

HENSOLDT

financials

Semi-annual financial report for the
First Half Year 2021

This report is also available in German. In case of discrepancies, the German language document is the sole authoritative and universally valid version.

A Interim Group Management Report

1 Business development

In recent months we continued to monitor the situation around the Coronavirus SARS-CoV-2 ('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 business. The COVID-19 pandemic has still not significantly influenced the business of HENSOLDT Group ('HENSOLDT' or 'the Group') 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 reduced by €150.0 million in the first half year of 2021.

In April 2021 LEONARDO S.p.A., Italy, announced that it has entered into a definitive agreement with Square Lux Holding II S.à r.l. ('Square Lux'), a portfolio company controlled by funds advised by Kohlberg Kravis & Roberts & Co. L.P., to purchase a 25.1 % stake in HENSOLDT AG. In May 2021 Kreditanstalt für Wiederaufbau ('KfW'), executing the acquisition rights of the Federal Republic of Germany ('Federal Government'), acquired 25.1 % of HENSOLDT AG's shares from Square Lux.

In May 2021 HENSOLDT AG had its first annual general meeting. Due to the pandemic the meeting was held virtually. Following the decisions of the annual general meeting a total amount of €13.65 million was distributed as dividend to the shareholders of HENSOLDT AG.

With effect as of June 2021 HENSOLDT switched the consolidation method of HENSOLDT Cyber GmbH, Taufkirchen, ('HENSOLDT Cyber') from at-equity to full consolidation due to potential voting rights in connection with conversion rights attached to loans granted to HENSOLDT Cyber. In addition HENSOLDT closed two minor but strategic acquisitions in the first half year 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. Ms. Pelaz serves as Chief Strategy Officer and continues to lead the Spectrum Dominance & Airborne Solutions division as well as HENSOLDT Ventures.

A significant volume of our annual revenue for both reporting segments Sensors and Optronics is typically recorded in the last months of the year due to the timing of many budgetary decisions by our governmental customers. The first half of our financial year, particularly the first quarter, is characterized by a reduction of trade receivables and corresponding cash inflows due to customer payments, a reduction of trade payables and corresponding cash outflows as well as an increase in work in progress accounted for under inventories.

Overall, HENSOLDT's operating business in the first half year 2021 was marked by continued positive development. HENSOLDT has been able to secure a number of orders, most notably for the development and delivery of the airborne electronic signals intelligence system 'PEGASUS' for a contract value of €1.25 billion and large orders relating to procurement of additional Eurofighters by the German Air Force ('Eurofighter Quadriga') in the Sensors segment as well as for observation and reconnaissance platforms in the Optronics segment. Revenue increased by 10.4 % (€486.2 million; PY: €440.3 million). Ramp-up of key programs develops as expected. Adjusted EBITDA increased (€44.1 million; PY: €41.3 million) as lower project margins for higher pass-through revenue and increased functional costs were overcompensated by the increased volume and higher other operating income.

2 Conditions in the defence and security sector

The COVID-19 pandemic magnified existing security trends and tensions and made the security environment more unpredictable. The security threats and challenges that led to the adoption of the NATO Defence Investment Pledge have not subsided with the pandemic. The year 2020 marked the sixth consecutive year of growth in defence spending by European NATO-Allies and Canada.

In Germany the national defence budget for the year 2022 was increased by approximately €3.5 billion in the latest Federal Government's budget draft in June 2021 and will for the first time exceed the mark of €50 billion. The increase includes €1.2 billion out of the economic stimulus package 2020. One driver of the budget increase is the financing of essential procurement programs like the French-German-Spanish Future Combat Air System ('FCAS') and Norwegian-German cooperation programs (submarines and Naval Strike Missile). For the FCAS project the German Budget Committee approved a further government agreement and supplementary contracts worth around €4.4 billion by 2027, which paves the way for the continuation of the armaments cooperation with France and Spain in autumn 2021. HENSOLDT as consortium leader, together with Diehl Defence, ESG and Rohde & Schwarz, is part of the Future Combat Mission System ('FCMS') consortium, which has assumed joint responsibility for the networked use of sensors and effectors in the FCAS project. The budget committee of the German Bundestag cleared a budget of roughly €19 billion for 27 new defence procurement programs each valued over €25 million in June 2021, including PEGASUS. However, the COVID-19 pandemic might have negative effects on defence budgets in the upcoming years. The latest government budget drafts see a slight decrease of the German defence budget after 2022.

The European Defence Fund ('EDF') was officially launched in June 2021. The size of the EDF is approximately €8 billion and was determined during negotiations for the EU's Multi-annual Financial Framework ('MFF') from 2021 to 2027. The decision to fund defence research and capability development programs from the EU budget is an important step that contributes to the growing role of the EU in the field of defence and to boost innovative and disruptive technologies. In the EDF program, consortia consisting of at least three entities from at least three EU member states and Norway can apply for and receive funding from the EDF.

Because of the changing security environment and growing instability, worldwide defence investments increased in the last years. EU and NATO countries are seeking further cooperation in defence matters with a broad range of partner nations, especially regarding the Indo-Pacific region due to the competition with China. The transatlantic relationship between EU and the USA is also being re-established. Although the COVID-19 pandemic might affect national budgets, the focus and priority on defence remains high. Many countries see defence investment as an additional stimulus for economic recovery post COVID-19. Overall, multifaceted business opportunities for HENSOLDT worldwide and especially in its EU home countries result from the conditions in the defence and security sector.

