votes. In the past fiscal year, no issues were discussed which would have required a meeting of the Supervisory Board without the presence of the Management Board. However, insofar as the Executive Committee meets in the future or the Supervisory Board as a whole discusses in particular issues of personnel planning and remuneration and its self-assessment, it is planned to meet without the presence of the Management Board if necessary. The Supervisory Board has adopted rules of procedure for itself, which are published on the Company's website.

HENSOLDT considers the regularly review of the effectiveness of the Supervisory Board's work in accordance with recommendation D.13 of the Code as an important component of good corporate governance. In order to be able to cover a complete year of the activities of the supervisory board of a listed company for the corresponding self-evaluation, a self-evaluation shall be carried out for the first time in November 2021 or at the first meeting in 2022.

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

Details of the Supervisory Board's activities, including the number of meetings and information on the attendance of Supervisory Board members at meetings in the 2020 fiscal year, are provided within the "Report of the Supervisory Board".

Composition of the Supervisory Board

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

In the fiscal year 2020, the Supervisory Board comprised the following members:

<p>Johannes P. Huth Chairman of Supervisory Board</p> <p>Partner at KKR and Head of KKR EMEA Born 1960</p>	<p>Member of the Supervisory Board since: 2017 Appointed until: 2025</p> <p>Memberships in other statutory supervisory boards in Germany</p> <ul style="list-style-type: none"> Member of the Supervisory Board at HENSOLDT Holding GmbH* until third quarter of 2020 Member of the Supervisory Board of Axel Springer SE <p>Memberships in other comparable domestic and foreign control bodies of commercial enterprises</p> <ul style="list-style-type: none"> Member of the Board of Coty Inc. <p>Based on the assessment of the Supervisory Board, the Supervisory Board member is independent of the Company and its Management Board.</p>
<p>Armin Maier-Junker Vice Chairman of Supervisory Board</p> <p>Chairman of the Works Council of HENSOLDT Sensors GmbH at the site in Ulm; Chairman of the Central Works Council of HENSOLDT Sensors GmbH and Chairman of the Groups Works Council Born 1962</p>	<p>Member of the Supervisory Board since: 2017 Appointed by the court until completion of the employee elections, which is expected in 2021</p> <p>Memberships in other statutory supervisory boards in Germany</p> <ul style="list-style-type: none"> Member of the Supervisory Board of HENSOLDT Holding GmbH* until third quarter of 2020 Member of the Supervisory Board of HENSOLDT Sensors GmbH* <p>Memberships in other comparable domestic and foreign control bodies of commercial enterprises</p> <ul style="list-style-type: none"> None <p>Employee representative</p>
<p>Jürgen Bühl</p> <p>Head of the Industry Policy Coordination department in the Management Board of IG Metall Born 1969</p>	<p>Member of the Supervisory Board since: 2017 Appointed by the court until completion of the employee elections, which is expected in 2021</p> <p>Memberships in other statutory supervisory boards in Germany</p> <ul style="list-style-type: none"> Member of the Supervisory Board of HENSOLDT Sensors GmbH* from March 1, 2020 Member of the Supervisory Board of HENSOLDT Holding GmbH* until third quarter of 2020 <p>Memberships in other comparable domestic and foreign control bodies of commercial enterprises</p> <ul style="list-style-type: none"> None <p>Employee representative</p>

