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Combined Management Report of

HENSOLDT Group

for the year ended
December 31, 2021

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

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

I Group fundamentals

1 Business model

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

2 Organization and group structure

2.1 Legal structure

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

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

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

2.2 Locations and employees

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

2.3 Operating segments

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

Sensors segment

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

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

Radar & Naval Solutions

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

Spectrum Dominance & Airborne Solutions

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

Customer Services & Space Solutions

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

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

Optronics segment

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

3 Goals and strategies

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

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



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

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

The former five strategic pillars to achieve the strategic targets (“Innovation”, “Customer”, “Continuous Improvement”, “Strategic Acquisitions”, “Corporate Culture”) principally remained unchanged in the current fiscal year. The pillar “Become ESG¹ sector benchmark” was supplemented and the pillar “Strategic Acquisitions” now forms an integral part of the pillars “Drive digital and innovative portfolio” and “Convince customers with our capabilities”.

The five strategic pillars are thus:

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

3.1 Drive digital and innovative portfolio

With its almost 2,000 engineering staff, HENSOLDT stands for high-performance sensor electronics. In order to further expand this core competence and further increase its competitiveness, the Group relies above all on a digital and innovative product portfolio. The continuous development of products and technologies enables HENSOLDT to improve

its role in the competition and to meet the operational challenges and concepts of its customers. For this purpose, HENSOLDT is continuously expanding its self-funded research and development expenditure (“R&D”). Compared to 2020, HENSOLDT increased its self-funded R&D expenditure (including expensed R&D costs recognized in expenses and capitalized development costs) by 11.8 %. In 2021, self-funded R&D expenditure for HENSOLDT amounted to € 97.5 million.

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

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

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

3.2 Convince customers with our capabilities

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

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

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

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

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

3.3 Become ESG sector benchmark

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

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

¹ Environmental Social Governance

UN Global Compact², a United Nations initiative. HENSOLDT is thus committed to the ten universal sustainability principles in the areas of human rights, labor standards, the environment and corruption prevention.

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

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

3.4 Live strong company culture

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

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

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

3.5 Improve operational efficiency

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

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

4 Financial performance indicators

HENSOLDT uses certain key performance indicators ("KPIs") to measure performance, identify trends and make strategic decisions. Besides revenue, the most important KPIs are order intake, the book-to-bill ratio³ and adjusted EBITDA⁴. In addition, HENSOLDT uses two more non-IFRS performance indicators, the adjusted pre-tax unlevered free cash flow⁵ and the adjusted EBIT⁶, as well as one additional operating metric, the order backlog as performance indicator.

Adjusted EBITDA is used as a key indicator of the economic performance of the Group, in particular to illustrate the non-recurring effects from acquisitions and other non-recurring effects on the operating results. In addition, non-financial

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

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

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

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

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

performance indicators are partly used to manage the Group. To this end, an additional remuneration element geared towards long-term, sustainable success of the HENSOLDT Group has also been included in the Management Board remuneration since the fiscal year 2021. The Long-Term Incentive bonus components for the Management Board members and other executives of the Group are determined, inter alia, according to the target achievement of the ESG targets "Diversity" and "Climate Impact" (refer to the "Corporate Governance" section on the website of HENSOLDT at <https://investors.hensoldt.net>).

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

5 Research and development

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

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

6 HENSOLDT on the capital market

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

6.1 Stock markets and price development of the HENSOLDT share

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

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

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

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

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

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

6.2 Shareholder structure

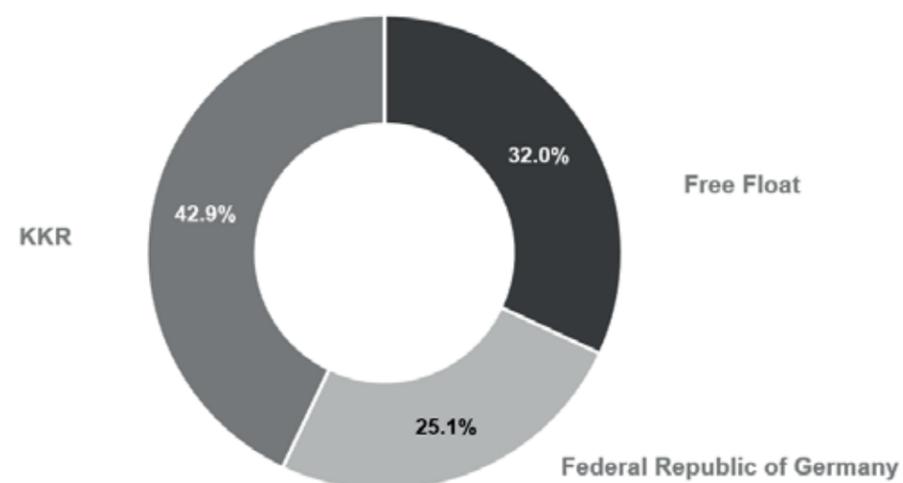
Square Lux Holding II S.à r.l. ("Square Lux"), a portfolio company controlled by funds advised by Kohlberg Kravis & Roberts & Co. L.P., held approximately 42.9 % of the shares of HENSOLDT AG on December 31, 2021.

