Prospectus

for the public offering
in the Federal Republic of Germany

of

45,808,333 bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*), consisting of (i) 25,000,000 bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) to be newly issued, (ii) 8,333,333 existing bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) from the holdings of the selling shareholder, (iii) 6,500,000 existing bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) from the holdings of the selling shareholder, subject to the exercise of an upsize option by the selling shareholder on the date of pricing, and (iv) 5,975,000 existing bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) from the holdings of the selling shareholder to cover a potential over-allotment

and

for the admission to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*)

of

up to 105,000,000 bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*)

– each such share with a proportionate amount of EUR 1.00 in the share capital and with full dividend rights as from January 1, 2020 –

of

HENSOLDT AG
Taufkirchen, Germany

Price Range: EUR 12.00 – EUR 16.00

International Securities Identification Number (ISIN): DE000HAG0005
German Securities Code (*Wertpapier-Kenn-Nummer*, WKN): HAG000
Common Code: 222839734
Trading Symbol: HAG

Joint Global Coordinators and Joint Bookrunners

BofA Securities | J.P.Morgan | KKR Capital Markets | Deutsche Bank

Joint Bookrunners

Citigroup | COMMERZBANK | UniCredit Bank AG | Crédit Agricole CIB

Co-Manager

Mizuho International plc

The date of this prospectus is September 15, 2020

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I. SUMMARY OF THE PROSPECTUS

A. Introduction and Warnings

This prospectus (the "**Prospectus**") relates to shares of HENSOLDT AG, a German stock corporation (*Aktiengesellschaft*) with its registered seat at Willy-Messerschmitt-Straße 3, 82024 Taufkirchen, Federal Republic of Germany (hereinafter also "**Germany**"), Legal Entity Identifier ("**LEI**") 894500686FYLLZD3M624, telephone: +49 (0)89 51518-0, website: www.hensoldt.net (the "**Company**" and, together with its consolidated subsidiaries, the "**Group**", "**we**", "**our**", and "**us**"). The international securities identification number ("**ISIN**") of the Company's shares is DE000HAG0005.

The shares of the Company will be offered by Merrill Lynch International, 2 King Edward Street, London EC1A 1HQ, United Kingdom, LEI GGDZP1UYGU9STUHRDP48 ("**BofA Securities**"), J.P. Morgan Securities plc, 25 Bank Street, Canary Wharf, London E14 5JP, United Kingdom, LEI K6Q0W1PS1L1O4IQL9C32 ("**JPM**"), KKR Capital Markets Partners LLP, 7 Carlton Gardens, Stirling Square, London SW1Y 5AD, United Kingdom, LEI 213800TSSR6EVD45MW84 ("**KCM**"), and Deutsche Bank Aktiengesellschaft, Taunusanlage 12, 60325 Frankfurt am Main, Germany, LEI 7LTWFZYICNSX8D621K86 ("**DB**") (together, the "**Joint Global Coordinators**"), and Citigroup Global Markets Limited, Citigroup Centre, Canada Square, London E145LB, United Kingdom, LEI XKZZ2JZF41MRHTR1V493, COMMERZBANK Aktiengesellschaft, Kaiserstraße 16 (Kaiserplatz), 60311 Frankfurt am Main, Germany, LEI 851WYGNLUQLFZBSYGB56, UniCredit Bank AG, Arabellastraße 12, 81925 Munich, Germany, LEI 2ZCNRR8UK83OBTEK2170, and Crédit Agricole Corporate and Investment Bank, 12 place des Etats-Unis, CS 70052, 92547 Montrouge Cedex, France, LEI 1VUV7VQFKUOQSJ21A208 (Citigroup Global Markets Limited, COMMERZBANK Aktiengesellschaft, UniCredit Bank AG, and Crédit Agricole Corporate and Investment Bank, together with the Joint Global Coordinators, the "**Joint Bookrunners**") and Mizuho International plc, Mizuho House, 30 Old Bailey, London EC4M 7AU, United Kingdom, LEI 213800HZ54TG54H2KV03 (together with the Joint Bookrunners, the "**Underwriters**").

The Prospectus is dated September 15, 2020 and has been approved by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, "**BaFin**") as competent authority under Regulation (EU) 2017/1129 on that date. BaFin can be contacted at Marie-Curie-Str. 24–28, 60439 Frankfurt am Main, Germany, by telephone +49 228 4108-0, or via its website www.bafin.de.

This summary should be read as an introduction to the Prospectus. Any decision to invest in the shares of the Company should be based on consideration of the Prospectus as a whole by the investor. Investors could lose all or part of their invested capital. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under national law, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only where the summary is misleading, inaccurate, or inconsistent, when read together with the other parts of the Prospectus, or where it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the shares of the Company.

B. Key Information on the Issuer

(i) Who is the issuer of the securities?

The issuer of the securities is the Company, HENSOLDT AG. The Company is incorporated as a stock corporation (*Aktiengesellschaft*) under the laws of Germany. It operates under the commercial name HENSOLDT. The Company's registered seat is at Willy-Messerschmitt-Straße 3, 82024 Taufkirchen, Germany, and it is registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Munich, Germany, under HRB 258711. The Company's LEI is 894500686FYLLZD3M624.

The Company was established in September 2019 and became the parent company of the Group in November 2019, when Square Lux Holding II S.à r.l., a limited liability company (*société à responsabilité limitée*) under the laws of Luxembourg (the "**Selling Shareholder**"), contributed all shares held by the Selling Shareholder in HENSOLDT Holding GmbH, previously the parent company of the Group, to the Company. For the time period before such contribution, the terms "**Group**", "**we**", "**our**", and "**us**" refer to HENSOLDT Holding GmbH together with its consolidated subsidiaries.

a. Principal activities

We are a provider of defense and security electronic sensor solutions. Our product portfolio ranges from radars, to electronic warfare and avionics (electronic systems used on aircraft, such as crash recorders), to optical and optronic (electro-optical systems, such as thermal imaging devices) equipment; in addition, we offer a range of customer support solutions and services. As such, we are exposed to some of the fastest growing sub-markets of the global defense market (source: commissioned study by Renaissance Strategic Advisors II, LLC entitled "Global Defense Electronics Market: Trends, Drivers and Outlook for 2020 and Beyond" (the "**RSAdvisors Study**")), as well as select adjacent non-defense markets.