<p>Dr. Frank Döngi</p> <p>Head of product line Airborne, Space & ISR Radars and of product line Eurofighter Radar of HENSOLDT Sensors GmbH; Born 1966</p>	<p>Member of the Supervisory Board since: 2020 Appointed by the court until completion of the employee elections, which is expected in 2021</p> <p>Memberships in other statutory supervisory boards in Germany</p> <ul style="list-style-type: none"> • Member of the Supervisory Board of HENSOLDT Holding GmbH* until third quarter of 2020 • Member of the Supervisory Board of HENSOLDT Sensors GmbH* from February 15, 2020 <p>Memberships in other comparable domestic and foreign control bodies of commercial enterprises</p> <ul style="list-style-type: none"> • None <p>Employee representative</p>
<p>Winfried Fetzer</p> <p>Chairman of the Works Council of HENSOLDT Optronics GmbH in Oberkochen; Member of the Groups Works Council Born 1959</p>	<p>Member of the Supervisory Board since: 2017 (retired as of December 31, 2020)</p> <p>Memberships in other statutory supervisory boards in Germany</p> <ul style="list-style-type: none"> • Member of the Supervisory Board of HENSOLDT Holding GmbH* until third quarter of 2020 • Member of the Supervisory Board of HENSOLDT Optronics GmbH* <p>Memberships in other comparable domestic and foreign control bodies of commercial enterprises</p> <ul style="list-style-type: none"> • None <p>Employee representative</p>
<p>Prof. Wolfgang Ischinger</p> <p>Chairman of the Foundation Munich Security Conference; Senior Professor for security policy and diplomatic practice at the Hertie School of Governance in Berlin; Honorary professor at the University Tübingen Born 1946</p>	<p>Member of the Supervisory Board since: 2017 Appointed until: 2025</p> <p>Memberships in other statutory supervisory boards in Germany</p> <ul style="list-style-type: none"> • Member of the Supervisory Board of HENSOLDT Holding GmbH* until third quarter of 2020 <p>Memberships in other comparable domestic and foreign control bodies of commercial enterprises</p> <ul style="list-style-type: none"> • None <p>Based on the assessment of the Supervisory Board, the Supervisory Board member is independent of the Company and its Management Board as well as of the controlling shareholder.</p>

<p>Ingrid Jägering</p> <p>Member of the Management Board, CFO and Labor Director at Leoni AG Born 1966</p>	<p>Member of the Supervisory Board since: 2017 Appointed until: 2025</p> <p>Memberships in other statutory supervisory boards in Germany</p> <ul style="list-style-type: none"> Member of the Supervisory Board of HENSOLDT Holding GmbH* until third quarter of 2020 <p>Memberships in other comparable domestic and foreign control bodies of commercial enterprises</p> <ul style="list-style-type: none"> Independent member of the Board of Directors of SAF Holland S.A. <p>Based on the assessment of the Supervisory Board, the Supervisory Board member is independent of the Company and its Management Board as well as of the controlling shareholder.</p>
<p>Marion Koch</p> <p>Member of the Work Council of HENSOLDT Sensors GmbH at the site in Immenstaad and Member of the Group Work Council; Project Manager in the product line Airborne, Space & ISR Radars of HENSOLDT Sensors GmbH Born 1978</p>	<p>Member of the Supervisory Board since: 2020 Appointed by the court until completion of the employee elections, which is expected in 2021</p> <p>Memberships in other statutory supervisory boards in Germany</p> <ul style="list-style-type: none"> None <p>Memberships in other comparable domestic and foreign control bodies of commercial enterprises</p> <ul style="list-style-type: none"> None <p>Employee representative</p>
<p>Christian Ollig</p> <p>Partner at KKR and Head of KKR in Germany, Executive Director of Traviata B.V. Born 1977</p>	<p>Member of the Supervisory Board since: 2017 Appointed until: 2025</p> <p>Memberships in other statutory supervisory boards in Germany</p> <ul style="list-style-type: none"> Member of the Supervisory Board of HENSOLDT Holding GmbH* until third quarter of 2020 Member of the Supervisory Board of ETL AG Steuerberatungsgesellschaft Member of the Supervisory Board at Wella AG <p>Memberships in other comparable domestic and foreign control bodies of commercial enterprises</p> <ul style="list-style-type: none"> Member of the Supervisory Board of Upfield Holdings B.V. <p>Based on the assessment of the Supervisory Board, the Supervisory Board member is independent of the Company and its Management Board.</p>

