

# Combined Management Report of

HENSOLDT AG

for the year ended

31 December 2022

## References:

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

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

# I Group fundamentals

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## 1 Business model

The HENSOLDT Group (the “Group”, “HENSOLDT”) is a German Champion and specialised provider of defence and security sensor solutions in the defence and security industry. HENSOLDT develops innovative and customised solutions in the fields of radars, electronic warfare, avionics and optronics. The product portfolio as of 31 December 2022, included a variety of products with a lifecycle of ten years or more. HENSOLDT is constantly striving to increase and improve its current product offering through its own developments, industrial cooperations and acquisitions, in order to increase its competitiveness and expand into new markets.

## 2 Organisation and group structure

### 2.1 Legal structure

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

The consolidated financial statements include the financial statements of HENSOLDT AG and the financial statements of all significant subsidiaries directly and indirectly controlled by HENSOLDT AG. 30 entities including the parent company (previous year: 33) were fully consolidated.

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

### 2.2 Locations and employees

HENSOLDT’s headquarters are located in Taufkirchen near Munich, an important innovation centre of the defence industry in Germany. In addition, business activities in Germany are conducted in Ulm, Oberkochen and Pforzheim in particular. Other locations in Germany include Wetzlar, Immenstaad and Kiel. As per 31 December 2022, of the 6,463 employees (previous year: 6,316) of HENSOLDT, among them 611 trainees, interns, etc. (previous year: 587), approx. 4,700 (previous year: approx. 4,600) were employed in Germany. HENSOLDT’s larger locations outside Germany are mainly based in France, South Africa and the UK.

### 2.3 Operating segments

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

#### Sensors segment

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

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

### **Radar & Naval Solutions**

In this division, the Group develops and manufactures mobile and stationary radar and IFF systems (Identification Friend or Foe) used for surveillance, reconnaissance, civil air traffic control (ATC) and air defence. These systems are deployed on various platforms, including the Eurofighter, the German Navy's Frigate 125 and the US Navy's Littoral Combat Ship. The Radar & Naval Solutions division also includes systems for establishing secure data connections for air, sea and land platforms.

### **Spectrum Dominance & Airborne Solutions**

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

### **Services & Aerospace Solutions**

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

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

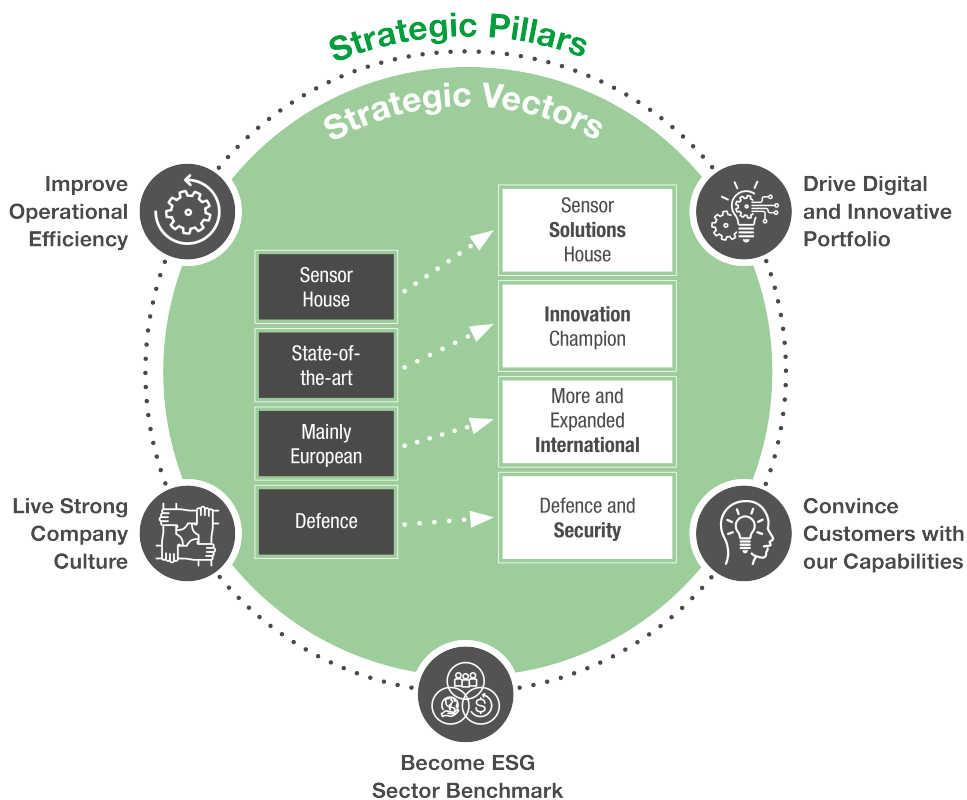
### **Optronics segment**

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

## **3 Goals and strategies**

In 2022, HENSOLDT made further important progress toward its goal of becoming Europe's leading platform-independent provider of sensor solutions in the defence and security sector with global reach. Existing growth and efficiency plans were followed up in the fiscal year 2022 and important goals were achieved.

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



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

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

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

- Drive digital and innovative portfolio
- Convince customers with our capabilities
- Become ESG<sup>1</sup> sector benchmark
- Live strong company culture
- Improve operational efficiency

<sup>1</sup> Environmental Social Governance

### 3.1 Drive digital and innovative portfolio

With its about 2,000 engineering staff, HENSOLDT stands for high-performance sensor electronics. In order to further expand this core competence and further increase its competitiveness, the Group relies above all on a digital and innovative product portfolio. The continuous development of products and technologies enables HENSOLDT to enhance its competitiveness and to meet the operative challenges and concepts of its customers. For this purpose, HENSOLDT is continuously expanding its self-funded research and development expenditure ("R&D"). Compared to 2021, HENSOLDT increased its self-funded R&D expenditure recognised in expenses in the reporting year by 13.9 % to € 36 million. In total, HENSOLDT's self-financed R&D expenses in 2022 (consisting of R&D costs recognised as expenses and additions to capitalised development costs) amounted to € 91 million (previous year: € 97 million). In addition, HENSOLDT builds up its own competencies within the framework of customer-financed projects and enters into strategic partnerships to enable its own portfolio additions and expansions. An M&A strategy strongly focused on growth and innovation (with company acquisitions, joint ventures or minority shareholdings) rounds off the strategic portfolio development.

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

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

### 3.2 Convince customers with our capabilities

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

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

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

In order to achieve the goal of developing customer relationships domestically and abroad, HENSOLDT built up a Business Development Organisation which as of 31 December 2022 has around 200 employees, distributed among the sales centres in Europe, the Middle East, Asia-Pacific, Africa, North America and Latin America.

### 3.3 Become ESG sector benchmark

As one of the pillars of its corporate strategy, it is HENSOLDT's vision to not only become the benchmark in ESG in the defence and security industry but also to ensure that the company remains committed to its high standards in this area in the long term by continuously adapting and improving HENSOLDT's ESG performance and strategy. To this end, the "ESG Strategy program 2026" was launched and 15 goals, over 100 measures and 120 key figures were defined.

The "ESG Strategy program 2026" is the basis for HENSOLDT not only fulfilling its responsibility towards its customers, employees, investors and, above all, towards society and the environment, but also for exceeding expectations in this area for HENSOLDT. This responsibility is also reflected in the Group's accession to the UN Global Compact<sup>3</sup>, a United Nations initiative. HENSOLDT is thus committed to the ten universal sustainability principles in the areas of human rights, labour standards, the environment and corruption prevention.

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

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<sup>2</sup> Multi-Utility-Vehicle

<sup>3</sup> The UN Global Compact is the world's largest initiative for sustainable and responsible corporate governance.

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

### 3.4 Live strong company culture

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

Here, HENSOLDT can build on a strong foundation. One of many measures, for example, is the “Echo” employee share programme. Under this programme, employees have the opportunity to participate like shareholders in the economic development of HENSOLDT AG and to benefit from a discounted price compared to buying HENSOLDT AG shares on the stock exchange. The Echo programme was once again a great success in the fiscal year 2022 from the Management Board’s point of view with a participation of more than 60 % of all employees eligible to participate. It reflects the already strong and distinctive corporate culture, but above all the commitment and trust of the employees towards HENSOLDT.