3 Results of operations

Order intake, revenue and order backlog by segment

in € million	Order intake			Revenue			Order backlog		
	First half year			First half year			Jun. 30,	Dec. 31,	
	2021	2020	% Change	2021	2020	% Change	2021	2020	% Change
Sensors	1,904.7	1,654.6	15.1%	375.7	343.5	9.4%	4,324.2	2,825.5	53.0%
Optronics	209.6	122.0	71.8%	111.3	97.7	13.9%	703.0	600.0	17.2%
Elimination/Transversal/ Others	-2.7	-1.1		-0.8	-0.9		-3.3	-1.5	
HENSOLDT	2,111.6	1,775.6	18.9%	486.2	440.3	10.4%	5,023.9	3,424.0	46.7%

Order intake

- Sensors: Further growth compared to the very successful previous year mainly related to the orders for the PEGASUS airborne electronic signals intelligence system and Eurofighter Quadriga in the division Spectrum Dominance & Airborne Solutions. Division Radar & Naval Solutions benefits from further contracts with regard to the Eurofighter Quadriga program as well. Previous year included the orders for the Eurofighter Common Radar System Mk1.
- Optronics: Higher order intake particularly driven by the product line Ground Based Systems. Increases also for the product lines Naval and High Performance Optics as well as for the South African entity.

Revenue

- Sensors: Overall growth mainly related to Eurofighter radars in the division Radar & Naval Solutions. The divisions Spectrum Dominance & Airborne Solutions and Customer Services & Space Solutions trade on a comparable level as previous year.
- Optronics: Significant increase mainly driven by Ground Based Systems partly offset by decrease in High Performance Optics due to a product transition.

Order backlog

- Sensors: Further growth compared to the year-end 2020 mainly driven by the order intake in the divisions Spectrum Dominance & Airborne Solutions and Radar & Naval Solutions.
- Optronics: Further increase resulted primarily from the order intake in the product lines Ground Based Systems and Naval as well as in the South African entity.

Income

in € million	Profit			Profit margin	
	First half year			First half year	
	2021	2020	% Change	2021	2020
Sensors	35.7	32.8	8.8%	9.5%	9.5%
Optronics	10.7	10.3	3.9%	9.6%	10.5%
Elimination/Transversal/Others	-2.3	-1.8			
Adjusted EBITDA	44.1	41.3	6.8%	9.1%	10.0%
Depreciation and amortization	-60.1	-57.7	-4.2%		
Non-recurring effects	-5.9	-12.9	54.3%		
Earnings before finance result and income taxes (EBIT)	-21.9	-29.3	25.3%	-4.5%	-6.7%
Finance result	-16.3	-87.9	81.5%		
Income taxes	9.7	28.3	-65.7%		
Group result	-28.5	-88.9	67.9%	-5.9%	-20.2%
Earnings per share (in €; basic/diluted)	-0.26	-1.11	76.6%		

Adjusted EBITDA

- Sensors: Lower project margins for higher pass-through revenue as well as higher research and development and functional costs were overcompensated by volume effects and higher other operating income.
- Optronics: Increase in volume and reduced research and development costs were partly offset by project mix effects and higher functional costs.

Earnings before finance result and income taxes (EBIT)

- Depreciation and amortization: Increase due to higher depreciation of property, plant & equipment and right-of-use assets. Amortization of intangible assets stable as lower amortization of acquired intangible assets was offset by higher amortization of capitalized development costs.
- Non-recurring effects¹: Decrease mainly due to lower other non-recurring effects in general administrative expenses in connection with the preparation of the initial public offering (IPO) of HENSOLDT AG in the previous year.

Group result

- Finance result: Decreased expenses 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 the reporting period no such effects were recognized due to restructured financial liabilities in connection with the IPO.
- Income taxes: Decrease mainly due to lower deferred tax income primarily related to the revaluation of the embedded derivative in the former Term Loan agreement in the first half year of 2020.

Earnings per share

- Earnings per share ('EPS') improved from €-1.11² to €-0.26 compared to prior half year, mainly caused by the improvement of the finance result.

¹ Defined as transaction costs, separation costs and other non-recurring effects.

² Calculated based on the amount of shares at the time of transformation of the legal form of HENSOLDT AG.

4 Assets, liabilities and financial position

Assets and capital structure

	Jun. 30,	Dec. 31,	
in € million	2021	2020	% Change
Non-current assets	1,339.5	1,313.4	2.0%
<i>therein: Goodwill</i>	651.9	637.2	2.3%
Current assets	1,361.7	1,634.2	-16.7%
<i>therein: Inventories</i>	501.3	403.7	24.2%
<i>therein: Trade receivables</i>	242.1	282.0	-14.1%
<i>therein: Other current assets</i>	131.7	78.7	67.3%
<i>therein: Cash and cash equivalents</i>	281.8	645.5	-56.3%
Total assets	2,701.2	2,947.6	-8.4%
Equity	345.0	346.8	-0.5%
<i>therein: Capital reserve</i>	583.2	596.8	-2.3%
<i>therein: Other reserves</i>	-45.7	-86.3	47.0%
<i>therein: Retained earnings</i>	-308.7	-281.6	-9.6%
Non-current liabilities	1,235.2	1,257.1	-1.7%
<i>therein: Non-current provisions</i>	454.4	482.6	-5.8%
Current liabilities	1,121.0	1,343.7	-16.6%
<i>therein: Current provisions</i>	161.9	193.6	-16.4%
<i>therein: Current financing liabilities</i>	213.9	363.3	-41.1%
<i>therein: Current contract liabilities</i>	449.4	416.8	7.8%
<i>therein: Trade payables</i>	188.1	164.0	14.7%
<i>therein: Other current financial liabilities</i>	6.0	97.8	-93.9%
Total equity and liabilities	2,701.2	2,947.6	-8.4%

Total assets

- Non-current assets: Increase largely related to goodwill recognized for the full consolidation of HENSOLDT Cyber and net increase in intangible assets.
- Current assets: Decrease resulted primarily from the reduction of cash and cash equivalents driven by the partial repayment of the revolving credit facility. This effect was partly compensated by higher current other assets mainly due to higher advance payments made. Following the usual seasonality pattern inventories increased while trade receivables decreased in the first half year of 2021.