<p>Prof. Dr. Burkhard Schwenker</p> <p>Senior Fellow of Roland Berger; Academic Co-Director of the HHL Center for Scenario-Plan- ning Born 1958</p>	<p>Member of the Supervisory Board since: 2017 Appointed until: 2025</p> <p>Memberships in other statutory supervisory boards in Germany</p> <ul style="list-style-type: none"> • Member of the Supervisory Board of HENSOLDT Holding GmbH* until third quarter of 2020 • Member of the Supervisory Board of Hamburger Hafen and Logistik AG • Member of the Supervisory Board of Hamburger Sparkasse AG • Member of the Supervisory Board of Flughafen Hamburg GmbH • Member of the Supervisory Board of M.M. Warburg & Co. KGaA <p>Memberships in other comparable domestic and foreign control bodies of commercial enterprises</p> <ul style="list-style-type: none"> • Member of the Board of Directors of HASPA Finanzholding <p>Based on the assessment of the Supervisory Board, the Supervisory Board member is independent of the Company and its Management Board as well as of the controlling shareholder.</p>
<p>Julia Wahl</p> <p>Personal assistant to the district manager of the IG Metall Baden- Württemberg Born 1987</p>	<p>Member of the Supervisory Board since: 2019 Appointed by the court until completion of the employee elections, which is expected in 2021</p> <p>Memberships in other statutory supervisory boards in Germany</p> <ul style="list-style-type: none"> • Member of the Supervisory Board of HENSOLDT Holding GmbH* until third quarter of 2020 • Member of the Supervisory Board of HENSOLDT Sensors GmbH* from January 15, 2019 <p>Memberships in other comparable domestic and foreign control bodies of commercial enterprises</p> <ul style="list-style-type: none"> • None <p>Employee representative</p>
<p>Claire Wellby</p> <p>Member of the Private-Equity- Team of KKR, Vice President of the KKR Show Aggregator GP Limited Born 1988</p>	<p>Member of the Supervisory Board since: 2020 Appointed until: 2025</p> <p>Memberships in other statutory supervisory boards in Germany</p> <ul style="list-style-type: none"> • Member of the Supervisory Board of HENSOLDT Holding GmbH* until third quarter of 2020 • Member of the Supervisory Board of LEONINE Licensing AG <p>Memberships in other comparable domestic and foreign control bodies of commercial enterprises</p> <ul style="list-style-type: none"> • None <p>Based on the assessment of the Supervisory Board, the Supervisory Board member is independent of the Company and its Management Board.</p>

The term of appointment mentioned above is calculated on the basis of the first appointment to the Supervisory Board of the HENSOLDT Holding GmbH respectively HENSOLDT GmbH, which means before the change of the legal form of the Company into a public limited company (AG) as of August 17, 2020. Mandates within the HENSOLDT-Group are marked with a star (*). Winfried Fetzer resigned from the Supervisory Board as of December 31, 2020. As his successor, Ingo Zeeh (born 1983), a member of the Works Council of HENSOLDT Optronics GmbH, was appointed to the Supervisory Board by court order on January 15, 2021, for the remaining term of Winfried Fetzer.

In accordance with the rules of procedure, the Supervisory Board shall adopt a competence profile, which takes into account the recommendations of the Code and specifies concrete objectives for its composition. Based on the competence profile prepared by the Supervisory Board and in consideration of the areas of operation of the HENSOLDT Group, the essential competences in particular include, in-depth experience and knowledge in the management of an international company, in the area of digitalization and information technology, in the area of human resources management and recruitment, in accounting and financial reporting, in controlling/ risk management as well as in the area of corporate governance and compliance including the regulatory requirements relevant for HENSOLDT. In addition, the Supervisory Board shall have knowledge and experience in the area of international security policy. Besides the appropriate representation of all gender identities and age groups, proposals for elections to the Supervisory Board will also take into account different educational backgrounds and the most diverse possible cultural and regional origins of the members of the Supervisory Board.