HENSOLDT runs an initiative to strengthen the global corporate culture with a focus on HENSOLDT’s mission and leadership development. The aim is to ensure and develop an outstanding corporate culture that attracts and retains talents and ensures that HENSOLDT’s success story continues and that the Group can expand its attractiveness for existing and future employees.

### 3.5 Improve operational efficiency

Since the introduction of the comprehensive efficiency programme called “HENSOLDT GO!”, HENSOLDT has already achieved a number of improvements. In the current fiscal year, important progress was made through further improved operational project execution. The establishment of a culture of continuous improvements resulted in the fiscal year to constant improvements in operating and development efficiency as well as in the purchasing organisation.

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

## 4 Financial performance indicators

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

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<sup>4</sup> Defined as ratio of order intake to revenue in the relevant fiscal year.

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

<sup>6</sup> 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.

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

Adjusted EBITDA is used as a key indicator of the economic performance of the Group, in particular to illustrate the non-recurring effects from acquisitions and other non-recurring effects on the operating results. In addition, non-financial performance indicators are partly used to manage the Group. To this end, an additional remuneration element geared towards long-term, sustainable success of the HENSOLDT Group has also been included in the Management Board remuneration. The Long-Term Incentive bonus components for the Management Board members and other executives of the Group are determined, inter alia, according to the target achievement of the ESG targets “Diversity” and “Climate Impact” (refer to the “Corporate Governance” section on the website of HENSOLDT at <https://investors.hensoldt.net>).

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

## 5 Research and development

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

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

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

## 6 HENSOLDT on the capital market<sup>8</sup>

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

<sup>8</sup> The chapter „HENSOLDT on the capital market“ includes voluntary information and is thus unaudited.

## 6.1 Stock markets and price development of the HENSOLDT share

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

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

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

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

## 6.2 Shareholder structure

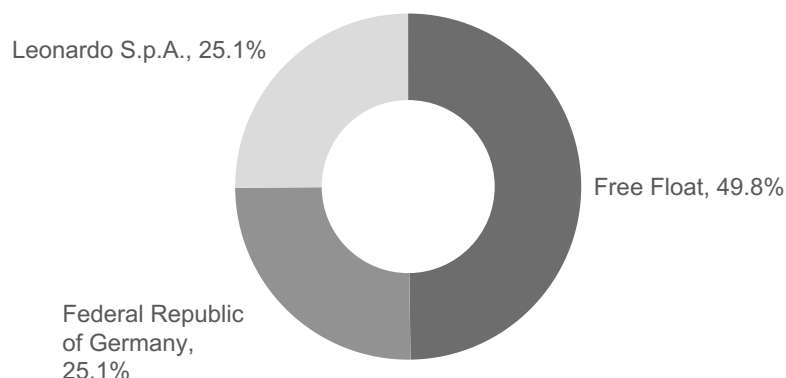
The Federal Republic of Germany is a shareholder of HENSOLDT AG through the Kreditanstalt für Wiederaufbau ("KfW") with a share of 25.1 % on 31 December 2022 as well as Leonardo S.p.A., Italy, which also holds 25.1 % in HENSOLDT AG.

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

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



## Shareholder structure of HENSOLDT AG as of 31 December 2022



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

### 6.3 Analyst coverage

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

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

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

HENSOLDT AG publishes an Analyst Consensus Estimate containing the most important key figures. An overview is made available on the website of HENSOLDT at <https://investors.hensoldt.net>.

## 6.4 Investor Relations – communication with the capital market

HENSOLDT strives to maintain a transparent and continuous dialogue with capital market participants. Therefore, it is an important concern of HENSOLDT to constantly deepen the relationship with investors, analysts and financial journalists through individual meetings, telephone calls, roadshows, conferences as well as company visits (if possible) and to expand the confidence of capital market participants in the Group. In the fiscal year 2022, the Management Board held an analyst and investor call following the publication of the preliminary financial figures for the fiscal year 2021, the results for the first quarter, the first half year and the first nine months and presented both the recent strategic developments of the Group, the current business performance and the growth prospects to the capital market participants.

The management of HENSOLDT organised a Capital Markets Day on 14 December 2022. During this event, HENSOLDT presented a comprehensive insight into the strategic orientation and medium-term planning and gave the participants the opportunity to hold personal discussions with the management of HENSOLDT.

## 6.5 General meeting

The second ordinary general meeting of HENSOLDT AG was held on 13 May 2022. Due to the COVID-19 pandemic, the event was held as a purely virtual meeting without the physical presence of any shareholders. A shareholder portal was made available so that participants were able to follow the event live on the internet via video transmission, exercise their voting rights and submit questions in advance of the meeting. All questions submitted were answered by the Management Board of HENSOLDT AG. The shareholders approved all agenda items with large majorities. On this occasion, Giovanni Soccodato (Chief Strategic Equity Officer of Leonardo S.p.A.), Letizia Colucci (General Manager of the Med-Or Leonardo Foundation) and Reiner Winkler (until 31 December 2022 CEO of MTU Aero Engines AG) were elected to the Supervisory Board. They immediately succeed the previous Supervisory Board members Prof. Wolfgang Ischinger, Christian Ollig and Claire Wellby who had each declared their resignation from their mandates at the end of the annual general meeting on 13 May 2022. The shareholders also approved the proposal of the Supervisory Board and Management Board to pay a dividend of € 0.25 per share. All voting results are made available on the website of HENSOLDT at <https://investors.hensoldt.net> in the “Investors” section.

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

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

# II Economic report

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## 1 Economic conditions

### 1.1 General economic conditions

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

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

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

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

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

### 1.2 Conditions in the defence and security sector

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

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

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

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

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

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

## 2 Business development

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

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

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

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

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<sup>9</sup> “Focus Area 1”: Continuous support of Ukraine by the German Federal Government in coordination with EU initiatives and the “Ukraine Defence Contact Group”

“Focus Area 2”: Specific procurement projects and upcoming projects in the context of NATO/European initiatives

“Focus Area 3”: Bundeswehr special fund

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

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

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

### 3 Net assets, financial position and results of operations

#### 3.1 Results of operations

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

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

##### Order intake

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

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

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

### **Revenue**

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

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

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

### **Book-to-bill ratio**

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

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

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

### **Order backlog**

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

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

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

## Income<sup>10</sup>

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

### Adjusted EBITDA

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

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

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

### Earnings before finance result and income taxes (EBIT)

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

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

### Group result

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

<sup>10</sup> The profit margins are calculated in relation to the corresponding revenue.

<sup>11</sup> Defined as "transaction costs, follow-up expenses in 2021 for the IPO in 2020, OneSAPnow-related non-recurring effects as well as other non-recurring effects".

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

### Earnings per share

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

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

## 3.2 Net assets

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

<sup>1</sup> Adjustment of previous year's figures due to a purchase price adjustment after the measurement period by €+6 million

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

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

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



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

### **3.3 Financial position**

#### **Basic principles of financial management**

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

#### **Capital structure of the Group**

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

The availability and conditions of the long-term syndicated loan are tied to the compliance with a financial covenant, which refers to the ratio of net debt to adjusted EBITDA as defined in the Senior Financing Agreement. In the fiscal year 2022, the financial covenants were complied with at all times. In the event of a breach, the financing partners are authorized to terminate the syndicated loan. There are currently no indications that the covenant will not be complied with in the near future.

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

<sup>1</sup> Adjustment of previous year's figures: Cash flow-hedges by €+5 million in other reserves and by €-5 million in retained earnings

<sup>2</sup> Adjustment of previous year's figures due to a purchase price adjustment after the measurement period by €+6 million

<sup>3</sup> Adjustment of previous year's figures: Release of Capital reserves €- 60 million and addition to retained earnings €+ 60 million. In contrast to previous year, the dividend payment of € 14 million is expensed to retained earnings

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

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

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

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

## Investment and liquidity analysis

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

### Free cash flow

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

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

Investments include capital expenditure used to acquire, upgrade and maintain physical assets such as property, plant and equipment as well as intangible assets, such as software or licenses. In addition, investments include development costs which were capitalised as internally generated intangible assets. The decrease in investments was mainly caused by lower capitalised development costs (refer to chapter "I 5 Research and development").