Total equity and liabilities

- Equity: Slight decrease due to the net loss of the reporting period and the decrease in capital reserve as a result of the dividend payment nearly offset by higher other reserves primarily resulting from the valuation of pension obligations.
- Non-current liabilities: Decrease driven by the reduction of non-current provisions mainly related to the decrease in pension provisions due to higher interest rates.
- Current liabilities: Decrease primarily related to the partial repayment of the revolving credit facility as well as the reduction of other current financial liabilities. The latter position is determined by scheduled forwarding of payments to a factoring company. This relates to payments received for factoring contracts as of December 31, 2020, that were not yet due for forwarding them to the factor. Current provisions mainly decreased as a result of decreased personnel related provisions due to seasonal patterns and several other movements of project related provisions

within the usual project lifecycles. These decreases were partly offset by higher current contract liabilities largely driven by higher advance payments received as well as an increase in trade payables.

Financial position

in € million	2021	First half year	
		2020	Change
Cash flows from operating activities	-38.7	41.9	-80.6
Cash flows from investing activities	-61.1	-48.8	-12.3
Free cash flow	-99.8	-6.9	-92.9
Non-recurring effects	8.4	12.2	-3.8
Interest, income taxes and M&A activities	34.1	20.9	13.2
Adjusted pre-tax unlevered free cash flow	-57.3	26.2	-83.5
Cash flows from financing activities	-263.9	196.8	-460.7

Free cash flow

- Cash flows from operating activities: Decrease mainly driven by higher buildup of inventories, increasing other assets primarily related to higher advance payments made and lower reduction of trade receivables compared to the previous period. These effects were partly offset by higher contract liabilities as well as an increase in trade payables compared to a decrease in the prior year.
- Cash flows from investing activities: Increase of cash outflows primarily as a result from higher payments in connection with M&A activities.

Adjusted pre-tax unlevered free cash flow

- Non-recurring effects³: Decrease mainly due to lower other non-recurring effects in connection with the preparation of the IPO in the previous year as well as the reduction of transaction expenses.
- Interest⁴, income taxes⁵ and M&A activities⁶: Increase mainly related to higher outflows from M&A activities and income taxes partly offset by lower interest payments in the reporting period.

Cash flows from financing activities

- Decrease largely due to the partial repayment of the revolving credit facility, while the net cash inflow in the prior period was determined by its drawing as part of HENSOLDT's COVID-19 mitigation plan. Further cash outflows resulted from scheduled forwarding of payments to the factoring company. This relates to payments received for factoring contracts that were not yet due for forwarding them to the factor as of December 31, 2020. In addition dividend payments are included in this reporting period with no distribution in the prior year.

³ Defined as transaction costs, separation costs and other non-recurring effects.

⁴ Defined as 'Interest paid' (including interest on lease liabilities) as reported in the consolidated statement of cash flows.

⁵ Defined as 'Income tax payments / refunds' as reported in the consolidated statement of cash flows.

⁶ Defined as sum of 'Share of profit in entities recognized for using the equity method', 'Acquisition of associates, other investments and other non-current investments', 'Proceeds from sale of intangible assets and property, plant and equipment', 'Acquisition of businesses net of acquired cash' and 'Other cash flows from investing activities' as reported in the consolidated statement of cash flows.

5 Outlook

The Management Board expects a significant increase in revenue for 2021 and a moderate increase in order intake. The adjusted EBITDA is anticipated to increase significantly in 2021. The outlook is unchanged compared to year-end 2020.

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

6 Opportunities and risks

In HENSOLDT's combined management report for the year ended December 31, 2020, we described the principles of the HENSOLDT risk management system, certain risks which could have an adverse impact on HENSOLDT as well as our most significant opportunities. HENSOLDT's Management Board assesses the overall opportunity and risk situation of the Group as unchanged compared to year-end 2020.

B Condensed Consolidated Interim Financial Statements

1 Consolidated Income Statement

in € million	First half year	
	2021	2020
Revenue	486.2	440.3
Cost of sales	-414.4	-374.8
Gross profit	71.8	65.5
Selling and distribution expenses	-48.9	-42.2
General administrative expenses	-39.0	-37.7
Research and development costs	-15.1	-13.9
Other operating income	18.9	9.7
Other operating expenses	-7.6	-8.9
Share of profit/loss from investments accounted for using the equity method	-2.0	-1.8
Earnings before finance result and income taxes (EBIT)	-21.9	-29.3
Interest income	4.3	2.0
Interest expense	-24.0	-85.4
Other finance income/costs	3.4	-4.5
Finance result	-16.3	-87.9
Earnings before income taxes	-38.2	-117.2
Income taxes	9.7	28.3
Group result	-28.5	-88.9
<i>thereof attributable to the owners of HENSOLDT AG</i>	-27.1	-88.4
<i>thereof attributable to non-controlling interests</i>	-1.4	-0.5
Earnings per share		
Basic and diluted earnings per share (in €)	-0.26	-1.11

2 Consolidated Statement of Comprehensive Income

in € million	First half year	
	2021	2020
Group result	-28.5	-88.9
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Measurement of defined benefit plans	50.7	22.1
Tax on items that will not be reclassified to profit or loss	-14.4	-5.1
Subtotal	36.3	17.0
Items that will be reclassified to profit or loss		
Difference from currency translation of financial statements	4.5	-14.7
Cash flow hedge - unrealized gains/losses	0.3	-1.5
Cash flow hedge - reclassification to profit or loss	-	0.1
Tax effect on unrealized gains/losses	0.3	0.4
Subtotal	5.1	-15.7
Other comprehensive income net of tax	41.4	1.3
Total comprehensive income/loss	12.9	-87.6
<i>thereof attributable to the owners of HENSOLDT AG</i>	<i>13.5</i>	<i>-84.5</i>
<i>thereof attributable to non-controlling interests</i>	<i>-0.6</i>	<i>-3.1</i>