As a platform-independent provider, we supply our products to a variety of platforms (such as fighter jets, armored vehicles, and naval vessels) of different manufacturers, for example, radars and self-protection systems for the Eurofighter jet and optronics for the Leopard 2 main battle tank. In addition, we sell stand-alone solutions, for instance air traffic control systems. In 2019, we derived slightly more than two fifths of our revenue from our home market, Germany. Approximately one third of our revenue in 2019 was generated from other end-customers in the EU and NATO (excluding Germany) and NATO-equivalent countries (Australia, Japan, New Zealand, and Switzerland), for which we rely on well-established export control procedures.

As the largest European supplier with exclusive focus on the defense and security electronics market (source: RSAdvisors Study), together with our technological as well as research and development capabilities and a focus on investments in recent years into the development of new and upgrade of existing products, we believe we benefit from competitive advantages in terms of customer focus, capability, expertise, and investment, and that we have positioned ourselves as a key defense electronics provider.

b. Major shareholders

As of the date of the Prospectus, the entire share capital of and all voting rights in the Company are held by, and the Company is therefore directly controlled by, the Selling Shareholder, which is indirectly owned by investment funds and other entities affiliated with Kohlberg Kravis Roberts & Co. L.P. The voting rights held by the Selling Shareholder are attributed through various entities to KKR Management LLP and KKR SP Limited.

In connection with an agreement between the Selling Shareholder and the Federal Republic of Germany, which aims to protect the Federal Republic of Germany's security interests in certain entities and activities of the Group, the Federal Republic of Germany has purchased one share of the Company from the Selling Shareholder and the parties have agreed that the acquisition of such share will be effected at the earliest upon admission of the Company's shares to trading, subject to relevant internal ministry approval. In addition, the Selling Shareholder has granted a right to the Federal Republic of Germany to acquire a strategic interest in the Company by increasing its shareholding in the Company to up to 25.1% by purchasing shares of the Company from the Selling Shareholder.

c. Key managing directors

The Company's management board consists of three members: Thomas Müller is chief executive officer (CEO), Axel Salzmann is chief financial officer (CFO), and Peter Fieser is chief human resources officer (CHRO).

d. Statutory auditors

For the financial year ended December 31, 2019 and the financial year ending December 31, 2020, KPMG AG Wirtschaftsprüfungsgesellschaft, Klingelhöferstraße 18, 10785 Berlin, Germany ("**KPMG**") was appointed as auditor of the Company. For the financial years ended December 31, 2018 and 2017, KPMG was appointed as auditor of HENSOLDT Holding GmbH.

(ii) What is the key financial information regarding the Issuer?

The unaudited condensed consolidated interim financial statements of the Company as of and for the six-month period ended June 30, 2020 (the "**Unaudited Interim Consolidated Financial Statements**") were prepared by the Company (at that time still HENSOLDT GmbH) in accordance with the International Financial Reporting Standards as adopted by the European Union ("**IFRS**") on interim financial reporting (IAS 34). The audited consolidated financial statements of the Company (at that time still HENSOLDT GmbH) as of and for the financial year ended December 31, 2019 and the audited consolidated financial statements of HENSOLDT Holding GmbH (at that time the parent company of the Group) as of and for the financial years ended December 31, 2018 and 2017 were prepared by the Company or HENSOLDT Holding GmbH (as applicable) in accordance with IFRS. The audited unconsolidated financial statements of the Company as of and for the financial year ended December 31, 2019 were prepared by the Company (at that time still HENSOLDT GmbH) in accordance with the German Commercial Code (*Handelsgesetzbuch*).

a. Key financial information from the consolidated income statement

	For the Six-Month Period Ended June 30,		For the Financial Year		
	2020	**2019**	**2019**	**2018**	**2017**
(in EUR thousand, unless otherwise indicated)	**(unaudited)**		**(audited, unless otherwise indicated)**		
Revenue	440,296	415,557	1,114,164	1,110,117	917,093
Earnings before finance result and income tax (EBIT)	(29,287)	(26,279)	62,071	21,760	(69,059)
Consolidated profit/loss	(88,930)	(32,402)	8,171	(59,880)	(100,420)
thereof attributable to the owners of the parent company	*(88,456)*	*(32,491)*	*5,918*	*(60,565)*	*(101,374)*
Consolidated profit/loss attributable to the owners of the parent company per share (in EUR) (unaudited)(1)			*0.07*	*(0.76)*	*(1.26)*

(1) Figures based on 80,000,000 shares, *i.e.*, the number of shares of the Company as of the date of the Prospectus.

b. Key financial information from the consolidated statement of financial position

	As of June 30,	As of December 31,		
	2020	**2019**	**2018**	**2017**
(in EUR thousand)	**(unaudited)**	**(audited)**		
Non-current assets	1,352,228	1,402,220	1,129,633	1,170,065
Current assets	1,200,879	1,051,389	1,082,689	944,189
Total assets	2,553,107	2,453,609	2,212,322	2,114,254
Equity, total	67,149	154,795	(186,294)	(92,418)
Non-current liabilities	1,516,319	1,517,924	1,609,935	1,476,072
Current liabilities	969,638	780,890	788,681	730,600
Total equity and liabilities	2,553,107	2,453,609	2,212,322	2,114,254

c. Key financial information from the consolidated statement of cash flows

	For the Six-Month Period Ended June 30,		For the Financial Year		
	2020	2019	2019	2018	2017
(in EUR thousand)	**(unaudited)**		**(audited)**		
Cash flows from operating activities	41,908	(57,440)	83,201	65,677	49,182
Cash flows from investing activities	(48,783)	(35,657)	(165,630)	(60,889)	(1,050,396)
Cash flows from financing activities	196,800	(4,782)	(9,096)	88,187	1,139,141

d. Key performance indicators and alternative performance measures

	For the Six-Month Period Ended June 30 (unless otherwise indicated),		For the Financial Year (unless otherwise indicated)		
	2020	2019	2019	2018	2017
(in EUR thousand)	**(unaudited, unless otherwise indicated)**				
Order Intake[(1)]	1,775,573	420,677	1,040,027	1,159,598	1,042,211
Adjusted EBIT[(2)]	18,096	16,550	160,784*	147,619*	144,673
Adjusted EBITDA[(3)]	41,307	40,873	215,551	189,936	164,408
Adjusted Net Income[(4)]	16,164	25,169	40,260	46,556	54,850
Adjusted Gross Profit[(5)]	101,857	99,390	334,444	306,636	258,205
Adjusted Pre-Tax Unlevered Free Cash Flow[(6)]	26,155	(61,389)	74,896	91,997	132,515
Order Backlog (as of June 30/December 31)[(7)]	3,426,944		2,202,338	2,260,872	2,052,295

* Audited.