### **Adjusted pre-tax unlevered free cash flow**

The adjusted pre-tax unlevered free cash flow was once again at a very high level with € 219 million. Compared to the exceptionally strong cash performance of the previous year, there was a decrease of € 33 million. The non-recurring effects<sup>12</sup> were mainly connected with the allocation to plan assets as well as payments in the context of long-term succession planning for the Management Board. The decrease in the items for interest<sup>13</sup>, income tax<sup>14</sup> and M&A activities<sup>15</sup> was mainly related to lower outflows from M&A activities and lower interest rate payments which were partly compensated by higher income tax in the current reporting period.

### **Cash flows from financing activities**

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

### **Cash and cash equivalents**

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

## **3.4 Overall assessment**

The Management Board assesses the economic performance of the HENSOLDT Group as being overall positive. Despite the temporarily challenging environment due to the consequences of the Ukraine war, revenue targets were fully achieved. Order intake remained at a very high level. The Group's order intake is below the order intake of the comparative period due to the outstanding order intake in the previous year. Due to the achieved increase in business volume and the consequent implementation of efficiency improvement measures, adjusted EBITDA fully met the expectations.

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

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

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<sup>12</sup> Defined as "transaction costs, follow-up expenses in 2021 for the IPO in 2020, OneSAPnow-related non-recurring effects as well as other non-recurring effects".

<sup>13</sup> Defined as "Interest paid" (including interest on leases), as disclosed in the consolidated statement of cash flows.

<sup>14</sup> Defined as "payments/repayments of income tax" as disclosed in the consolidated statement of cash flows.

<sup>15</sup> Defined as sum of "Share of profit in entities recognised according to the equity method", "Payments received from the sale of intangible assets and property, plant and equipment", "Acquisition of associates, other investments and other non-current financial investments", "Disposal of associates, other investments and other non-current financial assets", "Acquisition of subsidiaries net of cash acquired" as well as "Other cash flows from investing activities" as reported in the consolidated statement of cash flows.

# III Forecast

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## 1 Development of overall economic conditions

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

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

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

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

## 2 Development in the defence and security sector

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

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

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

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

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

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

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

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

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

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

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

### 3 Outlook

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

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

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

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

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

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

The forecast strongly depends on the conditions mentioned in the opportunities and risks report and, besides the macroeconomic developments described above, is based on the multi-year business plan of the Group. This forecasts a US dollar exchange rate of \$1.13/€1.00 and an average inflation rate of 2.5 % in Germany and France for the planning period. Furthermore, a 4.0 % increase in personnel costs is forecast for Germany, a 4.0 % increase for France and 4.5 % for Great Britain. In addition, the forecast volumes for revenue and order intake highly depend on the reliability and stability of the political situation.

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

# IV Opportunities and risks report

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## 1 Risk report

### 1.1 Essential principles of the risk and control management

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

The HENSOLDT risk and control management system represents an integral part of the systems and instruments, which the HENSOLDT Management Board is using for a value- and success-oriented corporate management to achieve business objectives. The central objective is the early and systematic identification, assessment and management of significant risks. For this purpose, valid procedures and methods, which are applicable for all entities, are defined on HENSOLDT Group level.

The overall responsibility for the ICS and ERM lies with the Management Board. The latter is responsible for implementing, enforcing and maintaining an appropriate and effective ICS and ERM. The overall functional responsibility for the ICS and ERM lies with the Head of "Internal Audit, Risk Management & ICS".

#### Internal Control System (ICS)

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

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

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

#### Enterprise Risk Management (ERM)

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

An early identification is the basis for the timely introduction of adequate counter-measures. The same applies to consistently seizing opportunities as they arise. To support transparent risk and opportunity management, the HENSOLDT identifies, manages and reports risks and opportunities on a group- and segment specific-basis and thus differentiates between the two segments, Sensors and Optronics.

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<sup>16</sup> Committee of Sponsoring Organizations of the Treadway Commission



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

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

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

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

<b>Probability (%)</b>	<b>Min</b>	<b>Max</b>	<b>Risk Matrix (Chapter IV 1.3)</b>
Very unlikely	– %	4.9 %	Low
Unlikely	5.0 %	24.9 %	Low
Possible	25.0 %	49.9 %	Medium
Likely	50.0 %	74.9 %	High
Very likely	75.0 %	100.0 %	High
<b>Impact on group Level (€ million)</b>	<b>Min</b>	<b>Max</b>	<b>Risk Matrix (Chapter IV 1.3)</b>
Low	0	1	Low
Medium	1	2	Medium
High	2	5	High
Very high	5	10	High
Critical	10	200	Critical

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

For the risk reporting, the heads of the central departments of the HENSOLDT Group and the ERM Point of Contact in each legal entity are responsible for providing their risk portfolio to the ERM Officer at the group level in time for the quarterly risk reporting. Besides, the risk information related to health and safety (HSE<sup>17</sup>) must also be submitted in time for the reporting.

<sup>17</sup> Health, Safety, Environment

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

## **1.2 Accounting-related internal controls and risk management**

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

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

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

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

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

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

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

## **1.3 Risks**

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

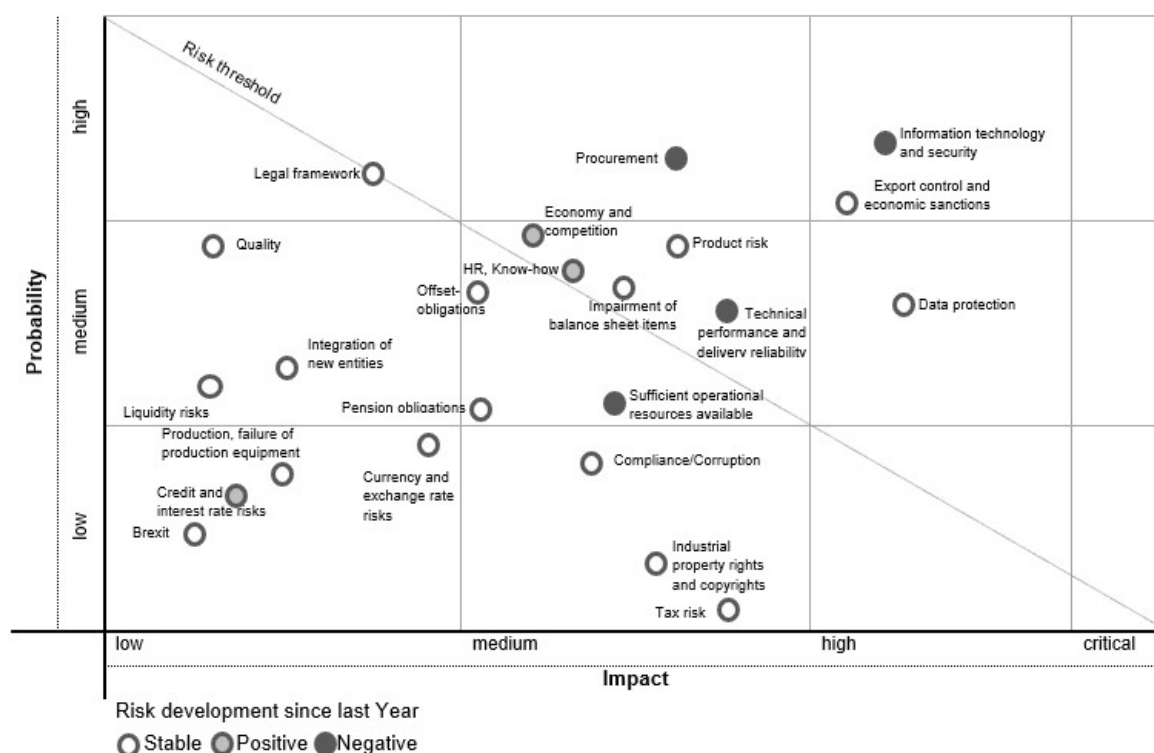
All those risks that are not directly project-related are summarised under functional risks for the HENSOLDT Group. Risk categories within the group of functional risks such as strategic risks and compliance risks are independent from HENSOLDT's operational activities.