The competence profile also provides rules on the independence of Supervisory Board members and on the limitation of other mandates held in line with the relevant recommendations and suggestions of the Code. A standard length of service of twelve years has been included. This competence profile is to be critically reviewed again after the first self-assessment of the Supervisory Board.

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

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

For further information on the representation of women in the Boards, please refer to the chapter "4.4 Disclosure on the representation of women on the Management Board and Supervisory Board and at the top management levels of HENSOLDT AG".

In future proposals to the shareholders' meeting for the election of shareholder representatives, the Supervisory Board will take into account its competence profile and the objectives for the composition

of the Supervisory Board, which are included in this profile, as well as diversity aspects. In addition, the Supervisory Board will take the time commitment of the proposed persons into account when making proposals to the shareholders' meeting for the election of shareholder representatives.

Prevention of conflicts of interest and independence

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

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

The right of the Federal Republic of Germany to appoint a member of the Supervisory Board, as provided for in section 8 (2) of the statute, has not yet been exercised. Moreover, this does not generally affect the independence of a Supervisory Board member, according to the assessment of the Supervisory Board. On the one hand, the statute stipulates that such a Supervisory Board member may not be a civil servant or employee of the Federal Republic of Germany, another regional authority or an institution under public law. On the other hand, in the opinion of the Supervisory Board, the Federal Republic of Germany is not a controlling shareholder in line with the meaning of recommendation C.9 of the Code, as no control agreement has been concluded with the Federal Republic of Germany, nor does the Federal Republic of Germany hold an absolute majority of votes or any other sustainable majority at the shareholders' meeting.

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

Supervisory Board remuneration

Information about the remuneration system for the Supervisory Board and on the remuneration of the Supervisory Board in the past fiscal year can be found in chapter "VI. Remuneration report".

4.3. Committees of the Supervisory Board

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

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

Executive Committee

The Executive Committee is composed of the Chairman of the Supervisory Board, his deputy and one further member from both the employee and shareholder sides. In the reporting period, Johannes P. Huth (chairman), Jürgen Bühl¹⁶, Prof. Wolfgang Ischinger and Armin Maier-Junker¹⁶ were members of the committee. The Executive Committee prepares proposals to the Supervisory Board for the appointment and dismissal of Management Board members and the extension of their mandates, the handling of service contracts with Management Board members, Management Board succession planning, and corporate governance issues. The Executive Committee is responsible for concluding, amending, extending and terminating service contracts with the members of the Management Board within the framework of the remuneration system determined by the Supervisory Board in a plenary session and the shareholders' meeting and within the targets set by the Supervisory Board in a plenary session for the variable remuneration of the individual Management Board members. In addition, the Executive Committee makes proposals to the Supervisory Board for resolutions on existing or anticipated conflicts of interest of members of the Management Board. Furthermore, the Executive Committee makes proposals for the approval of other contracts and transactions between the Company or a subsidiary of the Company on the one hand and a member of the Management Board or persons or companies related to a member of the Management Board on the other hand, unless the Committee for Related Party Transactions is responsible.

Audit Committee

The Audit Committee is composed of two shareholder representatives and two employee representatives. In the reporting period Ingrid Jägering (Chairwoman), Marion Koch¹⁶, Christian Ollig and Julia Wahl¹⁶ belonged to the committee. The Chairwoman of the Audit Committee, Ingrid Jägering, is independent in the assessment of the Supervisory Board. She has not been a member of the Management Board of HENSOLDT AG in the past, nor does she have any other personal or business relationship with HENSOLDT AG or its institutions, which could constitute a material and not only temporary conflict of interest. She is not simultaneously Chairwoman of the Supervisory Board and has expertise in the fields of accounting and auditing.