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

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

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

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



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

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

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

6.3 Analyst coverage

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

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

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

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

6.4 Investor Relations – communication with the capital market

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

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

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

6.5 General meeting

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

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

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

II Economic report

1 Economic conditions

1.1 General economic conditions

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

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

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

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

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

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

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

1.2 Conditions in the defence and security sector

In response to Russia's invasion of Ukraine, Chancellor Olaf Scholz announced in a speech to the German Bundestag a special fund for the Bundeswehr amounting to € 100 billion and an increase in German defence spending

to 2 % of the gross domestic product. This will significantly influence the conditions for the defence and security industry. The specific design and implementation of possible procurement programs as well as procurement priorities are still open.

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

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

In June 2021, the European Defence Fund (shortly referred to as "EDF") with a size of approximately € 8 billion from 2021 to 2027 was officially launched. The EDF offers HENSOLDT the opportunity to expand its European presence and status as a sought-after international cooperation partner. Another wave of projects in the field of Permanent Structured Cooperation ("PESCO") has also been decided in November 2021. Thus, there are currently 60 PESCO projects for multilateral military cooperation, some of which are linked to EDF and EDIDP programs⁷. Participation in the PESCO "Military Mobility" project was opened to Canada, the US and Norway in May 2021, underlining the enhanced EU-NATO cooperation. In addition, the EU member states have given the European Defence Agency a mandate to explore deeper cooperation with the US within the framework of an "Administrative Agreement". From NATO's side, a stronger involvement of industry in program planning is developing which also opens up business opportunities for HENSOLDT.

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

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

2 Business development

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

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

acquired 25.1 % of HENSOLDT AG's shares from Square Lux, by executing the acquisition rights of the Federal Government.

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

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

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

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

3 Net assets, financial position and results of operations

3.1 Results of operations

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

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

Order intake

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

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

⁷ European Defence Industrial Development Programme

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

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

Revenue

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

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

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

Book-to-bill ratio

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

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

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

Order backlog

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

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

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

Income⁸

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

Adjusted EBITDA

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

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

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

Earnings before finance result and income taxes (EBIT)

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

Non-recurring effects⁹ considered in the EBITDA went down mainly due to lower other non-recurring effects in general administrative expenses in connection with the preparation of the IPO of HENSOLDT AG in the previous year.

Group result

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

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

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

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

Earnings per share

Earnings per share improved from € -0.75¹⁰ to € 0.60 compared to the previous year, mainly due to the increased EBITDA, lower non-recurring effects and an improved finance result.

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

Overall assessment

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

3.2 Net assets

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

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

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

particular, by higher investments in assets under construction of € 12.6 million (previous year: € 6.6 million) and were partly offset by lower investments in technical equipment and machinery of € 7.9 million (previous year: € 16.7 million) and depreciation.

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

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

3.3 Financial position

Basic principles of financial management

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

Capital structure

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

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

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

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

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

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

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

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

Investment and liquidity analysis

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

Free cash flow

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

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

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

Adjusted pre-tax unlevered free cash flow

The adjusted pre-tax unlevered free cash flow improved by € 55.9 million to € 252.3 million, amongst other things due to lower non-recurring effects. The non-recurring effects¹¹ were mainly associated with the preparation of the IPO in the previous year and lower transaction costs in the current fiscal year. The increase in interest¹², income tax¹³ and M&A

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

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

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

activities¹⁴ was mainly related to higher outflows from M&A activities and for income taxes which were partly compensated by lower interest payments in the current reporting period.

Cash flows from financing activities

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

Cash and cash equivalents

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

Overall assessment

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

III Forecast

1 Development of overall economic conditions

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

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

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

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

2 Development in the defence and security sector

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

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

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

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

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

placed a major focus on modernizing procurement management. As a key national technology company and a major player in European consolidation in defence electronics, HENSOLDT is well positioned for the coming years.

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

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

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

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

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

3 Outlook

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

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

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

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

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

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

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

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

IV Opportunities and risks report

1 Risk report

1.1 Basic principles of the HENSOLDT risk management

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

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

1.2 Risk management system

The risk management system, applicable to the entire HENSOLDT Group, considers relevant legal requirements and is based on generally accepted principles set out in external frameworks and standards, such as COSO¹⁵. The HENSOLDT risk management system represents an integral part of the systems and instruments, which the HENSOLDT Management Board is using for a value- and success-oriented corporate management. The central objective is the early and systematic identification, assessment and management of significant risks. For this purpose, valid procedures and methods, which are applicable for all entities, are defined on HENSOLDT Group level. The overall responsibility for the risk management system lies with the Head of "Internal Audit, Risk Management & ICS". The HENSOLDT risk management team permanently monitors the HENSOLDT risk management system to support a continuous improvement process. The Group policy "Enterprise Risk Management (ERM)" issued by the Management Board defines the methodical and organizational standards dealing with risks and opportunities. In the fiscal year 2021, the requirements of the revised version of the auditing standard IDW PS 340 and, in particular, the changes related to risk-bearing capacity and risk appetite were taken into account in the Group guideline on ERM. Otherwise, no changes were made to the risk management system in the reporting period.