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

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

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

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



## Functional risks

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

### *Risks related to strategy*

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

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

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

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

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

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

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<sup>18</sup> PESTEL: Analysis of political, economic, socio-cultural, technical, environmental and legal factors of influence

## ***Risks related to compliance***

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

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

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

## ***Data protection risks***

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

## ***Operative risks***

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

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

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

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

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

The HENSOLDT Group has initiated a number of measures to be regarded as an attractive employer. For example, it offers employees a mobile working environment based on a group agreement for German sites, flexible working hours without core working hours, childcare during school holidays and, depending on the location, kindergarten places or child care subsidies, special regulations on sabbaticals and family and care times or various incentive programmes. Against the background of the current labour market situation, HENSOLDT expects increased challenges in the future with regard to attracting and retaining highly qualified employees.

In the area of operational quality, the HENSOLDT Group is required to perform with the highest standards. Due to the complex and advanced nature of its products, there are technological challenges that arise in conjunction with the development and manufacturing of new products. In order to maintain high quality standards for its products, the HENSOLDT Group implemented a number of quality assurance measures such as an enhanced customer review and feedback process, single quality points of contact for "A-parts" and joined problem solving with suppliers as well as clear requirements to the provision of conformity certificates. Other measures in this area are dynamic sampling as part of the incoming goods inspection or an improved first sample inspection for so-called "B-parts".

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

For both segments, the procurement of raw materials, components and other modules is exposed to risks regarding delivery shortfalls or delays, supply bottlenecks, quality issues and price increases. A variety of different materials at low volumes characterises the supply chain. In addition, these materials are also used in other industries, which is why the HENSOLDT Group only purchases small fractions of the suppliers' total output. The HENSOLDT Group also procures highly customised products, which are only available from a small number of suppliers or even only from a single source. To mitigate these procurement risks, a number of measures are in place: suppliers are involved in projects at an early stage, preferred suppliers are specified and, moreover, suppliers are selected on the basis of fact- and competition-oriented factors. There is also a management system in place for supplier relationships. Compliance with the Supply Chain Sourcing Obligations Act is essential for HENSOLDT. A crucial part of complying with the law is engaging our suppliers via a web-based IT platform to continuously query and identify the relevant data from suppliers to ensure compliance and manage and avoid potential risks. The measures for mitigating the procurement risk have been further strengthened and focused under the continuous monitoring and analysis of global pandemic- and crisis-related shortages of certain materials in the fiscal year 2022. A dedicated process for the efficient handling of brokerware, including the necessary technical evaluation, has been defined and introduced. Potential effects for HENSOLDT are regularly assessed in purchasing and the operational business units in order to counteract them with appropriate measures. At this point in time, there is therefore a moderately increasing risk for the Sensors segment in terms of impact and a medium risk for the Optronics segment as well as the possibility of time-related revenue shifts.

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

### **Financial risks**

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

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

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

### **Currency and exchange rate risks**

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

### **Credit and interest rate risks**

To secure the cash requirements of the Group's business operation, the HENSOLDT Group uses interest-rate-sensitive financial instruments. The interest rate risks associated with these instruments have been mitigated by way of interest rate hedges. The aim of interest rate management is to limit the impact of interest rates on the financial performance as well as on assets and liabilities of the Group. For this purpose, interest rate hedges were concluded in the fiscal year 2022 to the extent of existing long-term loan amounting to € 620 million (nominal value) for the period from the first quarter of 2023 to the first quarter of 2027.

In conjunction with the IPO in the third quarter of 2020, HENSOLDT replaced its existing debt financing with a new credit facility agreement, consisting, among others, of a new term loan amounting to € 600.0 million (nominal value). The long-term loan was increased by € 20 million in the fourth quarter of 2021 under the aspect of diversifying the banking landscape. In the second quarter of 2022, the debt financing was adjusted by means of an amendment and a restatement agreement. The long-term syndicated loan is tied to compliance with a financial covenant (see note 36.1). In the event of a breach, the financing partners are authorised to terminate the syndicated loan. There are no indications that the covenant cannot be fully complied with in the foreseeable future.

### **Liquidity risks**

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

In the fiscal year 2020, the IPO proceeds were used by the HENSOLDT Group to improve liquidity and reduce debt. To ensure the liquidity of the Group, HENSOLDT replaced the existing revolving credit facility with a new revolving credit facility amounting to € 350 million in the context of the IPO. The revolving credit facility was increased by € 20 million in the fourth quarter of 2021 and adjusted for various points in the second quarter of 2022 by means of an amendment and restatement agreement (see note 36.2). The revolving credit facility which had been fully used in 2020 was repaid in the amount of € 150 million in the fiscal year 2022 and was therefore not utilised at the reporting date. In order to plan the required utilisation of this facility, there is a comprehensive process in place for planning future liquidity requirements and thus to adequately cover the associated risk.

### ***Risks related to pension plans***

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

### ***Asset impairment risks***

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

### ***Tax risks***

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

### **COVID-19**

Since the beginning of the fiscal year 2020, HENSOLDT has continuously tracked the situation around the COVID-19 pandemic at all sites to protect the health and well-being of all employees, customers, partners as well as the business itself. The local business continuity management teams have reviewed and updated their plans to enable maximum resilience of business activities. Key processes were tested and changed where necessary to not only ensure ongoing operations but also minimise the potential spread of the virus. The situation around COVID-19 was continued to be monitored also in the fiscal year 2022. The Company provided its employees with recommendations which are adapted to the new version of the German Infection Protection Act and to measures the Company has been consistently implementing in the past. Preparations have been made to be able to react to any potential changes in the situation.

So far, the COVID-19 pandemic has not significantly affected the business of HENSOLDT as a supplier of defence and security electronics. In the fiscal year 2022, there have also been neither formal cancellations of large orders from defence sector customers nor significant effects on the order backlog or future prospects in the defence sector due to the pandemic. Potential effects of further waves of infection and lockdowns due to the global COVID-19 pandemic have not been considered.



## **Risks from current supply chain situation**

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

### **1.4 Overall risk assessment**

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

## **2 Opportunity report**

### **2.1 Opportunities**

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

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

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

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

### **Functional opportunities**

As a high-tech pioneer in the area of defence and security electronics, the HENSOLDT Group is a specialized provider for civil and military sensor solutions. The HENSOLDT Group operates in a highly regulated industry that is affected by international conflicts and political developments. The business policy is designed to ensure a long-term and economically sustainable future of the HENSOLDT Group. New opportunities shall be recognised systematically and at an early stage.

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

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

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

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

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

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

## **Operative opportunities**

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

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

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

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

The HENSOLDT Group has co-operations with many renowned universities and research institutes, especially in Germany, for nearly all early-stage technological developments in the radar and optronics sectors. Through this intense collaboration between the universities and research institutes, the HENSOLDT Group lays the foundation for maximizing its opportunities as an innovative organization. Both business units benefit from this. In addition, cooperations with other market participants to exploit operational opportunities are an essential part of the strategy. In the fiscal year, among other things, a partnership was entered into with ELTA Systems Ltd. for a joint maritime long-range radar for a German customer.

## **2.2 Overall opportunity assessment**

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

Increases in defence budgets and growing military investment worldwide are creating significant opportunities for HENSOLDT. What remains is the opportunity of the diversification of the product range and the expansion of the service business as well as HENSOLDT's ability to act as a leading innovator within its industry which will act as multipliers.

# V Non-financial group statement

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

HENSOLDT prepares a sustainability report, which will be compliant with the requirements for capital market-oriented companies, which describes the sustainability-related activities and extensively deals with the Group’s influence on the environment and society. For this purpose, current initiatives and relevant KPIs, especially, regarding relevant topic areas will be included and a forecast for future measures and initiatives will be given. Business integrity and health and safety have been identified as key issues for the fiscal year 2022. In addition, product responsibility and further development of employees as well as diversity in the company (topic area “human potential”) are further focal points. The subjects of social commitment as well as plant and resources gained in importance.

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

# VI Takeover-relevant information and explanatory report

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

## 1 Composition of share capital

As of 31 December 2022, the share capital of HENSOLDT AG amounts to € 105.0 million and is divided into 105,000,000 ordinary bearer shares (no-par value shares). The shares are fully paid up. All shares carry the same rights and obligations. The rights and obligations of shareholders arise in detail from the provisions of the German Stock Corporation Act (AktG), especially sections 12, 53a et seq., 118 et seq. and 186 AktG.