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

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

¹⁶ Employee representative

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

Conciliation Committee

The Conciliation Committee consists of the chairman of the Supervisory Board as chairman of the committee, his deputy elected in accordance with the German Codetermination Act, and one additional representative for each shareholders and employees. In the reporting period Johannes P. Huth (Chairman), Jürgen Bühl¹⁶, Armin Maier-Junker¹⁶ and Christian Ollig were members of the Committee. In the cases set out in section 31 (3) and (5) MitbestG, the Conciliation Committee shall submit proposals to the Supervisory Board for the appointment or withdrawal of the appointment of members of the Management Board.

Compliance Committee

The Compliance Committee is composed of two shareholder representatives and two employee representatives. In the reporting period, Prof. Dr. Burkhard Schwenker (chairman), Dr. Frank Doengi¹⁶, Winfried Fetzer¹⁶ and Christian Ollig were members of the Committee. The Compliance Committee's task is to monitor the Company's compliance with legal provisions, official regulations and internal Company policies relating to anti-corruption, antitrust (competition law), data protection and export control.

Related Party Transactions Committee

The Related Party Transactions Committee shall be composed of two shareholder representatives and two employee representatives, taking into account that the majority of the Committee shall be composed of members for which no concern of a conflict of interest exists due to their relationship with a related party. In the reporting period, Prof. Dr. Burkhard Schwenker (Chairman), Jürgen Bühl¹⁶, Prof. Wolfgang Ischinger and Armin Maier-Junker¹⁶ were members of the Committee. Task of the Related Party Transactions Committee is to monitor the Company's internal procedure for the ordinary course of business and the arm's length nature of related party transactions within the meaning of section 111a (1) AktG. Furthermore, the Committee is responsible for the approval of related party transactions in accordance with section 111b AktG. For such transactions, the decision-making authority of the committee takes precedence over the decision-making authority of other committees.

Nomination Committee

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

IPO Committee

In the last fiscal year the Supervisory Board also formed a temporary IPO Committee from August 11, 2020, until October 31, 2020. Johannes P. Huth (Chairman), Jürgen Bühl¹⁶, Armin Maier-Junker¹⁶ and Christian Ollig were members of the Committee. The IPO Committee performed the duties and authorities of the Supervisory Board with regard to the preparation and implementation of the IPO. This in particular concerned tasks regarding the further implementation of the prospectus approval procedure and the preparation of the admission of the shares of HENSOLDT AG for trading as well as to the capital increase planned in this context and the agreements to be concluded with the accompanying issuing banks, as well as the Square Lux Holding II S.à r.l.

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

Disclosures on the achievement of the legally required minimum quota for the Supervisory Board pursuant to section 96 (2) Sentence 1 AktG

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

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

Determination in accordance with § 111 (5) AktG

The Supervisory Board of HENSOLDT AG has set a target for the proportion of women on the Management Board in accordance with section 111 (5) AktG. When the target was first set, a minimum target of 25.0 % was set until the end of the first implementation period on August 11, 2025. The proportion of women on the Management Board was zero percent at the time the target was set for the first time.

Determination for the two management levels below the Management Board

In accordance with section 76 (4) AktG, the Management Board also sets targets for the proportion of women in the two management levels below the Management Board. As of the reporting date of December 31, 2020, HENSOLDT AG, as an individual entity, did not have any management levels below the Management Board. The determination of a target proportion has therefore not yet been made.

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

IX. Final declaration on the dependency report

In the fiscal year 2020, HENSOLDT AG was a dependent Company of KKR Square Aggregator L.P., Canada and its subsidiaries within the meaning of section 312 AktG. The Management Board of HENSOLDT AG therefore prepared a dependency report according to section 312 (1) AktG, which contains the following final declaration:

“We declare that HENSOLDT AG, with regard to the legal transactions and measures listed in the report on relations with affiliated companies, according to the circumstances known to us at the time the legal transactions were carried out or the measures were taken or omitted, received appropriate consideration for each legal transaction and was not disadvantaged by the fact the measures were taken or omitted.”

X. HENSOLDT AG

The annual financial statements of HENSOLDT AG were prepared in accordance with the German Commercial Code (HGB) and the German Stock Corporation Act (AktG).