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

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

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

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

Probability (%)	Risk Matrix (Chapter IV 1.4)	
	min	max
Very unlikely	0.0%	4.9%
Unlikely	5.0%	24.9%
Possible	25.0%	49.9%
Likely	50.0%	74.9%
Very likely	75.0%	100.0%

Impact on Group Level (Mio.€)	Risk Matrix (Chapter IV 1.4)	
	min	max
Low	0.0	1.0
Medium	1.0	2.0
High	2.0	5.0
Very high	5.0	10.0
Critical	10.0	200.0

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

For the risk reporting, the heads of the central departments of the HENSOLDT Group and the ERM Point of Contact in each legal entity are responsible for providing their risk portfolio to the ERM Officer at the Group level in time for the quarterly risk reporting. Besides, the site managers have to provide their risk information related to health and safety (HSE¹⁶) also in time for the reporting.

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

1.3 Accounting-related internal controls and risk management

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

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

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

¹⁵ Committee of Sponsoring Organizations of the Treadway Commission

¹⁶ Health, Safety, Environment

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

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

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

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

1.4 Risks

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

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

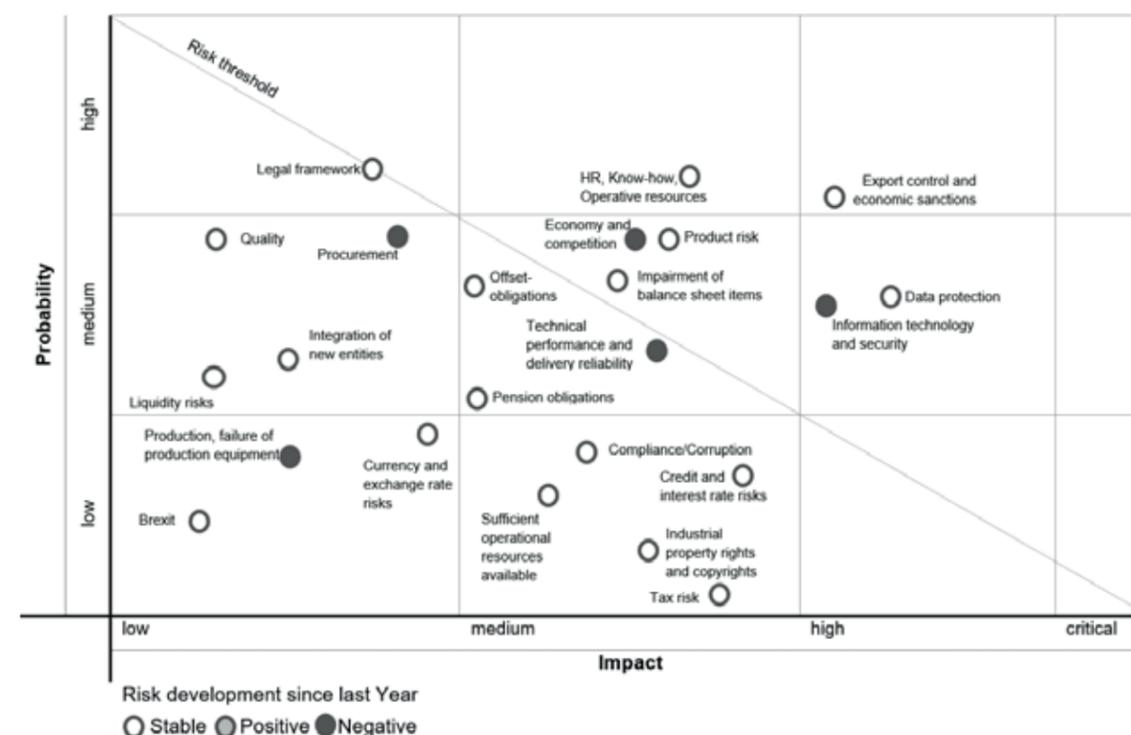
Operative risks result from operational activities in particular in the context of HENSOLDT's project business. HENSOLDT has defined further sub-categories of operative risks; these are project specific. At HENSOLDT, sustainability risks are managed with their impact on the planet and society in the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

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

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

Functional risks

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



Risks related to strategy

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

To anticipate and mitigate the negative consequences of such circumstances, a strategy workshop is held annually. The aim is to identify growth areas and to recognize relevant influencing factors as well as resulting risks at an early stage through a comprehensive PESTEL analysis¹⁷ and to counter these with adequate measures.