(1) Order Intake is recorded at the date where a corresponding customer contract becomes effective and enforceable in accordance with the terms and conditions of such contract. Depending on the terms and conditions of the contract, this may either be (i) upon signature of the contract or (ii) at a specific future date following fulfillment of specific conditions.

(2) Adjusted EBIT is defined as Earnings before finance result and income tax (EBIT) adjusted for certain non-recurring effects relating to (i) effects on earnings from purchase price allocations, (ii) transaction costs, (iii) separation costs, and (iv) other non-recurring effects.

(3) Adjusted EBITDA is defined as Earnings before finance result and income tax (EBIT) adjusted for depreciation and amortization (including non-recurring effects on earnings from purchase price allocations), as well as certain non-recurring effects relating to (i) transaction costs, (ii) separation costs, and (iii) other non-recurring effects.

(4) Adjusted Net Income is defined as consolidated profit/loss adjusted for certain non-recurring effects relating to (i) effects on earnings from purchase price allocations, (ii) transaction costs, (iii) separation costs, (iv) other non-recurring effects, and (v) valuation effects related to changes in the fair value of the embedded derivative included in our existing term loan facility and effects resulting from the execution of early termination options of such term loan facility, in each case also reflecting the respective tax adjustment effect for such non-recurring effect. For the purposes of this tax adjustment, we have assumed that (a) the non-recurring effects correspond to those adjusted for purposes of Adjusted EBIT (in type and volume), (b) a constant group-tax rate of 28.3% applies to tax-deductible positions, and (c) all non-recurring are tax deductible but for transaction costs.

(5) Adjusted Gross Profit is defined as gross profit adjusted for certain non-recurring effects relating to (i) foreign exchange rate fluctuations, (ii) effects on earnings from purchase price allocations, (iii) separation cost, (iv) other non-recurring effects and (v) effects from reclassification and other items.

(6) Adjusted Pre-Tax Unlevered Free Cash Flow is defined as the sum of (i) cash flows from operating activities, adjusted for (a) certain non-recurring effects relating to (α) transaction costs, (ß) separation costs, and (γ) other non-recurring effects, (b) interest paid (including, in 2019, interest on lease liabilities), (c) income taxes payments/refunds, (d) share of profit in entities recognized according to the equity method, as well as (e) disposals of associates, other investments and other non-current investments, and (ii) cash flows from investing activities, adjusted for (a) proceeds from sale of intangible assets and property, plant and equipment, (b) acquisition of associates, other investments and other non-current investments, (c) acquisition of subsidiaries net of cash acquired, (d) disposals of associates, other investments and other non-current investments, as well as (e) other.

(7) Order Backlog is defined as the value of our order book at a respective reporting date, keeping record of customer orders starting from the opening stock and taking into account revenue and adjustments for the respective reporting period, and ending with the final stock.

(iii) What are the key risks that are specific to the issuer?

An investment in the Company's shares is subject to a number of risks, some of which are presented in this section and under section "*C. (iii) What are the key risks that are specific to the securities?*" of this summary.

The following risks are key risks specific to us:

- Due to our customer structure, our business depends, directly and indirectly, on defense and security spending by governments, supranational organizations, and their armed and security forces, which may be affected, among other things, by impacts of the Covid-19 pandemic.
- Our international business is subject to sales and export restrictions and controls applicable to our products, and the products or platforms into which our products are integrated, including government approval requirements and moratoriums.
- We may be affected by conflicts and developments on an international, national, political and economic level, including by way of trade restrictions, added complexity and barriers to our sales and supply chain, or political support for competitors.
- Our business performance depends on the inclusion and participation in major defense projects and platforms.

- We may lose business to competitors, which include companies that have more comprehensive resources than we do or benefit from national promotion programs in their home countries.
- We may fail to implement our growth strategy because of, among other things, operational challenges as a result of planning uncertainty as well as past and targeted future expansion.
- Our competitiveness depends on our ability to anticipate market demand and to develop products according to customers' expectations.
- Because we handle, and our customers use our products to handle, highly sensitive information, we and our solutions are particularly prone to breaches, attacks, or disruptions of our cyber- and IT-technology and infrastructure, and such incidents might have a critical impact.
- Product defects and other quality issues could lead to recalls, regulatory inquiries, delays in new product launches, penalties and liability claims, or damage to our reputation.
- Our operations are subject to sanctions, anti-corruption, and anti-money laundering laws and regulations, and we may suffer financial, reputational, and business damage if our internal control systems are inadequate to comply with them.
- We are subject to numerous regulatory requirements, in particular regarding the protection of secrecy of our operations, which impose, among other things, compliance costs and the risk of a negative impact on our business in the event of non-compliance.
- Our assets, in particular goodwill and intangible assets such as technology, customer relationships, work in process, our brand, and capitalized development costs are subject to the risk of impairment.

C. Key Information on the Securities

(i) What are the main features of the securities?

The Prospectus relates to bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*), each with a proportionate amount of EUR 1.00 in the Company's share capital and full dividend rights as from January 1, 2020, with the ISIN: DE000HAG0005. All shares of the Company are of the same class and denominated in Euro.

Each of the Company's shares entitles the shareholder to one vote at the shareholders' meeting of the Company. There are no restrictions on voting rights. The Company's shares are subordinated to all other securities and claims in case of an insolvency of the Company; all shares are entitled to a share of any distributable liquidation proceeds or insolvency surpluses at the ratio of their share in the share capital. Subject to customary lock-up commitments by the Company and the Selling Shareholder, in each case for six months after commencement of trading in the Company's shares, as well as selling restrictions applicable to international sales, the Company's shares are freely transferable in accordance with the legal requirements for bearer shares (*Inhaberaktien*).

The Company intends to start paying dividends in 2021 for the financial year ending December 31, 2020. Subject to the availability of distributable profit (*Bilanzgewinn*) and distributable funds, the Company aims to distribute up to approximately 20% of Adjusted Net Income in the short term; for the financial year ending December 31, 2020, given the expected timing of the Offering (as defined below), a *pro rata* distribution of one quarter of such amount is expected (corresponding to three months of the financial year). In the medium term, the Company targets to distribute approximately 30% to 40% of its Adjusted Net Income per financial year.