## 2 Restrictions on voting rights or transfer of shares

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

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

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

The Company launched an employee share program in October 2021 and issued a first tranche of shares to its employees. A second tranche under this programme was issued in October 2022. The shares underlying this programme are acquired and held centrally by a service provider in its own name, but internally in trust for the participating employees. According to the regulations of the employee share programme, there is a one-year lock-up period from the acquisition date, during which the underlying shares may generally not be sold, encumbered or otherwise transferred by the participating employees.

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

### **3 Shareholdings exceeding 10 % of the voting rights**

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

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

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

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

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

### **4 Shares with special rights of control**

Shares with special rights of control do not exist.

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

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

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

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

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

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

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

## **7 Authority of the Management Board to issue or repurchase shares**

### **7.1 Conditional capital**

By resolution of the shareholders' meeting on 18 August 2020, the Management Board was authorised, subject to the approval of the Supervisory Board, to issue bearer or registered bonds with warrants and/or convertible bonds, profit participation rights and/or participating bonds, or a combination of these instruments for a total nominal amount of up to € 500.0 million, with or without limited term, on one or more occasions up to 11 August 2025, in return for contributions in cash or in kind and to grant or impose option rights or obligations on the holders or creditors of bonds with warrants or participatory certificates with warrants or participating bonds with warrants, or grant or impose conversion rights or obligations on the holders of convertible bonds or participatory certificates with warrants or convertible participating bonds, in respect of bearer shares with no par value of the Company representing a pro rata amount of the share capital of up to € 16.0 million in total, in accordance with the respective terms and conditions of these bonds.

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

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

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

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

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

The Management Board is also authorised, subject to the approval of the Supervisory Board, to exclude shareholders' subscription rights to bonds issued against contributions in kind with option or conversion rights or option or conversion obligations, in particular in the case of the acquisition of companies, parts of companies, equity interests in companies or other assets, including rights and receivables, or in connection with business combinations.

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

## **7.2 Authorised capital**

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

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

- in order to exclude fractional amounts from shareholders' subscription rights in the event of capital increases against cash contributions or contributions in kind;
- to the extent necessary to grant subscription rights to the new bearer shares with no par value to holders or creditors of option or conversion rights granted or option or obligations imposed by the Company or by its direct or indirect affiliated companies in the scope to which they would be entitled as shareholders after exercising the option or conversion right or after fulfilling the option or conversion obligation as shareholders;
- insofar as the capital increase takes place against contributions in kind, especially in the case of the acquisition of companies, parts of companies, participations in companies or other assets, including rights and receivables, or in the context of mergers;



- for the purpose of issuing shares to employees of the Company and employees and members of the management of subordinated group companies, with regard to employees also in compliance with the requirements of section 204 (3) AktG;
- In the case of capital increases against cash contributions, if the subscription price for which the new bearer shares with no par value are issued does not significantly fall short of the market price at the time of final determination of the amount of which the shares are issued, which should be as close as possible to the placement of the bearer shares with no par value (simplified exclusion of subscription rights pursuant to section 186 (3) sentence 4 AktG). The shares issued under exclusion of the subscription right in accordance with section 186 (3) sentence 4 AktG may not exceed a total of 10.0 % of the share capital existing at the time when the resolution on the creation of this authorisation is adopted or – if this value is lower – at the time when the resolution on the initial exercise of this authorisation is made. The upper limit of 10.0 % of the share capital shall be reduced by the prorated amount of the share capital attributable to those shares issued or sold during the period of effectiveness of this authorisation under the exclusion of subscription right in direct or analogous application of section 186 (3) sentence 4 AktG. Furthermore, this limit is decreased by shares that have been or may be issued in order to satisfy option or conversion rights or obligations, if the option or conversion rights or obligations were granted or imposed under exclusion of the subscription rights in accordance with section 186 (3) sentence 4 AktG during the period of effectiveness of this authorisation.

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

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

### 7.3 Share buyback

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

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

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

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

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

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

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

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

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

On 7 September 2020, HENSOLDT AG, as borrower, entered into a Senior Facilities Agreement (“SFA”) with a number of lenders in the amount of € 950 million. In the agreement dated 2 November 2021 the SFA was increased by € 40 million to a total of € 990 million, € 620 million of which relate to a term loan and € 370 million to a revolving credit facility. On 12 April 2022 the SFA of HENSOLDT AG was again adjusted in respect of various points by means of an “Amendment and Restatement Agreement”. The term was extended from September 2025 to April 2027. The margin grid was changed to the borrower’s benefit and for drawings in USD and GBP, the LIBOR was replaced by so-called risk free rate rules. This credit agreement contains a so-called “change of control” clause, which is triggered if a person other 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.

# VII Corporate governance statement

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In this corporate governance statement, we report on the principles of corporate management and corporate management practices and on significant structures of our corporate governance for the past fiscal year in accordance with sections 289f and 315d HGB. It also includes the Declaration of conformity pursuant to section 161 AktG.

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

## 1 Fundamentals

HENSOLDT promotes the principles of good corporate governance in the sense of responsible, transparent corporate management and control aimed at increasing the value of the Company in the long term. This is a prerequisite for promoting the trust of national and international investors and financial markets, business partners, employees and the public in HENSOLDT. HENSOLDT Group bases its activities on the recommendations and suggestions of the German Corporate Governance Code ("Code") as amended on 28 April 2022.

## 2 Declaration of conformity pursuant to section 161 AktG

The Management Board and Supervisory Board of HENSOLDT AG were subject to the obligation under section 161 AktG to issue a declaration of conformity with the Code throughout the entire fiscal year. The Management Board and Supervisory Board issued the following declaration on the Code in resolutions dated on 28 November / 8 December 2022:

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

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

Taufkirchen, 28 November / 8 December 2022

**HENSOLDT AG**

Management Board

Supervisory Board"

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

### **3 Remuneration of Management Board and Supervisory Board**

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

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

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

### **4 Disclosures on corporate governance practices**

#### **4.1 Principles**

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

#### **4.2 Suggestions of the Code**

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

At the time of this statement, it is unclear whether, in the event of a takeover bid, the Management Board would convene an extraordinary annual meeting at which the shareholders would discuss the takeover bid and, if necessary, decide on measures under company law (suggestion A.8). The Management Board would make this decision depending on the content of any takeover bid and the specific need for discussion and decision in each individual case, taking into account the expense of an extraordinary general meeting.

#### **4.3 Standards of Business Conduct**

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

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

## 4.4 Compliance

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

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

Furthermore, HENSOLDT has established a whistleblower system, which allows employees and external parties to report violations in person or anonymously via an "OpenLine" (anonymous telephone and e-mail hotline). HENSOLDT's compliance organisation includes twelve employees as of 31 December 2022. The compliance organisation reports directly to the general counsel who reports to the CEO. The Head of Compliance also reports regularly to the Compliance Committee of HENSOLDT's Supervisory Board. In addition to the Head of Compliance, nine Compliance Officers (full-time) are currently employed. Besides, there are compliance contacts in subordinate companies who report to the central compliance organisation. Training courses are held both virtually and in person, IT tools are being used for this purpose as well. In addition, regular Q&A sessions are offered, where various compliance topics are discussed and employees can ask questions about all compliance topics. Other IT tools are used in particular as part of due diligence to screen potential business partners. The Compliance Organisation and Management Board of HENSOLDT regularly communicates on the compliance organisation via internal communication media.

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

## 4.5 Risk and control management

Functioning control systems are an essential component of stable business processes. HENSOLDT's Group-wide control systems are embedded in an overall concept, which, among other things, takes into account statutory regulations, the recommendations of the Code, international regulations and recommendations, and other company-specific guidelines. The persons responsible for the individual elements of the control system are in close contact with each other and with the Management Board and report regularly to the Supervisory Board or its committees. Likewise, HENSOLDT Group has a group-wide adequate and effective risk management system which describes and regulates functions, processes and responsibilities in a binding manner. The internal risk control management system also covers sustainability-related objectives, unless already required by law, and includes processes and systems for recording and processing sustainability-related data. The internal control system and the risk management system also include a compliance system based on the risk situation of the company. Key features of the entire internal control and risk management system are explained in chapter "IV Opportunities and risks report".