3 Consolidated Statement of Financial Position

ASSETS	Jun. 30,	Dec. 31,
in € million	2021	2020
Non-current assets	1,339.5	1,313.4
Goodwill	651.9	637.2
Intangible assets	393.5	386.2
Property, plant and equipment	103.8	103.1
Right-of-use assets	145.3	143.5
Investments accounted for using the equity method	-	-
Other investments and other non-current financial assets	16.8	11.3
Non-current other financial assets	0.7	1.0
Other non-current assets	3.4	4.8
Deferred tax assets	24.1	26.3
Current assets	1,361.7	1,634.2
Other non-current financial assets, due on short-notice	3.6	11.2
Inventories	501.3	403.7
Contract assets	193.5	204.4
Trade receivables	242.1	282.0
Other current financial assets	7.2	7.1
Other current assets	131.7	78.7
Income tax receivables	0.5	1.6
Cash and cash equivalents	281.8	645.5
Total assets	2,701.2	2,947.6

EQUITY AND LIABILITIES	Jun. 30,	Dec. 31,
in € million	2021	2020
Share capital	105.0	105.0
Capital reserve	583.2	596.8
Other reserves	-45.7	-86.3
Retained earnings	-308.7	-281.6
Equity held by shareholders of HENSOLDT AG	333.8	333.9
Non-controlling interests	11.2	12.9
Equity, total	345.0	346.8
Non-current liabilities	1,235.2	1,257.1
Non-current provisions	454.4	482.6
Non-current financing liabilities	602.8	601.3
Non-current contract liabilities	22.5	16.0
Non-current lease liabilities	142.7	140.3
Other non-current financial liabilities	-	0.2
Other non-current liabilities	6.9	8.9
Deferred tax liabilities	5.9	7.7
Current liabilities	1,121.0	1,343.7
Current provisions	161.9	193.6
Current financing liabilities	213.9	363.3
Current contract liabilities	449.4	416.8
Current lease liabilities	15.4	13.7
Trade payables	188.1	164.0
Other current financial liabilities	6.0	97.8
Other current liabilities	84.4	86.9
Tax liabilities	1.9	7.6
Total equity and liabilities	2,701.2	2,947.6

4 Consolidated Statement of Cash Flow

in € million	First half year	
	2021	2020
Group result	-28.5	-88.9
Depreciation and amortization	60.1	57.7
Allowances on inventories, trade receivables and contract assets	-3.4	-2.4
Share of profit in entities accounted for using the equity method	2.0	1.8
Financial expenses (net)	17.1	83.4
Other non-cash expenses/income	-9.4	-0.2
Change in		
Provisions	-10.7	-8.8
Inventories	-93.2	-33.2
Contract balances	49.2	28.2
Trade receivables	47.5	75.4
Trade payables	25.5	-16.6
Other assets and liabilities	-62.0	-1.7
Interest paid	-18.7	-22.4
Income tax expense (+) / income (-)	-9.7	-28.3
Income tax payments (-) / refunds (+)	-4.5	-2.0
Cash flows from operating activities	-38.7	41.9
Acquisition/addition of intangible assets and property, plant and equipment	-48.2	-50.6
Proceeds from sale of intangible assets and property, plant and equipment	0.1	-
Acquisition of associates, other investments and other non-current investments	-4.6	1.6
Acquisition of businesses net of cash acquired	-8.4	-
Other	-	0.2
Cash flows from investing activities	-61.1	-48.8
Proceeds (+) / repayment (-) from financial liabilities	-149.5	203.5
Change in other financial liabilities	-89.7	-
Payment of lease liabilities	-7.7	-6.7
Dividend payments to shareholders of HENSOLDT AG	-13.7	-
Dividend payments to non controlling interests	-	0.0
Transaction costs on issue of equity	-3.3	-
Cash flows from financing activities	-263.9	196.8
Effects of movements in exchange rates on cash and cash equivalents	-	-3.6
Other adjustments	-	-2.1
Net changes in cash and cash equivalents	-363.7	184.2
Cash and cash equivalents		
Cash and cash equivalents on January 1st	645.5	137.4
Cash and cash equivalents on June 30th	281.8	321.6

5 Consolidated Statement of Changes in Equity

Attributable to the owners of the HENSOLDT AG									
in € million	Share capital	Capital reserve	Retained earnings	Other reserves			Sub-total	Non-controlling interests	Equity
				Remeasurement of pensions	Cash flow hedge	Currency translation			
Jan. 1, 2021	105.0	596.8	-281.6	-66.7	-4.7	-15.0	333.9	12.9	346.8
Group result	-	-	-27.1	-	-	-	-27.1	-1.4	-28.5
Other comprehensive income	-	-	-	36.3	0.5	3.8	40.6	0.8	41.4
Total comprehensive income	-	-	-27.1	36.3	0.5	3.8	13.5	-0.6	12.9
Transactions with non-controlling interests/ Acquisition through business combinations	-	-	-	-	-	-	-	-1.1	-1.1
Dividend payment	-	-13.7	-	-	-	-	-13.7	-	-13.7
Other	-	0.1	-	-	-	-	0.1	-	0.1
Jun. 30, 2021	105.0	583.2	-308.7	-30.4	-4.2	-11.2	333.8	11.2	345.0

Attributable to the owners of the HENSOLDT AG									
in € million	Share capital	Capital reserve	Retained earnings	Other reserves			Sub-total	Non-controlling interests	Equity
				Remeasurement of pensions	Cash flow hedge	Currency translation			
Jan. 1, 2020	10.0	396.7	-215.8	-39.3	-4.1	-6.3	141.2	13.6	154.8
Group result	-	-	-88.4	-	-	-	-88.4	-0.5	-88.9
Other comprehensive income	-	-	-	16.9	-0.9	-12.1	3.9	-2.6	1.3
Total comprehensive income	-	-	-88.4	16.9	-0.9	-12.1	-84.5	-3.1	-87.6
Jun. 30, 2020	10.0	396.7	-304.2	-22.4	-5.0	-18.4	56.7	10.5	67.2

C Notes to the Condensed Consolidated Interim Financial Statements

1 The Company

HENSOLDT is a platform-independent provider of defence and security sensor solutions based in Taufkirchen, Germany.