(ii) Where will the securities be traded?

The Company will apply for admission of its shares to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and, simultaneously, to the sub-segment thereof with additional post-admission obligations (Prime Standard).

(iii) What are the key risks that are specific to the securities?

The following risks are key risks specific to the Company's shares:

- The Company's shares have not previously been publicly traded, and there can be no assurance that a liquid trading market will develop. As a result, the price and trading volume of the Company's shares could fluctuate significantly, and investors could lose all or part of their investment.
- We have a majority shareholder with significant influence over our corporate affairs, and the Federal Republic of Germany may acquire a substantial shareholding in the Company's shares; their individual interests may deviate from our or the Company's other shareholders' interest.
- The acquisition of a substantial interest in the Company by foreign investors requires government approval, which may restrict certain investments and limit demand for the Company's shares.

D. Key Information on the Offer of Securities to the Public and Admission to Trading on a Regulated Market

(i) Under which conditions and timetable can I invest in this security?

a. Scope of the Offering

The offer relates to 45,808,333 shares of the Company (the "**Offering**"), consisting of (i) 25,000,000 bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) to be newly issued from a capital increase against contribution in cash resolved by an extraordinary shareholders' meeting of the Company on September 3, 2020 and expected to be consummated on or about September 24, 2020 (the "**Primary Base Shares**"), (ii) 8,333,333 existing bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) from the holdings of Selling Shareholder (the "**Secondary Base Shares**" and, together with the Primary Base Shares, the "**Base Shares**"), (iii) 6,500,000 existing bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) from the

holdings of the Selling Shareholder (the "**Additional Base Shares**") subject to the exercise of an upsize option by the Selling Shareholder (in part or in full) on the date of pricing, and (iv) 5,975,000 existing bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) from the holdings of the Selling Shareholder to cover potential over-allotments (the "**Over-Allotment Shares**" and, together with the Base Shares and the Additional Base Shares, the "**Offer Shares**").

The Offering consists of (i) a public offering in Germany, (ii) private placements in certain jurisdictions outside the United States of America ("**United States**" or "**U.S.**") in offshore transactions in reliance on Regulation S under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and (iii) private placements in the United States only to persons reasonably believed to be qualified institutional buyers as defined in Rule 144A under the Securities Act. The Offer Shares have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered, sold, or otherwise transferred to or within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction in the United States.

b. Anticipated timetable

The anticipated timetable for the Offering, which may be extended or shortened and remains subject to change, is as follows:

September 15, 2020	Approval of the Prospectus by BaFin; publication of the Prospectus on the Company's website
September 16, 2020	Commencement of the period during which investors can submit purchase orders for the Offer Shares (the "**Offer Period**"); application for the admission of the Company's shares to the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and, simultaneously, to the sub-segment thereof with additional post-admission obligations (Prime Standard)
September 23, 2020	Close of the Offer Period at (i) 12:00 (CEST) for retail investors and (ii) 14:00 (CEST) for institutional investors; determination and publication of the final offer price (the "**Offer Price**") and final number of shares allocated
September 24, 2020	Consummation of capital increase for the Primary Base Shares to be placed in connection with the Offering; admission decision to be issued by the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*)
September 25, 2020	Commencement of trading in the Company's shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and the sub-segment thereof with additional post-admission obligations (Prime Standard)
September 29, 2020	Book-entry delivery of the Offer Shares against payment of the Offer Price (settlement and closing)

c. Terms of the Offering

The price range within which purchase orders may be placed is from EUR 12.00 to EUR 16.00 per Offer Share (the "**Price Range**"). The Selling Shareholder reserves the right, after consultation with the Company and the Joint Global Coordinators, to increase or decrease the total number of Offer Shares, to increase or decrease the upper and/or lower limit of the Price Range and/or to extend or shorten the Offer Period.

The Offer Price will be determined by the Company, the Selling Shareholder, and the Underwriters on the basis of the submitted purchase orders. The number of Primary Base Shares that will be placed in connection with the Offering will be determined based on the Offer Price and is expected to be such number of shares as is necessary to provide the Company with total gross proceeds of approximately EUR 300 million. As a result, the Company expects that at the high end of the Price Range, 18,750,000 Primary Base Shares (equaling 23% of the Company's existing share capital), at the mid-point of the Price Range, 21,428,571 Primary Base Shares (equaling 27% of the Company's existing share capital), and at the low end of the Price Range, 25,000,000 Primary Base Shares (equaling 31% of the Company's existing share capital) will be placed in connection with the Offering. The number of Secondary Base Shares that will be placed in connection with the Offering will be determined based on the Offer Price and is expected to be such number of shares as is necessary to provide the Selling Shareholder with total gross proceeds of approximately EUR 100 million. As a result, the Company expects that at the high end of the Price Range, 6,250,000 Secondary Base Shares (equaling 8% of the Company's existing share capital), at the mid-point of the Price Range, 7,142,857 Secondary Base Shares (equaling 9% of the Company's existing share capital), and at the low end of the Price Range, 8,333,333 Secondary Base Shares (equaling 10% of the Company's existing share capital) will be placed in connection with the Offering.

d. Plan for distribution

The allotment of Offer Shares to retail investors and institutional investors will be decided by the Company and the Selling Shareholder after consultation with the Joint Global Coordinators. The Company, the Selling Shareholder, and the Underwriters will adhere to the "Principles for the Allotment of Share Issues to Private Investors" (*Grundsätze für die Zuteilung von Aktienemissionen an Privatanleger*) issued by the German Commission of Stock Exchange Experts (*Börsensachverständigenkommission*) on June 7, 2000.

e. Stabilization measures, over-allotment, and greenshoe option

In connection with the placement of the Offer Shares, BofA Securities, or persons acting on its behalf, will act as stabilization manager and may, in accordance with legal requirements, take stabilization measures to support the market price of the Company's shares during a period ending no later than 30 calendar days after the date of the commencement of trading of the Company's shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) – which is expected to be on or about September 25, 2020 – and thereby counteract any selling pressure. The number of Over-Allotment Shares which may be allotted must not exceed 15% of the sum of the allotted Base Shares and Additional Base