As of December 31, 2020, HENSOLDT AG was the parent Company of the HENSOLDT Group. With the entry in the commercial register on August 17, 2020, HENSOLDT GmbH was converted into HENSOLDT AG. HENSOLDT GmbH, Taufkirchen, District of Munich (until November 11, 2019: Blitz 19-320 GmbH, Munich) was founded with corporation agreement dated September 17, 2019 and was registered into the commercial register under file no. HRB 252143 at the Munich Local Court on October 16, 2019.

1. Financial Performance HENSOLDT AG

For the fiscal year 2020, the income statement for HENSOLDT AG was as follows. In the comparative column for 2019, figures shown are for the stub fiscal year of HENSOLDT GmbH from October 16 to December 31, 2019.

in € million	Fiscal year		
	2020	2019	% Change
Revenue	8.3	-	
Cost of sales	-8.5	-	
Gross profit	-0.2	-	
General administrative expenses	-33.6	-0.3	>-200%
Other operating income	5.3	-	
Other operating expenses	-6.0	-	
Operating result	-34.5	-0.3	>-200%
Financial result	-8.4	-	
Loss after taxes	-42.9	-0.3	>-200%
Loss carryforward	-0.3	-	
Withdrawal from the capital reserve	60.0	-	
Balance sheet profit / loss	16.8	-0.3	>200%

Revenue consists exclusively of internal onwads charging. The administrative expenses mainly include consulting fees in relation to the IPO and the refinancing as well as personnel costs. Other operating expenses mainly include costs for raising equity. Other operating income include onwads charging in relation to the IPO. The financial result consists predominantly of interest paid for the syndicated loan, bank commissions and fees as well as the interest expense from the revaluation of the pension provisions. The balance sheet profit resulted from the withdrawal from the capital reserve in the context of the preparation of the annual financial statements. As of December 31, 2020, HENSOLDT AG had five employees.

2. Asset and financial position HENSOLDT AG

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

in € million	Dec. 31, 2020	Dec. 31, 2019	% Change
Property, plant and equipment	0.1	-	
Financial assets	2,670.0	1,650.0	61.8%
Fixed assets	2,670.1	1,650.0	61.8%
Receivables and other assets	125.9	-	
Cash and cash equivalents	188.0	0.0	>200%
Current assets	313.9	0.0	>200%
Prepaid expenses	9.1	-	
Total assets	2,993.1	1,650.0	81.4%
Share capital	105.0	10.0	>200%
Capital reserve	1,785.0	1,640.0	8.8%
Balance sheet profit / loss	16.8	-0.3	>200%
Equity	1,906.8	1,649.7	15.6%
Provisions	7.3	0.3	>200%
Liabilities	1,078.9	0.0	>200%
Total equity and liabilities	2,993.1	1,650.0	81.4%

The increase in financial assets resulted from a contribution into the capital reserve of HENSOLDT Holding GmbH, which in turn paid a contribution into the capital reserve of HENSOLDT Holding Germany GmbH in order to redeem the outstanding liabilities under the existing financing agreement. The receivables and other assets are mainly made up of receivables from cash pooling in the amount of €103.7 million as well as receivables from advance VAT declarations of tax group subsidiaries in the amount of €20.4 million. The improvement of cash and cash equivalents resulted mainly from the cash inflows from refinancing and the proceeds of the IPO and was partially reduced by the contribution to the capital reserve of HENSOLDT Holding GmbH. Prepaid expenses included the capitalized discounts in connection with the taking up of the loan.

As of December 31, 2020, the share capital of HENSOLDT AG amounted to €105.0 million, divided into 105.0 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 the Company's capital reserves by resolution of the shareholders on August 4, 2020 and entry in the commercial register on August 6, 2020 (capital increase from company funds).