The Condensed Interim Consolidated Financial Statements of HENSOLDT AG and its subsidiaries include the six-month period ended June 30, 2021.

2 Accounting policies

The Condensed Consolidated Interim Financial Statements for the first half year 2021 were prepared in accordance with IAS 34 and related interpretations issued by the International Accounting Standards Board ('IASB') as endorsed by the European Union ('EU') for interim financial reporting as at June 30, 2021.

The Condensed Consolidated Interim Financial Statements were authorized for issue by the HENSOLDT AG's Management Board on August 3, 2021.

These Condensed Consolidated Interim Financial Statements include all information and disclosures required by the International Financial Reporting Standards ('IFRS') to be presented in Condensed Consolidated Interim Financial Statements and should be read in conjunction with the IFRS Consolidated Financial Statements for the financial year ended December 31, 2020.

The accounting policies applied to the Condensed Consolidated Interim Financial Statements are generally based upon the same accounting policies and same methods of computation used in the consolidated financial statements for the financial year ended December 31, 2020. Exceptions are new or revised Standards required to be applied for the first time in financial year 2021 that, however, have not had a material influence on the Condensed Consolidated Interim Financial Statements.

3 Judgements and estimates

The preparation of the Condensed Interim Consolidated Financial Statements in accordance with IAS 34 requires the management to exercise judgement and make estimates and assumptions that affect the application of accounting policies in the Group and the presentation of assets, liabilities, income and expenses. Actual amounts may differ from these estimates. The results obtained in first half year 2021 are not necessarily an indication of how business will develop in the future.

In the first half year of 2021 HENSOLDT's business and, in particular, the economic environment is still affected by the COVID-19 pandemic, though certain mitigating effects may arise due to the various measures taken by governments or states globally including favorable financial support to the economies.

4 Acquisitions

With effect as of June 2021 HENSOLDT switched the consolidation method of HENSOLDT Cyber from at-equity to full consolidation due to potential voting rights in connection with conversion rights attached to loans granted to HENSOLDT Cyber. Under consideration of the potential voting rights HENSOLDT consolidates 70 % of HENSOLDT Cyber. The

object of the company is the development, production, integration and distribution of solutions in the areas of hardware, software and services.

In the first half year of 2021 two business units (ATM and Defence Division) of Tellumat (Pty) Ltd, South Africa, as well as 100.0 % of the shares in HENSOLDT Analytics GmbH (formerly: SAIL LABS Technology GmbH), Vienna, were acquired. The total preliminary purchase price amounted to €8.4 million. HENSOLDT Analytics GmbH is not consolidated due to materiality.

5 Transactions with related parties

Transactions with related entities

The Company has entered into various transactions with related entities carried out in the normal course of business.

Revenue, other income and other expenses with related entities for the first half year ended June 30, 2021:

in € million	First half year	
	2021	2020
Revenue and other income	46.9	33.7
<i>thereof companies with significant influence</i>	10.4	-
Other expenses	14.3	8.9
<i>thereof companies with control</i>	2.7	-
<i>thereof companies with significant influence</i>	1.2	-

Receivables and liabilities with related entities as per June 30, 2021:

in € million	Jun. 30,	Dec. 31,
	2021	2020
Receivables	109.8	99.3
<i>thereof from companies with significant influence</i>	14.6	-
Liabilities	83.7	8.4
<i>thereof to companies with control</i>	-	0.2
<i>thereof to companies with significant influence</i>	71.5	-

On May 26, 2021, the Federal Government indirectly acquired a total of 26,355,000 shares in HENSOLDT AG via the KfW, a public law institution controlled by the Federal Government, which corresponds to a shareholding of 25.1 %. The Federal Government is thus a related party of HENSOLDT AG with significant influence. HENSOLDT maintains diverse relationships with the Federal Government and with other companies controlled by the Federal Government. The Federal Government, related government agencies and offices as well as other companies controlled by the Federal Government are customers of HENSOLDT and as such purchase and use many of HENSOLDT's products and services.

On June 29, 2021, the Federal Government, represented by the Federal Ministry of Defence, which in turn is represented by the Federal Office of Bundeswehr Equipment, Information Technology and In-Service Support ('Bundesamt für Ausrüstung, Informationstechnik und Nutzung der Bundeswehr' or 'BAAINBw'), has awarded a contract for the development, delivery and integration of the airborne electronic signals intelligence system PEGASUS including the procurement of three aircrafts and the associated evaluation stations for a contract value of €1.25 billion to HENSOLDT. The agreement was concluded after budget approval by the German Bundestag.

Transactions with key management personnel

The Management Board members participate starting with fiscal year 2021 in the respective applicable long-term incentive ('LTI') bonus plan.

Apart from this there were no material changes regarding transactions with key management personnel from the information disclosed in the 2020 Consolidated Year-End Financial Statements.