Shares, if any (such number of Over-Allotment Shares, together with the Additional Base Shares, the "**Additional Shares**"). The stabilization manager is under no obligation to take any stabilization measures. Under the possible stabilization measures, investors may, in addition to the Base Shares and, potentially, the Additional Base Shares, be allotted Over-Allotment Shares. In connection with potential over-allotments, the Selling Shareholder will grant the Underwriters an option to acquire all or part of the allotted Over-Allotment Shares against payment of the Offer Price less agreed commissions ("**Greenshoe Option**", and any such Over-Allotment Shares purchased upon exercise of the Greenshoe Option, the "**Greenshoe Shares**").

f. Dilution

As of June 30, 2020, the net asset value attributable to the shareholders of the Company in its consolidated statement of financial position based on the Unaudited Interim Consolidated Financial Statements, calculated as total assets less total liabilities and non-controlling interests, amounted to EUR 56.7 million, which corresponds to EUR 0.71 per share based on 80,000,000 outstanding shares immediately prior to the Offering.

Assuming a placement of 21,428,571 Primary Base Shares and 7,142,857 Secondary Base Shares at the mid-point of the Price Range, after completion of the Offering, the net asset value attributable to the shareholders as of June 30, 2020, would amount to EUR 3.37 per share, which corresponds to an immediate dilution of 76%.

g. Expenses

The costs related to the Offering of the Offer Shares and listing of the Company's entire share capital at the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) are expected to total approximately EUR 39 million (of which the Company estimates that the costs for the Company will be approximately EUR 24 million and that the costs for the Selling Shareholder will be approximately EUR 15 million), assuming a placement of 21,428,571 Primary Base Shares and 7,142,857 Secondary Base Shares at the mid-point of the Price Range, full placement of the Additional Shares, full exercise of the Greenshoe Option, and payment in full of a discretionary fee.

Investors will not be charged expenses by the Company, the Selling Shareholder, or the Underwriters (in their capacity as underwriters). Investors may, however, have to bear customary transaction and handling fees charged by their brokers or other financial institutions through which they hold their securities.

(ii) Who is the offeror and/or the person asking for admission to trading?

The Offering will be made by BofA Securities, a private unlimited company with its registered seat at 2 King Edward Street, London EC1A 1HQ, United Kingdom, incorporated in and operating under the laws of England and Wales, JPM, a public limited company with its registered seat at 25 Bank Street, Canary Wharf, London E14 5JP, United Kingdom, incorporated in and operating under the laws of England and Wales, KCM, a limited liability partnership with its registered seat at 7 Carlton Gardens, Stirling Square, London SW1Y 5AD, United Kingdom, incorporated in and operating under the laws of England and Wales, DB, a German stock corporation with its registered seat at Taunusanlage 12, 60325 Frankfurt am Main, Germany, incorporated in and operating under the laws of Germany, Citigroup Global Markets Limited, a private limited company with its registered seat at Citigroup Centre, Canada Square, London E145LB, United Kingdom, incorporated in and operating under the laws of England and Wales, COMMERZBANK Aktiengesellschaft, a German stock corporation with its registered seat at Kaiserstraße 16 (Kaiserplatz), 60311 Frankfurt am Main, Germany, incorporated in and operating under the laws of Germany, UniCredit Bank AG, a German stock corporation with its registered seat at Arabellastraße 12, 81925 Munich, Germany, incorporated in and operating under the laws of Germany, Crédit Agricole Corporate and Investment Bank, a société anonyme with its registered seat at 12 place des Etats-Unis, CS 70052, 92547 Montrouge Cedex, France, incorporated in and operating under the laws of France, and Mizuho International plc, a public limited company with its registered seat at Mizuho House, 30 Old Bailey, London EC4M 7AU, United Kingdom, incorporated in and operating under the laws of England and Wales.

The Company expects to apply for admission to trading together with DB, who is acting as listing agent.

(iii) Why is this prospectus being produced?

a. Reasons for the Offering and listing

The Company intends to expand its equity and generate cash proceeds from the Offering. It intends to achieve better access to the capital markets with the intended listing of its shares. The Selling Shareholder intends to partially divest its shareholding in the Company in connection with the Offering.

The Company and the Selling Shareholder believe that the listing of the Company's shares will provide a number of benefits to the Group, including enhanced brand visibility and recognition and increased flexibility and ability to support and develop the Group's business through organic growth and selected acquisitions.

b. Use and estimated net amount of proceeds

The Company intends to use the estimated net proceeds from the offering of the Primary Base Shares in the amount of approximately EUR 276 million (assuming a placement of 21,428,571 Primary Base Shares and 7,142,857 Secondary Base Shares at the mid-point of the Price Range, full placement of the Additional Shares, full exercise of the Greenshoe Option, and payment in full of a discretionary fee) (i) to continue executing its corporate strategy, including, among other things, by expanding across the value chain of integrated sensor solutions and broadening its sensors portfolio, developing its sales network, and executing strategic acquisitions, for which the Group monitors and evaluates potential targets on an ongoing basis, (ii) to redeem, together with funds to be made available under the Group's new facilities agreement, all financial indebtedness under the Group's existing senior facilities agreement, thereby targeting a net leverage ratio (calculated as the ratio of (a) the sum of non-current financing liabilities, non-current lease liabilities, current financing liabilities, and current lease liabilities less cash and cash equivalents as of the respective balance sheet date, in relation to (b) Adjusted EBITDA for the twelve-month period ended on such balance sheet date) of approximately 3 times by year-end 2020 (assuming a stable Group structure), and (iii) for general corporate purposes.

Assuming a placement of 21,428,571 Primary Base Shares and 7,142,857 Secondary Base Shares at the mid-point of the Price Range, full placement of the Additional Shares, full exercise of the Greenshoe Option, and payment in full of a discretionary fee, the Company estimates that the net proceeds to the Selling Shareholder would amount to approximately EUR 250 million.

c. Underwriting agreement

The Company, the Selling Shareholder, and the Underwriters entered into an underwriting agreement in relation to the coordination, structuring, and implementation of the Offering on September 15, 2020 (the "**Underwriting Agreement**"). In the Underwriting Agreement, the Underwriters agreed to purchase the Base Shares and the Additional Base Shares and to sell such shares as part of the Offering to investors, such obligation being subject to various conditions, including, among other things, the execution of a pricing agreement.

d. Material conflicts of interest pertaining to the offer or the admission to trading

The Underwriters act for the Company and the Selling Shareholder in connection with the Offering and the coordination, structuring, and implementation of the Offering. In addition, JPM has been mandated to act as designated sponsor for the Company's shares and DB has been appointed to act as paying agent. Upon successful implementation of the Offering, the Underwriters will receive a commission. As a result of these contractual relationships, the Underwriters have a financial interest in the success of the Offering. In addition, some of the Underwriters or their affiliates have, and may from time to time in the future continue to have, business relations with the Group (including lending activities) or may perform services for the Group in the ordinary course of business.