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

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

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

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

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

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

Risks related to compliance

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

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

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

Data protection risks

HENSOLDT has a data protection management system across the Group, which is particularly intended to ensure a uniform level of data protection while taking into account the General Data Protection Regulation (GDPR) introduced by the EU. The goal is to enable a sustainable data-based business model as well as to ensure a responsible treatment of data in the interest of customers and employees. A variety of measures are fundamentally developed and implemented

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

Operative risks

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

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

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

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

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

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

For both segments, the procurement of raw materials, components and other modules is exposed to risks regarding delivery shortfalls or delays, supply bottlenecks, quality issues and price increases. A variety of different materials at low

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

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

Financial risks

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

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

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

Currency and exchange rate risks

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

Credit and interest rate risks

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

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

financing partners are authorized to terminate the syndicated loan. There are no indications that the covenant cannot be fully complied with in the foreseeable future.

Liquidity risks

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

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

Risks related to pension plans

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

Asset impairment risks

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

Tax risks

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

COVID-19

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

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

1.5 Overall risk assessment

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

2 Opportunity report

2.1 Opportunities

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

Functional opportunities

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

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

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

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

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

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

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

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

Operative opportunities

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

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

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

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

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

2.2 Overall opportunity assessment

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

V Non-financial group statement

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

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

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

VI Remuneration report

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

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

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

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

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

1.1 Composition of the Management Board in the fiscal year 2021

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

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

1.2 Overview of the remuneration system

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

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

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

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

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

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

Fixed remuneration components

The members of the Management Board receive a fixed annual base salary for their services and fringe benefits from the Company. These mainly comprise a company car, employer contributions to private and statutory health insurance, continued payment of wages in the event of incapacity for work due to illness or death, preventive health checks at the company's expense, a group accident insurance, a term life insurance, reimbursement of home travel expenses¹⁸, and a housing cost subsidy for a secondary residence¹⁹ as well as security expenses, e.g. for constructional measures at private apartments to protect the members of the Management Board. Fringe benefits are restricted to a maximum amount specified by the Supervisory Board for the fiscal year.

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

STI annual bonus

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

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

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

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

* If the respective target value for an STI bonus component is not reached, the respective bonus component is reduced on a straight-line basis in the ratio 1:5. If one target value for an STI bonus component is exceeded, the respective bonus component increases on a straight-line basis in the ratio 1:2.5.

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

LTI bonus

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

At the beginning of the respective four-year evaluation period of an LTI bonus tranche, the Supervisory Board shall determine at its reasonable discretion the terms and conditions for each LTI bonus component and the corresponding target values of the relevant bonus tranche. The LTI bonus is measured according to the following LTI bonus components: (i) 40.0% based on the relative Total Shareholder Return²⁰ (TSR) of the company compared to the MDAX, (ii) 30.0 % based on the order intake of the HENSOLDT Group, and (iii) 15.0 % each based on two ESG targets ("Diversity" and "Climate Impact"). In addition, the LTI bonus is linked to the development of the share price during the performance period (Performance Share Plan). At the end of the respective measurement period, an overall target achievement level is determined for the performance targets set by the Supervisory Board before the start of the performance period. The target achievement for each of the LTI bonus components and the total target achievement resulting from the individual target achievement values can amount to a maximum of 150.0 %. The LTI bonus is payable when the Supervisory Board determines that the target values have been achieved.

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

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

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

¹⁸ This only concerns the Management Board member Axel Salzmänn.

¹⁹ This concerns the Management Board members Axel Salzmänn and Celia Pelaz.

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

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

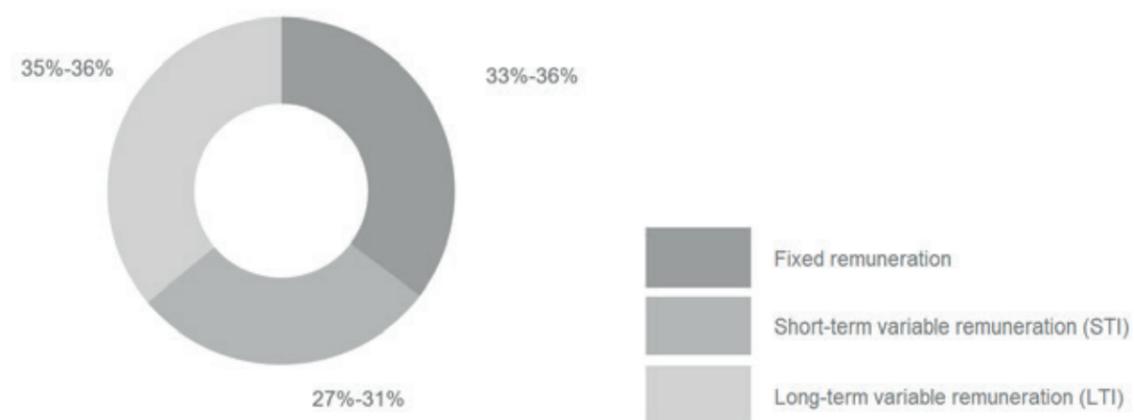
* If the respective target value for an LTI bonus component is not reached, the respective bonus component is reduced on a straight-line basis in the ratio 1:5. If one target value for an LTI bonus component is exceeded, the respective bonus component increases on a straight-line basis in the ratio 1:2.5.