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

## 4.6 Sustainability

HENSOLDT is aware of the special responsibility and knows the impact of the activities on society and the environment. HENSOLDT is committed to conducting its business sustainably and responsibly at all times. HENSOLDT has defined seven categories in its ESG Strategy 2026. These include our Corporate Integrity, Product Responsibility, Health and Safety, Human Potential, Social Engagement, Responsible Sourcing, as well as Planet and Resources. The Long-Term Incentive bonus components for the Management Board members are among other criteria based on the achievement of the ESG targets "Diversity" and "Climate Impact". Further information on the topic of sustainability (ESG) can be found in chapter "V Non-financial Group Statement" and on the website of HENSOLDT at <https://investors.hensoldt.net> in the "Sustainability" section.

## **4.7 Shareholders and general meeting**

The shareholders of HENSOLDT AG exercise their rights at the annual general meeting. The annual general meeting decides on all matters assigned to it by law, including the appropriation of profits, the discharge of the Management Board and the Supervisory Board, and the election of the auditor. The annual general meeting also elects the Supervisory Board members representing the shareholders.

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

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

## **4.8 Management Board and Supervisory Board shareholdings**

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

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

## **4.9 Corporate Communication and transparency**

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

The articles of association, the rules of procedure of the Supervisory Board, the report of the Supervisory Board from the fiscal year 2020, the Declaration of Conformity from the fiscal year 2020, and the Corporate Governance Report, from the 2020 fiscal year, are available on the website of HENSOLDT at <https://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 characterised by mutual trust.

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

## 5.1 Management Board of HENSOLDT AG

### Working methods of the Management Board

The Management Board manages the Company on its own responsibility. In doing so, it is bound to the interests of the Company and committed to increasing the sustainable value of the Company. The Management Board identifies and assesses the opportunities and risks for the Company associated with the social and environmental factors, as well as the environmental and social impact of the Company's activities. In addition to long-term economic objectives, it also takes due account of environmental and social objectives. Its business planning includes financial and sustainability-related goals. For this purpose, HENSOLDT has developed an ESG Strategy 2026, which defines the sustainability topics that are essential for the company in seven categories. The Board's main tasks include defining the Company's objectives and strategic direction, managing and monitoring the operating units, and establishing and monitoring an efficient risk management system. The Management Board is responsible for the preparation of the consolidated financial statements and the annual financial statements as well as the preparation of interim financial information of HENSOLDT AG. The Management Board is also responsible for ensuring compliance with legal requirements and official regulations.

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

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

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



## Composition of the Management Board

Pursuant to section 6 (1) of the articles of association, the Management Board of HENSOLDT AG consists of at least two persons. In the reporting period until 30 June 2022, the Management Board comprised four members: Thomas Müller as Chairman (CEO), Axel Salzmänn as CFO, Peter Fieser as CHRO and Celia Pelaz as CStO. Axel Salzmänn resigned as member of the Management Board and CFO with effect from 30 June 2022. Christian Ladurner, formerly Head of Central Controlling & Investor Relations, was appointed as a member of the Management Board and CFO effective 1 July 2022. Peter Fieser resigned as a member of the Management Board and CHRO with effect from 30 September 2022. Dr. Lars Immisch, formerly Executive Vice President HR Airbus Defence & Space, was appointed as his successor and member of the Management Board and CHRO effective 1 October 2022. The appointments of Christian Ladurner and Dr. Lars Immisch to the Management Board were made by resolution of the Supervisory Board dated 16 March 2022.

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

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

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

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

## 5.2 Supervisory Board of HENSOLDT AG

### Working methods of the Supervisory Board

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

At least two Supervisory Board meetings are held each calendar half-year. Extraordinary meetings are held as required. The committees also hold regular meetings. The resolutions of the Supervisory Board require a majority of the votes cast, unless otherwise stipulated by law. If a vote results in a tie, each member of the Supervisory Board has the right to demand a new vote on the same matter. If this also results in a tie, the Chairman has two votes. In the past fiscal year, various Management Board matters were discussed at the Supervisory Board meeting on 16 March 2022 that required the Supervisory Board to meet without the Management Board being present, including the resolution on the variable remuneration of the Management Board for 2021 and the targets for variable remuneration in the year 2022. Furthermore, the Supervisory Board held a meeting on 22 March 2022 without the Management Board to propose a replacement candidate for election to the Supervisory Board by the Annual General Meeting in May 2022. On 13 May 2022, the Supervisory Board met to pass a resolution on the appointment of members of the standing committees without the presence of the Management Board. The Supervisory Board has adopted rules of procedure for itself, which are published on the website of HENSOLDT at <https://investors.hensoldt.net>.

HENSOLDT considers the regularly review of the effectiveness of the Supervisory Board's work in accordance with recommendation D.12 of the Code as an important component of good corporate governance. In October and November 2022, the members of the Audit Committee, the Compliance Committee and the Executive Committee assessed the effectiveness of the committees' work. The assessment was made using an anonymised questionnaire. The competence profile was expanded to include expertise on sustainability issues that are significant for the company.

In principle, members of the Supervisory Board take responsibility for the training and continuing education measures required for their duties. If necessary, they are supported by HENSOLDT to an appropriate extent. In the past fiscal year, the members of the Supervisory Board received further training according to their individual needs on the topics of news in supervisory board law as well as innovations in the German Corporate Governance Code and current developments in the area of risk management and the internal control system. To support the Supervisory Board in the induction of any new members, an induction process has been established in which the members of the Supervisory Board are familiarised with the main characteristics of HENSOLDT and its business activities as well as the legal requirements and internal processes relevant to their work on the Supervisory Board.

Details of the Supervisory Board's activities, including the number of meetings and information on the attendance of Supervisory Board members at meetings in the fiscal year 2022, are provided within the "Report of the Supervisory Board".

## **Composition of the Supervisory Board**

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

In the fiscal year 2022, the Supervisory Board comprised the following members:

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

<sup>1</sup> Representative of the employees

Their mandates in other supervisory boards or comparable German and foreign supervisory bodies are shown in the following table (mandates within the HENSOLDT Group are marked with an asterisk (\*)):

<b>Name</b>	<b>Position</b>
Johannes P. Huth	<ul style="list-style-type: none"> <li>• Member of the Supervisory Board of Axel Springer SE</li> <li>• Member of the Board of Coty Inc.</li> </ul>
Armin Maier-Junker	<ul style="list-style-type: none"> <li>• Member of the Supervisory Board of HENSOLDT Sensors GmbH* until 31 August 2022</li> </ul>
Dr. Jürgen Bestle	<ul style="list-style-type: none"> <li>• Member of the Supervisory Board of HENSOLDT Sensors GmbH* since 1 September 2021</li> </ul>
Jürgen Bühl	<ul style="list-style-type: none"> <li>• Member of the Supervisory Board of HENSOLDT Sensors GmbH*</li> <li>• Member of the Supervisory Board of Airbus Defence &amp; Space GmbH</li> </ul>
Letizia Colucci	<ul style="list-style-type: none"> <li>• Member of the Board of Directors of Avio S.p.A.</li> <li>• Chairwoman of the Board of Directors of MBDA Italia S.p.A.</li> <li>• Member of the Board of Directors of e-GEOS S.p.A.</li> </ul>
Achim Gruber	<ul style="list-style-type: none"> <li>• Member of the Supervisory Board of HENSOLDT Optronics GmbH* since 1 September 2022</li> </ul>
Ingrid Jägering	<ul style="list-style-type: none"> <li>• Independent member of the Board of Directors of SAF Holland SE</li> <li>• Member of the Advisory Board of Wegmann Group</li> </ul>
Christian Ollig	<ul style="list-style-type: none"> <li>• Member of the Supervisory Board of ETL AG Steuerberatungsgesellschaft</li> <li>• Member of the Supervisory Board of Rainbow UK BidCo Limited</li> <li>• Member of the Supervisory Board of Upfield Holdings B.V.</li> </ul>
Prof. Dr. Burkhard Schwenker	<ul style="list-style-type: none"> <li>• Member of the Supervisory Board of Hamburger Hafen und Logistik AG</li> <li>• Member of the Supervisory Board of Hamburger Sparkasse AG</li> <li>• Member of the Supervisory Board of Flughafen Hamburg GmbH</li> <li>• Member of the Supervisory Board of M.M. Warburg &amp; Co. KGaA</li> <li>• Member of the Administrative Board of HASPA Finanzholding</li> </ul>
Giovanni Soccodato	<ul style="list-style-type: none"> <li>• Chairman of the Supervisory Board of Thales Alenia Space</li> <li>• Deputy Chairman of the Board of Directors of Telespazio S.p.A.</li> <li>• Deputy Chairman of the Management Board of MBDA B.V.</li> <li>• Member of the Board of Directors of GEM Elettronica S.r.l.</li> <li>• Member of the Board of Directors of Elettronica S.p.A.</li> <li>• Member of the Board of AIAD</li> <li>• Member of the Management Board of AMSH B.V.</li> <li>• Member of the Board of G.I.E. Avions de Transport Regional (ATR)</li> </ul>
Julia Wahl	<ul style="list-style-type: none"> <li>• Member of the Supervisory Board of HENSOLDT Sensors GmbH*</li> </ul>
Claire Wellby	<ul style="list-style-type: none"> <li>• Member of the Supervisory Board of LEONINE Licensing AG</li> </ul>
Hiltrud Werner	<ul style="list-style-type: none"> <li>• Chairwoman of the Supervisory Board of Mitteldeutsche Flughafen AG</li> </ul>
Reiner Winkler	<ul style="list-style-type: none"> <li>• Chairman of the Supervisory Board of MTU Maintenance Hannover GmbH (Group Company)</li> </ul>