The Selling Shareholder will receive the proceeds from the sale of the Secondary Base Shares and the Additional Shares. Accordingly, the Selling Shareholder has an interest in the successful completion of the Offering. Certain members of the Company's supervisory board, Johannes P. Huth, Christian Ollig, and Claire Wellby, hold functions at affiliates of the Selling Shareholder. In addition, KCM is an affiliate of the Selling Shareholder. Accordingly, their interests with respect to the Offering and the admission of the Company's shares to trading may not be aligned with those of the Company or the Company's other shareholders, which constitutes a potential conflict of interest.

Several of the Company's management board and supervisory board members and other employees of the Group are indirectly invested in the Company. Accordingly, all these individuals have an interest in the success of the Offering at the best possible terms. The chairman of the Company's supervisory board plans to acquire shares of the Company in the Offering, in which case he will have a financial interest in the development of the Company's share price.

II. ZUSAMMENFASSUNG DES PROSPEKTS

A. Einleitung und Warnhinweise

Dieser Prospekt (der „**Prospekt**") bezieht sich auf Aktien der HENSOLDT AG, einer deutschen Aktiengesellschaft mit Sitz in Willy-Messerschmitt-Straße 3, 82024 Taufkirchen, Bundesrepublik Deutschland (im Folgenden auch „**Deutschland**"), Rechtsträgerkennung („**LEI**") 894500686FYLLZD3M624, Telefon: +49 (0)89 51518-0, Website: www.hensoldt.net (die „**Gesellschaft**" und, gemeinsam mit ihren konsolidierten Tochtergesellschaften, die „**Gruppe**", „**wir**", „**unser**" und „**uns**"). Die internationale Wertpapier-Identifikationsnummer („**ISIN**") der Aktien der Gesellschaft lautet DE000HAG0005.

Die Aktien der Gesellschaft werden von Merrill Lynch International, 2 King Edward Street, London EC1A 1HQ, Vereinigtes Königreich, LEI GGDZP1UYGU9STUHRDP48 („**BofA Securities**"), J.P. Morgan Securities plc, 25 Bank Street, Canary Wharf, London E14 5JP, Vereinigtes Königreich, LEI K6Q0W1PS1L1O4IQL9C32 („**JPM**"), KKR Capital Markets Partners LLP, 7 Carlton Gardens, Stirling Square, London SW1Y 5AD, Vereinigtes Königreich, LEI 213800TSSR6EVD45MW84 („**KCM**") und Deutsche Bank Aktiengesellschaft, Taunusanlage 12, 60325 Frankfurt am Main, Deutschland, LEI 7LTWFZYICNSX8D621K86 („**DB**") (zusammen die „**Joint Global Coordinators**") und Citigroup Global Markets Limited, Citigroup Centre, Canada Square, London E145LB, Vereinigtes Königreich, LEI XKZZ2JZF41MRHTR1V493, COMMERZBANK Aktiengesellschaft, Kaiserstraße 16 (Kaiserplatz), 60311 Frankfurt am Main, Deutschland, LEI 851WYGNLUQLFZBSYGB56, UniCredit Bank AG, Arabellastraße 12, 81925 München, Deutschland, LEI 2ZCNRR8UK83OBTEK2170 und Crédit Agricole Corporate and Investment Bank, 12 place des Etats-Unis, CS 70052, 92547 Montrouge Cedex, Frankreich, LEI 1VUV7VQFKUOQSJ21A208 (Citigroup Global Markets Limited, COMMERZBANK Aktiengesellschaft, UniCredit Bank AG und Crédit Agricole Corporate and Investment Bank, zusammen mit den Joint Global Coordinators, die „**Joint Bookrunners**") und Mizuho International plc, Mizuho House, 30 Old Bailey, London EC4M 7AU, Vereinigtes Königreich, LEI 213800HZ54TG54H2KV03 (zusammen mit den Joint Bookrunners die „**Konsortialbanken**") angeboten.

Der Prospekt datiert vom 15. September 2020 und wurde von der Bundesanstalt für Finanzdienstleistungsaufsicht („**BaFin**") als gemäß Verordnung (EU) 2017/1129 zuständige Behörde an diesem Tag gebilligt. Die BaFin ist erreichbar unter Marie-Curie-Str. 24–28, 60439 Frankfurt am Main, Deutschland, telefonisch unter +49 228 4108-0 oder über ihre Webseite www.bafin.de.

Diese Zusammenfassung sollte als Einleitung zu dem Prospekt verstanden werden. Bei jeder Entscheidung, in die Aktien der Gesellschaft zu investieren, sollte sich der Anleger auf den Prospekt als Ganzes stützen. Anleger können das gesamte angelegte Kapital oder einen Teil davon verlieren. Für den Fall, dass vor einem Gericht Ansprüche aufgrund der in dem Prospekt enthaltenen Informationen geltend gemacht werden, könnte der als Kläger auftretende Anleger nach nationalem Recht die Kosten für die Übersetzung des Prospekts vor Prozessbeginn zu tragen haben. Zivilrechtlich haften nur diejenigen Personen, die die Zusammenfassung samt etwaiger Übersetzungen vorgelegt und übermittelt haben, und dies auch nur für den Fall, dass die Zusammenfassung, wenn sie zusammen mit den anderen Teilen des Prospekts gelesen wird, irreführend, unrichtig oder widersprüchlich ist oder dass sie, wenn sie zusammen mit den anderen Teilen des Prospekts gelesen wird, nicht die Basisinformationen vermittelt, die in Bezug auf Anlagen in die Aktien der Gesellschaft für die Anleger eine Entscheidungshilfe darstellen würden.

B. Basisinformationen über die Emittentin

(i) Wer ist die Emittentin der Wertpapiere?