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

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

Relationship of the remuneration components to each other

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



Clawback

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

Maximum remuneration

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

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

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

Share retention program

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

Benefits in the event of premature termination of employment

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

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

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

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

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

Fixed remuneration components

Application in the fiscal year

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

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

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

Contribution to the long-term development of the HENSOLDT Group

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

STI annual bonus

Application in the fiscal year

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

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

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

* Management Board member since July 1, 2021

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

Contribution to the long-term development of the HENSOLDT Group

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

LTI bonus

Application in the fiscal year

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

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

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

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

Contribution to the long-term development of the HENSOLDT Group

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

Share retention program

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

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

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

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

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

* Management Board member since July 1, 2021

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

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

Other information on the remuneration

Review of the maximum amount of remuneration (maximum remuneration)

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

Granted or promised shares and share options

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

Retention (malus) and clawback

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

Deviations from the remuneration system applicable to the Management Board

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

Benefits promised or granted by a third party

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

Commitments in connection with contract terminations

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

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

Pension benefits

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

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

* including past service cost

** Management Board member since July 1, 2021

1.4 Benefits to former members of the Management Board

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

2 Remuneration of the members of the Supervisory Board

2.1 Remuneration system for the members of the Supervisory Board

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

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

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

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

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

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

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

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

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

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

* Representative of the employees

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

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

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

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

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

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

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

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

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

For the presentation of the average remuneration of the employees, the gross taxable amount for employees covered by collective agreements and non-tariff employees on the basis of full-time equivalence (without apprentices, trainees,

etc.) is used, insofar as it exceeds € 4,000 per year. This is based on the workforce of HENSOLDT AG and the following German subsidiaries of HENSOLDT AG: HENSOLDT Optronics GmbH, HENSOLDT Holding Germany GmbH and HENSOLDT Sensors GmbH.

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

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

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

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

** Member of the Supervisory Board has waived his remuneration

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

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

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

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

VII Takeover-relevant information and explanatory report

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

1 Composition of share capital

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

2 Restrictions on voting rights or transfer of shares

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

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

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

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

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

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

3 Shareholdings exceeding 10.0 % of the voting rights

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

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

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

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

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

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

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

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

4 Shares with special rights of control

Shares with special rights of control do not exist.

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

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

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

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

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

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

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

7 Authority of the Management Board to issue or repurchase shares

7.1 Conditional capital

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

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

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

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

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

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

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

or conversion obligations, in particular in the case of the acquisition of companies, parts of companies, equity interests in companies or other assets, including rights and receivables, or in connection with business combinations.

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

7.2 Authorized capital

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

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

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

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

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

7.3 Share buyback

By resolution of the general meeting on August 18, 2020, the Management Board was also authorized until August 11, 2025, to acquire treasury shares of the Company up to a total of 10.0 % of the Company's share capital existing at the time the resolution is adopted or – if one of these values is lower – at the time this authorization becomes effective or at the time this authorization is exercised. The authorization may be exercised, in each case individually or

jointly, by the Company or also by subordinated Group companies of the Company or by third parties for the account of the Company or its subordinated Group companies. The authorization to acquire and use treasury shares may be exercised in full or in part, once or several times.

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

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

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

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

- The Management Board is authorized to offer for purchase the treasury shares acquired on the basis of the authorization granted by the general meeting on August 18, 2020, to persons who are or were employed by the Company or one of its affiliated companies (employee shares).

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

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

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

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

On September 7, 2020, HENSOLDT AG, as borrower, entered into a Senior Facilities Agreement ("SFA") with a number of lenders in the amount of € 950 million. In the agreement dated November 2, 2021, the SFA was increased by € 40 million to a total of € 990 million. This credit agreement contains a so-called "change of control" clause, which is triggered if a person other 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. It also includes the Declaration of conformity pursuant to section 161 AktG.

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

1 Fundamentals

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

2 Declaration of conformity pursuant to section 161 AktG

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

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

Taufkirchen, March 8/11, 2022

HENSOLDT AG

Management Board

Supervisory Board"

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

3 Remuneration of Management Board and Supervisory Board

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

report and the note for the remuneration report will be kept publicly available in accordance with the statutory regulations.

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

4 Disclosures on corporate governance practices

4.1 Principles

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

4.2 Suggestions of the Code

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

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

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

4.3 Standards of Business Conduct

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

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

4.4 Compliance

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

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

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

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

4.5 Risk and control management

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

4.6 Sustainability

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

4.7 Shareholders and general meeting

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

as of the members of the Management Board and enables shareholders to be represented by proxies designated by the Company when exercising their voting rights.