The time of initial appointment mentioned above is disclosed on the basis of the first appointment to the Supervisory Board of the HENSOLDT Holding GmbH respectively HENSOLDT GmbH, which means before the change of the legal form of the company into a public limited company (AG) as of 17 August 2020. The following changes occurred in the composition of the Supervisory Board during the fiscal year: With effect from the end of the General Meeting on 13 May 2022, Prof. Wolfgang Ischinger, Christian Ollig and Claire Wellby resigned as shareholder representatives on the Supervisory Board. In their place, Reiner Winkler, Giovanni Soccodato and Letizia Colucci were elected to the Supervisory Board as shareholder representatives by election of the General Meeting on 13 May 2022. With effect from the end of 21 September 2022, Prof. Dr. Burkhard Schwenker resigned as shareholder representative on the Supervisory Board. As of 22 September 2022, Hiltrud Werner was appointed as shareholder representative by the Federal Republic of Germany to the Supervisory Board in accordance with Sec. 8 (2) sentence 5 and 6 of the articles of association of HENSOLDT.

According to the competence profile drawn up by the Supervisory Board, in view of the areas of activity of HENSOLDT Group, the essential competences of the Supervisory Board members include knowledge, experience or skills in the following areas: Industry, markets and regions in which HENSOLDT AG operates, accounting and auditing, corporate governance, compliance and regulatory requirements, capital market and risk management. In 2022, the Supervisory Board expanded the competence profile to include expertise in sustainability issues that are significant for the company. At least one member of the Supervisory Board should have in-depth experience and knowledge in the management of an international company, in the area of digitalization and information technology, in the area of human resources management and recruitment, in accounting and financial reporting, in controlling / risk management as well as in the area of corporate governance and compliance, including the regulatory requirements relevant to HENSOLDT. In addition, the Supervisory Board shall have knowledge and experience in the area of international security policy. Besides the appropriate representation of all gender identities and age groups, proposals for elections to the Supervisory Board will also take into account different educational and professional backgrounds and the most diverse possible cultural and regional origins of the members of the Supervisory Board.

The competence profile also provides rules on the independence of Supervisory Board members and on the limitation of other mandates held in line with the relevant recommendations and suggestions of the Code.

Based on its work up to date, the Supervisory Board has gained the impression that, on an overall basis, the competencies which are considered essential for the board's work relating HENSOLDT AG and the HENSOLDT Group are represented on the Supervisory Board. The Supervisory Board members as a whole are familiar with the industry in which HENSOLDT operates. On the shareholder side in particular, a significant number of members have many years of international experience in the management of an internationally operating company, Corporate Governance and Compliance, and Human Resources issues.

With the Chairwoman of the Audit Committee, Ingrid Jägering, at least one member of the Supervisory Board has proven expertise in the fields of accounting or auditing. In addition, the Chairman of the Supervisory Board as well as Giovanni Soccodato have in-depth knowledge in these areas. In addition, from the Supervisory Board's point of view, the employee side in particular ensures that the interests of numerous stakeholders are adequately taken into account within the work of the Supervisory Board.

The implementation of the competence profile is disclosed below in the form of a qualification matrix:

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

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

<sup>1</sup> In the opinion of the Supervisory Board, the member of the Supervisory Board is independent of the company and its Management Board

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

The rules of procedure of the Supervisory Board contain a flexible provision on age limits. Accordingly, only persons who are not older than 70 should be proposed for election. This standard age limit is currently not exceeded by any Supervisory Board member.

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

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

## Prevention of conflicts of interest and independence

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

The Supervisory Board assessed by taking into account the ownership structure of HENSOLDT AG, that an appropriate number of shareholder representatives are independent by definition of the Code. On the shareholder representative's side, the Supervisory Board considers Johannes Huth, Letizia Colucci, Ingrid Jägering, Giovanni Soccodato, Hiltrud Werner and Reiner Winkler to be independent of the Company, its Management Board, thus all six shareholder representatives. Consequently recommendation C.9 (1) of the Code is complied with.

The right of delegation of the Federal Republic of Germany provided for in section 8 (2) sentence 3 of the articles of association and the sole right of delegation of the Federal Republic of Germany provided for in section 8 (2) sentence 5 of the articles of association for a further member of the Supervisory Board have been exercised. Ingrid Jägering was appointed by the Federal Republic of Germany to the Supervisory Board in accordance with section 8 (2) sentence 1 and 2 of the articles of association effective on 14 April 2022. Prof. Dr. Schwenker was appointed by the Federal Republic of Germany to the Supervisory Board in accordance with section 8 (2) sentence 5 and 6 of the articles of association effective on 14 April 2022. As Prof. Dr. Burkhard Schwenker resigned his office effective at the end of 21 September 2022, Hiltrud Werner was appointed by the Federal Republic of Germany to the Supervisory Board in accordance with section 8 (2) sentence 5 and 6 of the articles of association on 22 September 2022. These appointments do usually not affect the independence of a Supervisory Board member, according to the assessment of the Supervisory Board. On the one hand, the articles of association stipulate that such a Supervisory Board member who was delegated pursuant to section 8 (2) sentence 3 of the Articles of Association, may not be a civil servant or employee of the Federal Republic of Germany, another regional authority or an institution under public law. On the other hand, in the opinion of the Supervisory Board, the Federal Republic of Germany is not a controlling shareholder in line with the meaning of recommendation C.9 of the Code, as no control agreement has been concluded with the Federal Republic of Germany, nor does the Federal Republic of Germany hold an absolute majority of votes or any other sustainable majority at the general meeting.

With regard to recommendation C.9 of the Code, the Supervisory Board classifies Giovanni Soccodato and Letizia Colucci as employee of Leonardo ("Leonardo") or companies affiliated with Leonardo and as independent. With a 25.1 % shareholding in HENSOLDT, Leonardo does not constitute a controlling shareholder, as neither a control agreement has been concluded nor does Leonardo hold an absolute majority of votes or any other sustainable majority at the general meeting. The Supervisory Board thus assumes that the aforementioned Supervisory Board members are independent of the Management Board and the Company within the meaning of recommendation C.7 of the Code. The Supervisory Board assumes that the existing business relationships between the HENSOLDT Group on the one hand and companies affiliated with Leonardo on the other hand were not material for either of the business partners in the previous year. In addition, the Supervisory Board assumes that Giovanni Soccodato does not exercise any board function or advisory duties at Leonardo within the meaning of recommendation C.12 of the Code. There is also no personal relation of Giovanni Soccodato to Leonardo in terms of recommendation C. 12 of the Code. Of the other companies in which Giovanni Soccodato was a member of a governing body in the reporting year 2022, only the mandate at Elettronica S.p.A. would have been classified as a function on the executive body of a significant competitor. However, the mandate ended in June 2022. Here, too, it is to be assumed that, despite the membership in a body of Elettronica S.p.A., which formally continues for a few weeks, there is no function in a body of a significant competitor within the meaning of recommendation C. 12 of the Code.