Die Emittentin der Wertpapiere ist die Gesellschaft, HENSOLDT AG. Die Gesellschaft ist eine Aktiengesellschaft nach deutschem Recht. Sie ist unter ihrer kommerziellen Bezeichnung HENSOLDT tätig. Der Sitz der Gesellschaft ist Willy-Messerschmitt-Straße 3, 82024 Taufkirchen, Deutschland und sie ist im Handelsregister des Amtsgerichts München unter HRB 258711 eingetragen. Die LEI der Gesellschaft lautet 894500686FYLLZD3M624.

Die Gesellschaft wurde im September 2019 gegründet und wurde im November 2019 zur Muttergesellschaft der Gruppe, als Square Lux Holding II S.à r.l., eine nach luxemburgischen Recht gegründete Gesellschaft mit beschränkter Haftung (*société à responsabilité limitée*) (der „**Abgebende Aktionär**"), alle vom Abgebenden Aktionär gehaltenen Anteile an der HENSOLDT Holding GmbH, der früheren Muttergesellschaft der Gruppe, in die Gesellschaft einbrachte. Für den Zeitraum vor dieser Einbringung beziehen sich die Begriffe „**Gruppe**", „**wir**", „**unser**" und „**uns**" auf HENSOLDT Holding GmbH, gemeinsam mit ihren konsolidierten Tochtergesellschaften.

a. Haupttätigkeiten der Emittentin

Wir sind ein Anbieter von elektronischen Sensorlösungen im Verteidigungs- und Sicherheitsbereich. Unser Produktportfolio reicht von Radaren über elektronische Kampfführung und Avionik (elektronische Systeme, die in

Flugzeugen verwendet werden, wie zum Beispiel Flugschreiber) bis hin zu optischer und optronischer (elektrooptische Systeme, wie zum Beispiel Wärmebildgeräte) Ausrüstung; darüber hinaus bieten wir eine Reihe von Kundenbetreuungslösungen und Dienstleistungen an. Damit sind wir einigen der am schnellsten wachsenden Teilmärkte des globalen Verteidigungsmarktes (Quelle: in Auftrag gegebene Studie von Renaissance Strategic Advisors II, LLC mit dem Titel „Global Defense Electronics Market: Trends, Drivers and Outlook for 2020 and Beyond" (die „**RSAdvisors-Studie**")) sowie ausgewählten angrenzenden Nicht-Verteidigungsmärkten ausgesetzt.

Als plattformunabhängiger Anbieter liefern wir unsere Produkte für eine Vielzahl von Plattformen (wie Kampfflugzeuge, gepanzerte Fahrzeuge und Marineschiffe) verschiedener Hersteller, so zum Beispiel Radare und Selbstschutzsysteme für den Eurofighter-Jet und Optronik für den Kampfpanzer Leopard 2. Darüber hinaus verkaufen wir eigenständige Lösungen, zum Beispiel Flugsicherungssysteme. Im Jahr 2019 erwirtschafteten wir etwas mehr als zwei Fünftel unseres Umsatzes auf unserem Heimatmarkt Deutschland. Etwa ein Drittel unseres Umsatzes im Jahr 2019 wurde mit anderen Endkunden in der EU und der NATO (ohne Deutschland) sowie in NATO-gleichgestellten Ländern (Australien, Japan, Neuseeland und der Schweiz) erzielt, für die wir auf gut etablierte Exportkontrollverfahren zurückgreifen.

Als größter europäischer Anbieter mit ausschließlicher Ausrichtung auf den Markt für Verteidigungs- und Sicherheitselektronik (Quelle: RSAdvisors-Studie), zusammen mit unseren technologischen sowie Forschungs- und Entwicklungs-Kompetenzen und einem Schwerpunkt bei Investitionen in den letzten Jahren auf die Entwicklung neuer und die Modernisierung bestehender Produkte, sind wir der Ansicht, dass wir Wettbewerbsvorteile in Bezug auf Kundenorientierung, Kompetenz, Fachwissen und Investitionen besitzen und uns als ein maßgeblicher Anbieter von Verteidigungselektronik positioniert haben.

b. Hauptanteilseigner

Zum Datum des Prospekts sind das gesamte Aktienkapital und alle Stimmrechte der Gesellschaft im Besitz, und die Gesellschaft daher unter direkter Kontrolle, des Abgebenden Aktionärs, der indirekt von Investmentfonds und anderen mit Kohlberg Kravis Roberts & Co. L.P. verbundenen Gesellschaften gehalten wird. Die Stimmrechte, die der Abgebende Aktionär hält, werden über verschiedene Gesellschaften der KKR Management LLP und der KKR SP Limited zugerechnet.

Im Zusammenhang mit einer Vereinbarung zwischen dem Abgebenden Aktionär und der Bundesrepublik Deutschland, die darauf abzielt, die Sicherheitsinteressen der Bundesrepublik Deutschland an bestimmten Gesellschaften und Aktivitäten der Gruppe zu schützen, hat die Bundesrepublik Deutschland eine Aktie der Gesellschaft vom Abgebenden Aktionär gekauft und haben die Parteien vereinbart, dass der Erwerb dieser Aktie frühestens mit der Zulassung der Aktien der Gesellschaft zum Handel erfolgt, vorbehaltlich der relevanten internen Ministeriumsgenehmigung. Darüber hinaus hat der Abgebende Aktionär der Bundesrepublik Deutschland das Recht eingeräumt, eine strategische Beteiligung an der Gesellschaft durch eine Erhöhung ihrer Beteiligung an der Gesellschaft auf bis zu 25,1% durch den Kauf von Aktien der Gesellschaft vom Abgebenden Aktionär zu erwerben.

c. Hauptgeschäftsführer

Der Vorstand der Gesellschaft besteht aus drei Mitgliedern: Thomas Müller ist Chief Executive Officer (CEO), Axel Salzmann ist Chief Financial Officer (CFO) und Peter Fieser ist Chief Human Resources Officer (CHRO).

d. Abschlussprüfer

Für das am 31. Dezember 2019 beendete und das am 31. Dezember 2020 endende Geschäftsjahr wurde die KPMG AG Wirtschaftsprüfungsgesellschaft, Klingelhöferstraße 18, 10785 Berlin, Deutschland („**KPMG**") zum Abschlussprüfer der Gesellschaft bestellt. Für die am 31. Dezember 2018 und 2017 beendeten Geschäftsjahre wurde KPMG zum Abschlussprüfer der HENSOLDT Holding GmbH bestellt.