6 Segment information

The Group operates in two operating segments, Sensors and Optronics.

in € million				First half year
	Sensors	Optronics	Elimination/ Transversal/ Others	2021 Group
Order intake	1,904.7	209.6	-2.7	2,111.6
Order backlog	4,324.2	703.0	-3.3	5,023.9
Revenue from external customers	375.0	111.2	0.0	486.2
Intersegment revenue	0.7	0.1	-0.8	-
Segment revenue	375.7	111.3	-0.8	486.2

in € million				First half year
	Sensors	Optronics	Elimination/ Transversal/ Others	2021 Group
Material non-cash items other than depreciation and amortization:				
Additions to other provisions	-34,5	-13,6	0,0	-48,1
Dissolution of other provisions	5,3	6,7	0,0	12,0
Remeasurement to fair value of pre-existing interest in an acquiree	10,2	-	-	10,2
Entity's interest in the profit or loss of associates and joint ventures accounted for using the equity method	-	-	-2,0	-2,0

in € million				First half year
	Sensors	Optronics	Elimination/ Transversal/ Others	2021 Group
EBITDA	35.6	10.7	-8.1	38.2
Transaction costs	-	-	0.1	0.1
IPO related costs	-	-	0.8	0.8
Other non-recurring effects	0.1	-	4.9	5.0
Adjusted EBITDA	35.7	10.7	-2.3	44.1
<i>Margin adjusted EBITDA</i>	<i>9.5%</i>	<i>9.6%</i>		<i>9.1%</i>
Depreciation and amortization	-47.6	-12.5	0.0	-60.1
EBIT	-12.0	-1.8	-8.1	-21.9
Effect on earnings from purchase price allocations	26.7	5.1	0.0	31.8
Transaction costs	-	-	0.1	0.1
IPO related costs	-	-	0.8	0.8
Other non-recurring effects	0.1	-	4.8	4.9
Adjusted EBIT	14.8	3.3	-2.4	15.7
<i>Margin adjusted EBIT</i>	<i>3.9%</i>	<i>3.0%</i>		<i>3.2%</i>

				First half year
in € million				2021
	Sensors	Optronics	Elimination/ Transversal/ Others	Group
EBIT	-12.0	-1.8	-8.1	-21.9
Finance result	-	-	-	-16.3
EBT	-	-	-	-38.2

				First half year
in € million				2020
	Sensors	Optronics	Elimination/ Transversal/ Others	Group
Order intake	1,654.6	122.0	-1.1	1,775.6
Order backlog	2,819.4	607.5	0.0	3,426.9
Revenue from external customers	343.3	97.0	-	440.3
Intersegment revenue	0.2	0.7	-0.9	-
Segment revenue	343.5	97.7	-0.9	440.3

				First half year
in € million				2020
	Sensors	Optronics	Elimination/ Transversal/ Others	Group
Material non-cash items other than depreciation and amortization:				
Additions to other provisions	-26.0	-16.4	-	-42.4
Dissolution of other provisions	2.1	1.4	-	3.5
Entity's interest in the profit or loss of associates and joint ventures accounted for using the equity method	-	-	-1.8	-1.8

				First half year
in € million				2020
	Sensors	Optronics	Elimination/ Transversal/ Others	Group
EBITDA	32.3	9.8	-13.7	28.4
Transaction costs	0.4	-	-	0.4
Other non-recurring effects	0.1	0.5	11.9	12.5
Adjusted EBITDA	32.8	10.3	-1.8	41.3
<i>Margin adjusted EBITDA</i>	<i>9.5%</i>	<i>10.5%</i>		<i>9.4%</i>
Depreciation and amortization	-43.7	-13.9	-0.1	-57.7
EBIT	-11.4	-4.1	-13.8	-29.3
Effect on earnings from purchase price allocations	27.0	7.3	0.0	34.3
Transaction costs	0.4	-	-	0.4
Other non-recurring effects	0.1	0.5	12.1	12.7
Adjusted EBIT	16.1	3.7	-1.7	18.1
<i>Margin adjusted EBIT</i>	<i>4.7%</i>	<i>3.8%</i>		<i>4.1%</i>

in € million				First half year
	Sensors	Optronics	Elimination/ Transversal/ Others	2020
EBIT	-11.4	-4.1	-13.8	-29.3
Finance result	-	-	-	-87.9
EBT	-	-	-	-117.2

7 Revenue

The Group's operations and main revenue streams are described in the 2020 Consolidated Year-End Financial Statements.

During the first half year 2021 revenues increased overall by €45.9 million to €486.2 million compared to €440.3 million in the first half year 2020.

Revenue (sales / aftersales)

in € million				First half year
	Sensors	Optronics	Other	2021
Revenue from contracts with customers				
Sales	262.1	100.6	-	362.7
Aftersales	114.2	11.5	-	125.7
Exchange rate differences	-1.1	-0.7	-0.4	-2.2
Total	375.2	111.4	-0.4	486.2

in € million				First half year
	Sensors	Optronics	Other	2020
Revenue from contracts with customers				
Sales	227.3	79.0	-	306.3
Aftersales	115.7	14.9	-	130.6
Exchange rate changes	0.3	3.2	-0.1	3.4
Total	343.3	97.1	-0.1	440.3

Revenue (geographical information)

in € million	First half year	
	2021	2020
Europe	398.4	341.9
<i>(thereof Germany)</i>	<i>272.0</i>	<i>209.8</i>
Middle East	35.5	37.6
APAC	18.4	15.6
North America	16.1	24.1
Africa	20.2	19.6
LATAM	7.8	7.3
Other regions/Consolidation	-10.2	-5.8
Total	486.2	440.3

Revenue (point of time of revenue recognition)

in € million				First half year
	Sensors	Optronics	Other	2021
Point of time of revenue recognition				
Revenue recognition at a point in time	168.9	112.8	-	281.7
Revenue recognition over time	207.4	-0.7	-	206.7
Exchange rate differences	-1.1	-0.7	-0.4	-2.2
Total	375.2	111.4	-0.4	486.2

in € million				First half year
	Sensors	Optronics	Other	2020
Point of time of revenue recognition				
Revenue recognition at a point in time	157.8	90.2	-	248.0
Revenue recognition over time	185.2	3.7	-	188.9
Exchange rate changes	0.3	3.2	-0.1	3.4
Total	343.3	97.1	-0.1	440.3

Seasonality and cyclicity of operations

A significant volume of the annual revenue for both reporting segments Sensors and Optronics is typically recorded in the last months of the year due to the timing of many budgetary decisions by the governmental customers. The first half of the financial year, particularly the first quarter, is characterized by a reduction of trade receivables and corresponding cash inflows due to customer payments, a reduction of trade payables and corresponding outflows, as well as an increase in work in progress accounted for under inventories.