### **5.3 Committees of the Supervisory Board**

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

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

## Executive Committee

The Executive Committee is composed of the Chairman of the Supervisory Board, his deputy and one further member from both the employee and shareholder sides. In the reporting period, Johannes P. Huth (chairman), Jürgen Bühl<sup>19</sup>, Prof. Wolfgang Ischinger (until the end of the general meeting on 13 May 2022), Reiner Winkler (from the end of the general meeting 13 May 2022) as well Armin Maier-Junker<sup>19</sup> were members of the committee. The Executive Committee prepares proposals to the Supervisory Board for the appointment and dismissal of Management Board members and the extension of their mandates, the handling of service contracts with Management Board members, Management Board succession planning, and corporate governance issues. The Executive Committee is responsible for concluding, amending, extending and terminating service contracts with the members of the Management Board within the framework of the remuneration system determined by the Supervisory Board in a plenary session and the general meeting and within the targets set by the Supervisory Board in a plenary session for the variable remuneration of the individual Management Board members. In addition, the Executive Committee makes proposals to the Supervisory Board for resolutions on existing or anticipated conflicts of interest of members of the Management Board. Furthermore, the Executive Committee makes proposals for the approval of other contracts and transactions between the Company or a subsidiary of the Company on the one hand and a member of the Management Board or persons or companies related to a member of the Management Board on the other hand, unless the Committee for Related Party Transactions is responsible.

## Audit Committee

The Audit Committee is composed of two shareholder representatives and two employee representatives. In the reporting period, Ingrid Jägering (chairwoman), Marion Koch<sup>19</sup>, Christian Ollig (until the end of the general meeting on 13. Mai 2022), Giovanni Soccodato (from the end of the general meeting on 13 May 2022) as well as Julia Wahl<sup>19</sup> were members of the committee. The Chairwoman of the Audit Committee, Ingrid Jägering, is independent in the assessment of the Supervisory Board. She has not been a member of the Management Board of HENSOLDT AG in the past, nor does she have any other personal or business relationship with HENSOLDT AG or its institutions, which could constitute a material and not only temporary conflict of interest. She is not simultaneously Chairwoman of the Supervisory Board and has expertise in the fields of accounting and auditing due to her long years of work as CFO in different companies. Giovanni Soccodato has managed projects and programmes with responsibility for accounting, controlling and profitability. His role in M&A projects not only included this responsibility, but also the evaluation of targets or companies to be acquired or sold by Leonardo. This included the assessment and analysis of business plans and business activities. In his various functions, he has acquired skills in balance sheet and P&L analysis as well as in various accounting standards and is familiar with the different positions. He has a clear understanding of all positions of the asset, financial situation and result of operations of any company. Giovanni Soccodato is familiar with financial matters in the broadest sense and, due to his many years of experience with mergers and acquisitions, is also able to interpret audit reports, expert opinions and similar reports. HENSOLDT AG thus meets the requirements of section 100 (5) AktG in conjunction with section 107 (4) sentence 3 AktG in the audit committee.

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

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

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

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<sup>19</sup> Employee representative



## Conciliation Committee

The Conciliation Committee consists of the chairman of the Supervisory Board as chairman of the committee, his deputy elected in accordance with the German Codetermination Act, and one additional representative for each shareholders and employees. In the reporting period, Johannes P. Huth (chairman), Jürgen Bühl<sup>19</sup>, Armin Maier-Junker<sup>19</sup> and Christian Ollig (until the end of the general meeting on 13 May, 2022) and Reiner Winkler (from the end of the general meeting on May 13, 2022) were members of the committee. In the cases set out in section 31 (3) and (5) MitbestG, the Conciliation Committee shall submit proposals to the Supervisory Board for the appointment or withdrawal of the appointment of members of the Management Board.

## Compliance Committee

The Compliance Committee is composed of two shareholder representatives and two employee representatives. In the reporting period, Prof. Dr. Burkhard Schwenker (chairman until 21 September 2022), Hiltrud Werner (member from 21 September 2022 chairwoman from 27 September 2022), Christian Ollig (until the end of the general meeting on 13 May 2022), Letizia Colucci (from the end of the general meeting on 13 May 2022), Dr. Jürgen Bestle<sup>19</sup> and Achim Gruber<sup>19</sup> were members of this committee. The Compliance Committee's task is to monitor the Company's compliance with legal provisions, official regulations and internal Company policies relating to anti-corruption, antitrust (competition law), data protection and export control.

## Related Party Transactions Committee

The Related Party Transactions Committee shall be composed of two shareholder representatives and two employee representatives, taking into account that the majority of the Committee shall be composed of members for which no concern of a conflict of interest exists due to their relationship with a related party. In the reporting period, Prof. Dr. Burkhard Schwenker (chairman until 21 September 2022), Reiner Winkler (member from the end of the general meeting on 13 May, 2022 and chairman from 27 September 2022), Jürgen Bühl<sup>19</sup>, Prof. Wolfgang Ischinger (until the end of the general meeting on 13 May 2022), Hiltrud Werner (from 27 September 2022) as well as Armin Maier-Junker<sup>19</sup> were members of this committee. Task of the Related Party Transactions Committee is to monitor the Company's internal procedure for the ordinary course of business and the arm's length nature of related party transactions within the meaning of section 111a (1) AktG. Furthermore, the Committee is responsible for the approval of related party transactions in accordance with section 111b AktG. For such transactions, the decision-making authority of the committee takes precedence over the decision-making authority of other committees.

## Nomination Committee

The Nomination Committee consists of up to four Supervisory Board members from the shareholder's side. In the reporting period, Johannes P. Huth (chairman), Prof. Wolfgang Ischinger (until the end of the general meeting on 13 May 2022), Reiner Winkler (from the end of the general meeting on 13 May 2022), Ingrid Jägering as well as Christian Ollig (until the end of the general meeting on 13 May 2022) and Giovanni Soccodato (from the end of the general meeting on 13 May 2022) were members of the committee. When appointing members to this committee, the Supervisory Board ensures an appropriate representation of women and men. The Nomination Committee proposes suitable candidates to the Supervisory Board for its election proposal to the general meeting. The Nomination Committee is also responsible for preparing a proposal for the competence profile, reviewing the existing competence profile, and recommending any adjustments.

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

### **Representation of women in the Supervisory Board**

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

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

### **Representation of women in the Management Board of HENSOLDT AG**

The Supervisory Board of HENSOLDT AG has set a target for the proportion of women in the Management Board in accordance with section 111 (5) AktG. When the target was first set, a minimum target of 25.0 % was set until the end of the first implementation period on 11 August 2025. The proportion of women in the Management Board was 0 % at the time the target was set for the first time. Since the appointment of Celia Pelaz as the fourth member of the Management Board in 2021, the proportion of women is 25.0 %.

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

### **Determination for the two management levels below the Management Board**

In accordance with section 76 (4) AktG, the Management Board also sets targets for the proportion of women in the two management levels below the Management Board. As of 31 December 2020, HENSOLDT AG, as an individual entity, did not have any management levels below the Management Board. After this changed during fiscal year 2021, the Management Board has now set the following quotas for women's participation to be achieved by 8 December 2026:

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

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

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

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

## VIII Final declaration on the dependency report

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Until 3 January 2022, HENSOLDT AG was a dependent company of KKR Square Aggregator L.P., Canada, and its subsidiaries within the meaning of section 312 AktG. The Management Board of HENSOLDT AG therefore prepared a dependency report according to section 312 (1) AktG, which contains the following final declaration:

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

# IX HENSOLDT AG

The annual financial statements of HENSOLDT AG, Taufkirchen, (Local Court of Munich, HRB 258711) were prepared in accordance with sections 242 et seq. and 264 et seq. HGB and in accordance with the relevant provisions of the German Stock Corporation Act and the articles of association.

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

## 1 Result of operations of HENSOLDT AG

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

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

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

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

## Overall assessment

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

## 2 Net assets and financial position of HENSOLDT AG

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

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

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

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

### **3 Opportunities and risks**

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

### **4 Forecast**

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

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