At the time of conversion of HENSOLDT GmbH into HENSOLDT AG, the share capital of HENSOLDT GmbH amounted to €80.0 million. In the course of the IPO, the share capital of the Company was increased by an additional €25.0 million to €105.0 million based on the resolution of the shareholders' meeting on September 3, 2020 and with entry in the commercial register on September 24, 2020.

The exceeding amount of €275.0 million from the issuance of the 25.0 million new shares was allocated to the capital reserve. On September 24, 2020, all of the 105.0 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 trading commenced on the following day.

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

Loss after taxes for the fiscal year as of December 31, 2020 amounted to €42.9 million. In connection with the preparation of the annual financial statements, an amount of €60.0 million was withdrawn from the capital reserve and allocated to balance sheet profit.

The provisions referred predominantly to provisions for pensions obligations and provisions for personnel expenses. The liabilities mainly comprised liabilities to banks from the new syndicated loan consisting of a loan in the nominal amount of €600.0 million and a revolving credit facility amounting to €350.0 million, which was drawn in full on reporting date. Liabilities also included payables to affiliated companies in the amount of €100.4 million, mainly from cash pooling.

3. Opportunities and risks

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

4. Forecast

Within the Company's operational planning, the Management Board assumes a strong increase in revenue and a moderate reduction of the loss after taxes for the year 2021. Those represent the most significant financial key performance indicators for HENSOLDT AG. The main driver is the anticipated absence of expenses for the IPO, partly offset by higher interest expenses. This expectation does not take into account possible influences of the global COVID-19 pandemic, in particular possible effects of further waves and additional lockdowns. The forecast strongly depends on the development of the HENSOLDT Group and the interest rate level.

ESEF documents of HENSOLDT AG as at December 31, 2020

The reproductions of the annual financial statements and the combined management report ("ESEF documents") prepared for publication purposes with the file name [8700_HENSOLDT_AG_HGB_Anhang_zus.LB_YE2020_05.03.2021.xhtml" (SHA256 hash value: 77276dd163536c122c3a4946b39c3606043c98333a6e0bec57ffeee429233a98)] are available for download in the issuer's client portal with access protection.

Independent Auditor's Report

To HENSOLDT AG, Taufkirchen, District of Munich

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

Opinions

We have audited the annual financial statements of HENSOLDT AG, Taufkirchen, District of Munich, which comprise the balance sheet as at December 31, 2020, and the income statement for the financial year from January 1 to December 31, 2020, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the report on the situation of the Company and the 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 annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2020 and of its financial performance for the financial year from January 1 to December 31, 2020 in accordance with German Legally Required Accounting Principles, and
- the accompanying combined management report as a whole provides an appropriate view of the Company's position. In all material respects, this combined management report is consistent with the annual 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 [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the combined management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the 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 Annual Financial Statements and of the Management Report” section of our auditor’s report. We are independent of the Company 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 annual financial statements and on the combined management report.

Key Audit Matters relevant for the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the annual 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 annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Recoverability of investments in affiliated companies

Please refer to section I. Basis of preparation and accounting policies (subsection on Accounting policies) in the notes to the financial statements for further information on the recognition and measurement principles applied.

Further information is provided in section II. Explanatory notes to the balance sheet (subsection 1. Fixed assets) in the notes to the financial statements.

RISKS FOR THE ANNUAL FINANCIAL STATEMENTS

At December 31, 2020, HENSOLDT AG reports investments in affiliated companies with a carrying amount of EUR 2,670 million within financial assets. This amount relates to the 100 % shareholding in HENSOLDT Holding GmbH, which, in turn, indirectly holds all of the shares of the operating companies of the HENSOLDT Group. The investment accounts for

89 % of the balance sheet total and therefore has a significant influence on the Company's net asset position.

Financial assets are measured at acquisition cost or, in the event of impairment, at their lower fair value. The Company's assessment of possible impairment was based on a valuation of HENSOLDT Holding GmbH performed by an external valuation expert in accordance with IDW S1 (in conjunction with IDW RS HFA 10) as at September 30, 2020 (the valuation date).