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

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

4.8 Management Board and Supervisory Board shareholdings

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

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

4.9 Corporate Communication and transparency

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

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

5 Working methods of Management Board and Supervisory Board

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

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

5.1 Management Board of HENSOLDT AG

Working methods of the Management Board

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

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

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

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

Composition of the Management Board

Pursuant to section 6 (1) of the articles of association, the Management Board of HENSOLDT AG consists of at least two persons. In the reporting period until June 30, 2021, the Management Board comprised three members: Thomas Müller as Chairman (CEO), Axel Salzmann as CFO and Peter Fieser as CHRO. By resolution of the Supervisory Board

of March 19, 2021, Celia Pelaz was appointed as the fourth member of the Management Board (CStO) with effect from July 1, 2021.

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

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

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

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

5.2 Supervisory Board of HENSOLDT AG

Working methods of the Supervisory Board

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

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

HENSOLDT considers the regular review of the effectiveness of the Supervisory Board's work in accordance with recommendation D.13 of the Code as an important component of good corporate governance. In October and November 2021, the Supervisory Board conducted a self-assessment for the first time. The members of the Supervisory Board had the opportunity to evaluate the efficiency of the work of the Supervisory Board and its committees by means of a questionnaire. In addition, a survey of the competences of the Supervisory Board members was carried out to review the competence profile. The results of this stocktaking were discussed and debated at the Supervisory Board

meeting on December 14, 2021. In the context of the self-assessment, the Supervisory Board members determined that the evaluation of the self-assessment carried out by the Supervisory Board members resulted in a balanced distribution of competences. Changes to the competency profile were not considered necessary or appropriate at the present time. With regard to the organization of the Supervisory Board meetings, the Supervisory Board members expressed their hope that an improvement of the pandemic situation in 2022 would allow the meetings to be held as face-to-face meetings again. It was also noted that the Supervisory Board will continue to keep an eye on the issue of sustainability in particular.

In principle, members of the Supervisory Board take responsibility for the training and continuing education measures required for their duties. If necessary, they are supported by HENSOLDT to an appropriate extent. In the past fiscal year, the members of the Supervisory Board received further training according to their individual needs on the topics of risk management and accounting as well as the role and function of the Supervisory Board and practical reflection. To support the Supervisory Board in the induction of any new members, an induction process has been established in which the members of the Supervisory Board are familiarized with the main characteristics of HENSOLDT and its business activities as well as the legal requirements and internal processes relevant to their work on the Supervisory Board.

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

Composition of the Supervisory Board

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

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

<p>Johannes P. Huth</p> <p>Chairman of the Supervisory Board Partner at KKR and Head of KKR EMEA</p> <p>Born 1960</p>	<p>Member of the Supervisory Board since 2017</p> <p>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 Axel Springer SE <p>Memberships in other comparable German 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>
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<p>Armin Maier-Junker</p> <p>Vice Chairman of the 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</p> <p>Born 1962</p>	<p>Member of the Supervisory Board since 2017</p> <p>Appointed by the court as a member of the Supervisory Board of HENSOLDT GmbH in June 2020. Elected by employees during supervisory board elections in May 2021.</p> <p>Appointed until 2026</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* <p>Memberships in other comparable German and foreign control bodies of commercial enterprises</p> <ul style="list-style-type: none"> None <p>Employee representative</p>
<p>Dr. Jürgen Bestle</p> <p>Head of Engineering Governance in HENSOLDT AG and head of the Design Organization in HENSOLDT Sensors GmbH</p> <p>Born 1966</p>	<p>Member of the Supervisory Board since 2021</p> <p>Elected by employees during supervisory board elections in May 2021.</p> <p>Appointed until 2026</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 September 1, 2021 <p>Member of the Supervisory Board in other comparable German 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</p> <p>Born 1969</p>	<p>Member of the Supervisory Board since 2017</p> <p>Appointed by the court as a member of the Supervisory Board of HENSOLDT GmbH in June 2020. Elected by employees during supervisory board elections in May 2021.</p> <p>Appointed until 2026</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 Members of the Supervisory Board of Airbus Defence & Space GmbH <p>Memberships in other comparable German 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</p> <p>Born 1966</p>	<p>Member of the Supervisory Board since: 2020</p> <p>Appointed by the court as a member of the Supervisory Board of HENSOLDT GmbH in June 2020.</p> <p>Retired from the Board on May 18, 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 February 15, 2020. Retired from the Board on August 31, 2021. <p>Memberships in other comparable German and foreign control bodies of commercial enterprises</p> <ul style="list-style-type: none"> None <p>Employee representative</p>
<p>Achim Gruber</p> <p>Chairman of the Works Council of HENSOLDT Optronics GmbH in Oberkochen</p> <p>Born 1963</p>	<p>Member of the Supervisory Board since 2021</p> <p>Elected by employees during supervisory board elections in May 2021.</p> <p>Appointed until 2026</p> <p>Memberships in other statutory supervisory boards in Germany</p> <ul style="list-style-type: none"> None <p>Memberships in other comparable German 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</p> <p>Born 1946</p>	<p>Member of the Supervisory Board since 2017</p> <p>Appointed until 2025</p> <p>Memberships in other statutory supervisory boards in Germany</p> <ul style="list-style-type: none"> None <p>Memberships in other comparable German 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</p> <p>Born 1966</p>	<p>Member of the Supervisory Board since 2017</p> <p>Appointed until 2025</p> <p>Memberships in other statutory supervisory boards in Germany</p> <ul style="list-style-type: none"> None <p>Memberships in other comparable German 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. Member of the Advisory Board of Wegmann Group <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</p> <p>Born 1978</p>	<p>Member of the Supervisory Board since 2020</p> <p>Appointed by the court as a member of the Supervisory Board of HENSOLDT GmbH in June 2020. Elected by employees during supervisory board elections in May 2021.</p> <p>Appointed until 2026</p> <p>Memberships in other statutory supervisory boards in Germany</p> <ul style="list-style-type: none"> None <p>Memberships in other comparable German 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.</p> <p>Born 1977</p>	<p>Member of the Supervisory Board since 2017</p> <p>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 ETL AG Steuerberatungsgesellschaft Member of the Supervisory Board of Rainbow UK BidCo Limited <p>Memberships in other comparable German 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-Planning</p> <p>Born 1958</p>	<p>Member of the Supervisory Board since 2017</p> <p>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 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 German 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</p> <p>Born 1987</p>	<p>Member of the Supervisory Board since 2019</p> <p>Appointed by the court as a member of the Supervisory Board of HENSOLDT GmbH in June 2020. Elected by employees during supervisory board elections in May 2021.</p> <p>Appointed until 2026</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 January 15, 2019 <p>Memberships in other comparable German 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</p> <p>Born 1988</p>	<p>Member of the Supervisory Board since 2020</p> <p>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 LEONINE Licensing AG <p>Memberships in other comparable German 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>
<p>Ingo Zeeh</p> <p>Member of the Works Council of HENSOLDT Optronics GmbH in Oberkochen and state certified engineer specialising in mechanical engineering and team manager in the field of integration and service of ground systems of HENSOLDT Optronics GmbH</p> <p>Born 1983</p>	<p>Member of the Supervisory Board since 2021</p> <p>Appointed by court in January 2021 to the end of the employee elections which were held in May 2021</p> <p>Retired from the Board on May 18, 2021.</p> <p>Memberships in other statutory supervisory boards in Germany</p> <ul style="list-style-type: none"> None <p>Memberships in other comparable German and foreign control bodies of commercial enterprises</p> <ul style="list-style-type: none"> None <p>Employee representative</p>