8 Share of profit / loss from investments accounted for using the equity method

The share of loss in HENSOLDT Cyber, an investment accounted for using the equity method till May 2021, was €-2.0 million compared to €-1.8 million in the first half year 2020.

9 Other operating income / expenses

Other operating income increased by €9.2 million to €18.9 million compared to €9.7 million in the first half year 2020. This is mainly due to the remeasurement to fair value of pre-existing interest in HENSOLDT Cyber in the segment Sensors in June 2021 which led to an income of €10.2 million.

Other operating expenses decreased by €1.3 million to €7.6 million compared to €8.9 million in the first half year 2020. Both are due to lower project costs recharged to other entities.

10 Finance result

Total finance result improved by €71.6 million to €-16.3 million compared to €-87.9 million in the first half year 2020.

This is mainly due to the revaluation of an embedded derivative in the former Term Loan agreement in accordance with IFRS 9 in the first half year 2020 (€-53.9 million). In the reporting period no such effects were recognized due to restructured financial liabilities in connection with the IPO of HENSOLDT AG.

11 Group result

The group result has improved by €60.4 million to €-28.5 million compared to €-88.9 million in the first half year 2020. This is mainly driven by the revaluation result of an embedded derivative as part of the former financing structure in the first half year 2020.

12 Income taxes

Income tax expense was recognized at an amount determined by multiplying the profit or loss before tax for the interim reporting period by management's best estimate of the weighted-average annual income tax rate expected for the full financial year, adjusted for the tax effect of certain items recognized in full in the interim financial period. In the first half year 2021 the remeasurement to fair value of pre-existing interest in HENSOLDT Cyber in June 2021 were treated as discrete items. As such, the effective tax rate in the Interim Financial Statements may differ from management's estimate of the effective tax rate for the annual Financial Statements.

The decrease in income tax income of €18.6 million to €9.7 million compared to €28.3 million in the first half year 2020 resulted mainly from deferred taxes due to the revaluation of the embedded derivative in the first half year 2020.

13 Intangible assets, Goodwill, Property, plant and equipment and Right-of-use assets

Intangible assets remained nearly stable compared to prior year and were slightly effected by the first-time consolidation of HENSOLDT Cyber and the net increase in development cost.

The first time consolidation of HENSOLDT Cyber led to a goodwill of €14.0 million that was allocated to the segment Sensors. The purchase price allocation is preliminary.

14 Other investments and other financial assets

	Jun. 30,	Dec. 31,
in € million	2021	2020
Other investments	16.7	11.2
Other non-current financial assets	0.1	0.1
Other investments and other non-current financial assets	16.8	11.3
Other non-current financial assets, due on short-notice	3.6	11.2
Total	20.4	22.5

The changes in other investments include other acquisitions of non-consolidated companies. The change in other non-current financial assets, due on short notice include effects from the change in the consolidation method of HENSOLDT Cyber in 2021.

15 Inventories

Inventories increased by €97.6 million to €501.3 million compared to €403.7 million mainly due to increased work in progress following the usual seasonality pattern.

16 Contract assets and Trade receivables

Contract assets decreased slightly by €10.9 million to €193.5 million mainly due to project closures of radar programs.

Trade receivables decreased by €39.9 million to €242.1 million following the usual seasonality pattern.

17 Provisions

	Jun. 30,	Dec. 31,
in € million	2021	2020
Provisions for pensions	401.0	429.8
Other provisions	215.3	246.4
Total	616.3	676.2
<i>thereof non-current</i>	<i>454.4</i>	<i>482.6</i>
<i>thereof current</i>	<i>161.9</i>	<i>193.6</i>

Provisions for pensions decreased by €28.8 million to €401.0 million mainly due to higher interest rates.

Other provisions decreased by €31.1 million to €215.3 million mainly for personnel-related provisions due to seasonal patterns.

18 Other financial assets and Other financial liabilities

Other financial assets

	Jun. 30,	Dec. 31,
in € million	2021	2020
Positive fair values of derivative financial instruments	-	0.3
Miscellaneous other non-current financial assets	0.7	0.7
Other non-current financial assets	0.7	1.0
Positive fair values of derivative financial instruments	3.5	5.1
Receivables from employees	1.7	0.8
Miscellaneous other current financial assets	2.0	1.1
Other current financial assets	7.2	7.1
Total	7.9	8.0

Other financial liabilities

	Jun. 30,	Dec. 31,
in € million	2021	2020
Miscellaneous other non-current financial liabilities	0.0	0.2
Other non-current financial liabilities	0.0	0.2
Negative fair values of derivative financial instruments	4.3	6.4
Liabilities from factoring contracts ¹	1.7	91.3
Miscellaneous other current financial liabilities	-	0.1
Other current financial liabilities	6.0	97.8
Total	6.0	98.0

¹ Liabilities from factoring contracts result from the fact that the collection of payments by the factoring party was not yet due as of the balance sheet date.

19 Other assets and Other liabilities

Other assets

	Jun. 30,	Dec. 31,
in € million	2021	2020
Other	3.4	4.8
Total other non-current assets	3.4	4.8
Advance payments made	98.3	57.9
VAT	24.3	12.5
Miscellaneous other current assets	9.1	8.2
Total other current assets	131.7	78.7
Total	135.1	83.5

Other liabilities

	Jun. 30,	Dec. 31,
in € million	2021	2020
Liabilities to employees	6.9	8.9
Total other non-current liabilities	6.9	8.9
Tax liabilities (not incl. income tax)	24.8	37.2
Liabilities to employees	42.5	30.2
Liabilities to social security agencies	5.3	5.8
Other	11.9	13.7
Total other current liabilities	84.4	86.9
Total	91.3	95.8

20 Financial instruments

The following tables show the carrying amounts and fair values of financial assets and financial liabilities including their levels in the fair value hierarchy. For some short-term financial assets and liabilities the carrying amount is a reasonable approximation of the fair value.