Using a discounted cash flow (DCF) methodology, the external expert identified cash flows on the basis of the Company's forecasts for the next three years which were then extrapolated using assumptions about growth rates. The discount rate was derived from the return on an alternative investment with comparable risk.

The impairment assessment of HENSOLDT Holding GmbH using a future earnings value approach is complex and, with regard to the assumptions made, highly dependent on estimates and judgments made by the Company, in particular in relation to estimated cash flows and growth rates in the future as well as the discount rates to be used.

The Company did not recognize any impairment losses on the investment in HENSOLDT Holding GmbH in the financial year 2020. There is a risk for the annual financial statements that the investment in HENSOLDT Holding GmbH may not be recoverable at the level reported.

OUR AUDIT APPROACH

We assessed the appropriateness of the key assumptions and the valuation model used by the external valuation expert with the assistance of our own valuation specialists. In this context, we discussed the levels of expected cash flows and assumed growth rates with the persons responsible for forecasting and with the external valuation expert and tested the design of selected controls built into the forecasting process. In addition, we performed reconciliations with the annual budget of HENSOLDT Group, as prepared by the management board and approved by the supervisory board. We also assessed whether the assumptions used were consistent with external market projections. In a final step, we assessed the appropriateness of the reconciliation of the valuation outcome with values prevailing at the end of the reporting period.

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) as well as 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 the prevailing forecasting uncertainties, we also examined the effects of possible changes in the discount rate, the expected cash flows and the long-term growth rate on the fair value by calculating alternative scenarios and comparing them with the external valuation expert's conclusions (sensitivity analysis).

Furthermore, we considered the appropriateness of the future-earnings based valuation, determined using the DCF methodology, by comparing it with a reference value derived from the market capitalization of HENSOLDT AG, taking into account an appropriate control premium.

OUR CONCLUSIONS

The procedures used to assess the possible impairment of the investment in affiliated companies are appropriate and in line with the stated valuation principles. Similarly, the assumptions and data applied 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 statement 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 annual financial statements, the combined management report information audited for content and our auditor's report thereon.

Our opinions on the annual 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 annual 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 Annual Financial Statements and the Combined Management Report

The management board is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company

in compliance with German Legally Required Accounting Principles. In addition, the management board is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the management board is responsible for assessing the Company'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, provided no actual or legal circumstances conflict therewith.

Furthermore, the management board is responsible for the preparation of the combined management report that as a whole provides an appropriate view of the Company's position and is, in all material respects, consistent with the annual 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 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 Company's financial reporting process for the preparation of the annual financial statements and of the combined management report.

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

Our objectives are to obtain reasonable assurance about whether the annual 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 Company's position and, in all material respects, is consistent with the annual 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 annual financial statements and on the combined management report.

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

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

- Identify and assess the risks of material misstatement of the annual 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 annual 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 Company’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 annual 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 Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the combined management report with the annual financial statements, its conformity with German law, and the view of the Company’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 annual 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 Statutory and Legal Requirements

Assurance Report in accordance with Section 317 (3b) HGB on the Electronic Reproduction of the Annual 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 annual 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, [8700_HENSOLDT_AG_HGB_Anhang_zus.LB_YE2020_05.03.2021.xhtml" (SHA256 hash value: 77276dd163536c122c3a4946b39c3606043c98333a6e0bec57fjee429233a98)] 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 annual 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 annual 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 annual 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 Annual Financial Statements and of the Combined Management Report" above.

We conducted our assessment of the reproduction of the annual 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 annual financial statements and the combined management report in accordance with Section 328 (1) sentence 4 item 1 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 annual 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 annual financial statements and the audited combined management report.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as 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 auditor of HENSOLDT AG (as 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.

Munich, March 8, 2021

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Leistner
Wirtschaftsprüfer
[German Public Auditor]

Peschel
Wirtschaftsprüfer
[German Public Auditor]