The time of initial appointment mentioned above is disclosed on the basis of the first appointment to the Supervisory Board of the HENSOLDT Holding GmbH respectively HENSOLDT GmbH, which means before the change of the legal form of the company into a public limited company (AG) as of August 17, 2020. The following changes occurred in the composition of the Supervisory Board during the fiscal year: Mr. Winfried Fetzer retired from the Supervisory Board with effect on December 31, 2020. In his place, Mr. Ingo Zeeh was appointed to the Supervisory Board by resolution of the register court on January 12, 2021. Elections of employee representatives to the Supervisory Board were held from May 17 to 19, 2021. Mr. Dr. Frank Döngi and Mr. Ingo Zeeh were not re-elected. Mr. Dr. Jürgen Bestle and Mr. Achim Gruber were newly elected as employee representatives. Mr. Armin Maier-Junker, Mrs. Marion Koch, Mr. Jürgen Bühl and Mrs. Julia Wahl were re-elected to the Supervisory Board as employee representatives.

According to the competence profile drawn up by the Supervisory Board, in view of the areas of activity of HENSOLDT Group, the essential competences of the Supervisory Board members include knowledge, experience or skills in the following areas: Industry, markets and regions in which HENSOLDT AG operates, accounting and auditing, corporate governance, compliance and regulatory requirements, capital market and risk management. At least one member of the Supervisory Board should have in-depth experience and knowledge in the management of an international company, in the area of digitalization and information technology, in the area of human resources

management and recruitment, in accounting and financial reporting, in controlling / risk management as well as in the area of corporate governance and compliance, including the regulatory requirements relevant to HENSOLDT. In addition, the Supervisory Board shall have knowledge and experience in the area of international security policy. Besides the appropriate representation of all gender identities and age groups, proposals for elections to the Supervisory Board will also take into account different educational and professional backgrounds and the most diverse possible cultural and regional origins of the members of the Supervisory Board.

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

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

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

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

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

Prevention of conflicts of interest and independence

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

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

The right of delegation of the Federal Republic of Germany provided for in section 8 (2) sentence 3 of the articles of association, which it can exercise jointly with Square Lux (for as long as Square Lux is a shareholder of the company), and the sole right of delegation of the Federal Republic of Germany provided for in section 8 (2) sentence 5 of the articles of association for a further member of the Supervisory Board have not been exercised to date. Moreover, this

does not generally affect the independence of a Supervisory Board member, according to the assessment of the Supervisory Board. On the one hand, the articles of association stipulate that such a Supervisory Board member who was delegated pursuant to section 8 (2) sentence 3 of the articles of association, may not be a civil servant or employee of the Federal Republic of Germany, another regional authority or an institution under public law. On the other hand, in the opinion of the Supervisory Board, the Federal Republic of Germany is not a controlling shareholder in line with the meaning of recommendation C.9 of the Code, as no control agreement has been concluded with the Federal Republic of Germany, nor does the Federal Republic of Germany hold an absolute majority of votes or any other sustainable majority at the general meeting.