Jun. 30, 2021				
in € million	Category	Carrying amount	Fair value	Level
Assets				
Other investments and other non-current financial assets ¹	FVtOCI	16.8	16.8	-
Other non-current financial assets, due on short-notice	AC	3.6	3.6	-
Trade receivables	AC	176.0	176.0	-
Trade receivables (intended for factoring) ¹	FVtOCI	66.1	66.1	-
Other financial assets:				
Derivative instruments for cash flow hedges	FVtOCI	0.1	0.1	2
Other derivative instruments	FVtPL	3.4	3.4	2
Non-derivative instruments ¹	AC	4.3	4.3	-
Cash and cash equivalents	AC	281.8	281.8	1
Total financial assets		552.1	552.1	
Liabilities				
Financial liabilities:				
Liabilities to banks	FLAC	816.7	827.2	2
Trade payables	FLAC	188.1	188.1	-
Other financial liabilities:				
Other derivative instruments	FVtPL	4.3	4.3	2
Liability from put option	FVtPL	-	-	3
Other miscellaneous financial liabilities	FLAC	1.7	1.7	-
Total financial liabilities		1,010.8	1,021.3	

¹ Fair Value corresponds to cost due to materiality

Dec. 31, 2020

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

¹ Fair Value corresponds to cost due to materiality

Fair value measurement

The input factors used and the measurement methods applied are described in the year end Consolidated Financial Statements as at December 31, 2020.

21 Litigation and claims

The Group's companies are from time to time involved in various legal and arbitration proceedings in the ordinary course of its business, the most significant of which are described below. Other than as described below, the Group is not aware of any material governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened), which may have or have had in the reporting period significant effects on the Group's financial position or profitability.

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

22 Number of employees

	First half year	
	2021	2020
Number of employees (Average figures per end of quarter, FTEs) ¹		
Production, research and development, service	4,934	4,626
Sales and distribution	218	223
Administration and general services	704	679
Apprentices, trainees, etc.	472	406
Total	6,327	5,934

¹ Adjustment of the previous year's period due to changed calculation logic of the FTE in 2021

23 Events after the reporting date

There are no significant events after the reporting date.

D Review Report

To HENSOLDT AG, Taufkirchen, District of Munich

We have reviewed the condensed interim consolidated financial statements of HENSOLDT AG, Taufkirchen, District of Munich – comprising the consolidated balance sheet as per June 30, 2021, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated statement of changes in equity and selected notes to the condensed interim consolidated financial statements – together with the Interim Group Management Report of HENSOLDT AG, for the period from January 1 to June 30, 2021 that are part of the semi-annual financial report according to § 115 WpHG [‘Wertpapierhandelsgesetz’: ‘German Securities Trading Act’]. The preparation of the condensed interim consolidated financial statements in accordance with International Accounting Standard IAS 34 ‘Interim Financial Reporting’ as adopted by the EU, and of the interim group management report in accordance with the requirements of the WpHG applicable to interim group management reports, is the responsibility of the company’s management. Our responsibility is to issue a report on the condensed interim consolidated financial statements and on the interim group management report based on our review.

We performed our review of the condensed interim consolidated financial statements and the interim group management report in accordance with the German generally accepted standards for the review of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the review so that we can preclude through critical evaluation, with a certain level of assurance, that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with IAS 34, “Interim Financial Reporting” as adopted by the EU, and that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports. A review is limited primarily to inquiries of company employees and analytical assessments and therefore does not provide the assurance attainable in a financial statement audit. Since, in accordance with our engagement, we have not performed a financial statement audit, we cannot issue an auditor’s report.

Based on our review, no matters have come to our attention that cause us to presume that the condensed interim consolidated financial statements have not been prepared, in material respects, in accordance with IAS 34, ‘Interim Financial Reporting’ as adopted by the EU, or that the interim group management report has not been prepared, in material respects, in accordance with the requirements of the WpHG applicable to interim group management reports.

Munich, August 3, 2021

KPMG AG Wirtschaftsprüfungsgesellschaft

Leistner
Wirtschaftsprüfer
[German Public Auditor]

Peschel
Wirtschaftsprüfer
[German Public Auditor]

E Responsibility Statement

The Management Board of HENSOLDT hereby declares that, to the best of their knowledge:

In accordance with the applicable reporting principles for semi-annual financial reporting, the Condensed Interim Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group, and the Interim Group Management Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Taufkirchen, August 3, 2021

HENSOLDT AG

The Management Board

Thomas Müller

Axel Salzmann

Peter Fieser

Celia Pelaz Perez

F Legal information and contact

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Managing Directors: Thomas Müller (Chairman), Axel Salzmann, Peter Fieser and Celia Pelaz Perez
Registration Court: District court of Munich, HRB 258711

Disclaimer

This semi-annual financial report contains forecasts based on assumptions and estimates by the management of HENSOLDT. These statements based on assumptions and estimates are in the form of forward-looking statements using terms such as 'believe', 'assume', 'expect' and the like. Even though the management believes that these assumptions and estimates are correct, it is possible that actual results in the future may deviate materially from such assumptions and estimates due to a variety of factors. The latter may include changes in the macroeconomic environment, in the statutory and regulatory framework in Germany and the EU, and changes within the industry. HENSOLDT does not provide any guarantee or accept any liability or responsibility for any divergence between future developments and actual results, on the one hand, and the assumptions and estimates expressed in this semi-annual financial report.

HENSOLDT has no intention and undertakes no obligation to update forward-looking statements in order to adjust them to actual events or developments occurring after the date of this report.

The semi-annual financial report is denominated in Euro. All amounts in the semi-annual financial report are rounded to thousand or million Euros. Due to rounding, numbers presented throughout this and other documents may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

The semi-annual financial report is also available in German. In case of discrepancies, the German language document is the sole authoritative and universally valid version.