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

5.3 Committees of the Supervisory Board

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

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

Executive Committee

The Executive Committee is composed of the Chairman of the Supervisory Board, his deputy and one further member from both the employee and shareholder sides. In the reporting period, Johannes P. Huth (chairman), Jürgen Bühl²¹, Prof. Wolfgang Ischinger and Armin Maier-Junker²¹ were members of the committee. The Executive Committee prepares proposals to the Supervisory Board for the appointment and dismissal of Management Board members and the extension of their mandates, the handling of service contracts with Management Board members, Management Board succession planning, and corporate governance issues. The Executive Committee is responsible for concluding, amending, extending and terminating service contracts with the members of the Management Board within the framework of the remuneration system determined by the Supervisory Board in a plenary session and the general meeting and within the targets set by the Supervisory Board in a plenary session for the variable remuneration of the individual Management Board members. In addition, the Executive Committee makes proposals to the Supervisory Board for resolutions on existing or anticipated conflicts of interest of members of the Management Board. Furthermore, the Executive Committee makes proposals for the approval of other contracts and transactions between the Company or a subsidiary of the Company on the one hand and a member of the Management Board or persons or companies related to a member of the Management Board on the other hand, unless the Committee for Related Party Transactions is responsible.

Audit Committee

The Audit Committee is composed of two shareholder representatives and two employee representatives. In the reporting period, Ingrid Jägering (Chairwoman), Marion Koch²¹, Christian Ollig and Julia Wahl²¹ belonged to the committee. The Chairwoman of the Audit Committee, Ingrid Jägering, is independent in the assessment of the Supervisory Board. She has not been a member of the Management Board of HENSOLDT AG in the past, nor does she have any other personal or business relationship with HENSOLDT AG or its institutions, which could constitute a material and not only temporary conflict of interest. She is not simultaneously Chairwoman of the Supervisory Board and has expertise in the fields of accounting and auditing. HENSOLDT AG thus meets the requirements of section 100 (5) AktG in conjunction with section 107 (4) sentence 3 AktG in the audit committee already now.

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

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

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

Conciliation Committee

The Conciliation Committee consists of the chairman of the Supervisory Board as chairman of the committee, his deputy elected in accordance with the German Codetermination Act, and one additional representative for each shareholders and employees. In the reporting period, Johannes P. Huth (Chairman), Jürgen Bühl²¹, Armin Maier-Junker²¹ and Christian Ollig were members of the Committee. In the cases set out in section 31 (3) and (5) MitbestG, the Conciliation Committee shall submit proposals to the Supervisory Board for the appointment or withdrawal of the appointment of members of the Management Board.

Compliance Committee

The Compliance Committee is composed of two shareholder representatives and two employee representatives. During the reporting period, the members of the Committee were Prof. Dr. Burkhard Schwenker (Chairman), Christian Ollig, Dr. Frank Doengi²¹ (until May 18, 2021), Ingo Zeeh²¹ (until May 18, 2021), Dr. Jürgen Bestle²¹ (from May 19, 2021) and Achim Gruber²¹ (from May 19, 2021) The Compliance Committee's task is to monitor the Company's compliance with legal provisions, official regulations and internal Company policies relating to anti-corruption, antitrust (competition law), data protection and export control.

Related Party Transactions Committee

The Related Party Transactions Committee shall be composed of two shareholder representatives and two employee representatives, taking into account that the majority of the Committee shall be composed of members for which no concern of a conflict of interest exists due to their relationship with a related party. In the reporting period, Prof. Dr. Burkhard Schwenker (Chairman), Jürgen Bühl²¹, Prof. Wolfgang Ischinger and Armin Maier-Junker²¹ were members of the Committee. Task of the Related Party Transactions Committee is to monitor the Company's internal procedure for

²¹ Employee representative

the ordinary course of business and the arm's length nature of related party transactions within the meaning of section 111a (1) AktG. Furthermore, the Committee is responsible for the approval of related party transactions in accordance with section 111b AktG. For such transactions, the decision-making authority of the committee takes precedence over the decision-making authority of other committees.

Nomination Committee

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

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

Representation of women in the Supervisory Board

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

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

Representation of women in the Management Board of HENSOLDT AG

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

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

Determination for the two management levels below the Management Board

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

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

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

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

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

IX Final declaration on the dependency report

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

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

X HENSOLDT AG

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

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

1 Result of operations of HENSOLDT AG

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

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

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

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

2 Asset and financial position of HENSOLDT AG

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

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

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

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

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

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

3 Opportunities and risks

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

the service business as well as the ability of the HENSOLDT Group and thus the Group companies to act as the innovation leader in their industry.

4 Forecast

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

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

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