(ii) Welches sind die wesentlichen Finanzinformationen über die Emittentin?

Der ungeprüfte verkürzte Konzernzwischenabschluss der Gesellschaft für den am 30. Juni 2020 beendeten Sechsmonatszeitraum (der „**Ungeprüfte Konzernzwischenabschluss**") wurde von der Gesellschaft (damals noch HENSOLDT GmbH) in Übereinstimmung mit den International Financial Reporting Standards, wie sie in der Europäischen Union anzuwenden sind („**IFRS**") für Zwischenberichterstattung (IAS 34) erstellt. Der geprüfte Konzernabschluss der Gesellschaft (damals noch HENSOLDT GmbH) für das am 31. Dezember 2019 beendete Geschäftsjahr und der geprüfte Konzernabschluss der HENSOLDT Holding GmbH (damals die Muttergesellschaft der Gruppe) für die am 31. Dezember 2018 und 2017 beendeten Geschäftsjahre wurden von der Gesellschaft bzw. der HENSOLDT Holding GmbH nach den IFRS erstellt. Der geprüfte Einzelabschluss der Gesellschaft (damals noch HENSOLDT GmbH) für das am 31. Dezember 2019 beendete Geschäftsjahr wurde von der Gesellschaft nach den Vorschriften des Handelsgesetzbuches erstellt.

a. Wesentliche Finanzinformationen aus der Konzern-Gewinn- und Verlustrechnung

	Für den Sechsmonatszeitraum bis zum 30. Juni		Für das Geschäftsjahr		
	2020	**2019**	**2019**	**2018**	**2017**
(in Tausend EUR, soweit nicht anders angegeben)	**(ungeprüft)**		**(geprüft, soweit nicht anders angegeben)**		
Umsatzerlöse	440.296	415.557	1.114.164	1.110.117	917.093
Ergebnis vor Finanzierungsaufwendungen und Ertragsteuer (EBIT)	(29.287)	(26.279)	62.071	21.760	(69.059)
Konzernergebnis	(88.930)	(32.402)	8.171	(59.880)	(100.420)
davon den Anteilseignern des Mutterunternehmens zuzurechnen	*(88.456)*	*(32.491)*	5.918	(60.565)	(101.374)
Den Anteilseignern des Mutterunternehmens zuzurechnendes Konzernergebnis je Aktie (in EUR) (ungeprüft)[1]			*0,07*	*(0,76)*	*(1,26)*

(1) Angaben auf Basis von 80.000.000 Aktien, was der Anzahl Aktien der Gesellschaft zum Datum des Prospekts entspricht.

b. Wesentliche Finanzinformationen aus der Konzernbilanz

	Zum 30. Juni	Zum 31. Dezember		
	2020	**2019**	**2018**	**2017**
(in Tausend EUR)	**(ungeprüft)**	**(geprüft)**		
Langfristige Vermögenswerte	1.352.228	1.402.220	1.129.633	1.170.065
Kurzfristige Vermögenswerte	1.200.879	1.051.389	1.082.689	944.189
Summe Aktiva	2.553.107	2.453.609	2.212.322	2.114.254
Eigenkapital, gesamt	67.149	154.795	(186.294)	(92.418)
Langfristige Schulden	1.516.319	1.517.924	1.609.935	1.476.072
Kurzfristige Schulden	969.638	780.890	788.681	730.600
Summe Passiva	2.553.107	2.453.609	2.212.322	2.114.254

c. Wesentliche Finanzinformationen aus der Konzern-Kapitalflussrechnung

	Für den Sechsmonatszeitraum bis zum 30. Juni		Für das Geschäftsjahr		
	2020	**2019**	**2019**	**2018**	**2017**
(in Tausend EUR)	**(ungeprüft)**		**(geprüft)**		
Cashflow aus laufender Geschäftstätigkeit	41.908	(57.440)	83.201	65.677	49.182
Cashflow aus Investitionstätigkeit	(48.783)	(35.657)	(165.630)	(60.889)	(1.050.396)
Cashflow aus Finanzierungstätigkeit	196.800	(4.782)	(9.096)	88.187	1.139.141

d. Leistungskennzahlen und alternative Leistungskennzahlen

	Für den Sechsmonatszeitraum bis zum 30. Juni (soweit nicht anders angegeben)		Für das Geschäftsjahr (soweit nicht anders angegeben)		
	2020	**2019**	**2019**	**2018**	**2017**
(in Tausend EUR)	**(ungeprüft, soweit nicht anders angegeben)**				
Auftragseingang[1]	1.775.573	420.677	1.040.027	1.159.598	1.042.211
Bereinigtes EBIT[2]	18.096	16.550	160.784*	147.619*	144.673
Bereinigtes EBITDA[3]	41.307	40.873	215.551	189.936	164.408
Bereinigtes Konzernergebnis[4]	16.164	25.169	40.260	46.556	54.850
Bereinigtes Bruttoergebnis[5]	101.857	99.390	334.444	306.636	258.205
Bereinigter Free Cashflow vor Steuern und Zinsen[6]	26.155	(61.389)	74.896	91.997	132.515
Auftragsbestand (zum 30. Juni/31. Dezember)[7]	3.426.944		2.202.338	2.260.872	2.052.295

* Geprüft.

(1) Auftragseingang wird zu dem Datum erfasst, zu dem ein entsprechender Kundenvertrag in Kraft tritt und gemäß den Bedingungen dieses Vertrages durchsetzbar ist. Abhängig von den Bedingungen dieses Vertrages liegt dieses Datum (i) im Zeitpunkt der Vertragsunterschrift oder (ii) zu einem bestimmten zukünftigen, auf die Erfüllung bestimmter Bedingungen folgenden Zeitpunkt vor.

(2) Bereinigtes EBIT ist definiert als Ergebnis vor Finanzierungsaufwendungen und Ertragsteuer bereinigt um bestimmte Einmaleffekte aus (i) Ergebniseffekten aus Kaufpreisallokationen, (ii) Transaktionskosten, (iii) Separierungskosten und (iv) anderen Einmaleffekten.

(3) Bereinigtes EBITDA ist definiert als Ergebnis vor Finanzierungsaufwendungen und Ertragsteuer bereinigt um Abschreibungen und Amortisationen (einschließlich einmaliger Ergebniseffekte aus Kaufpreisallokationen) sowie bestimmte Einmaleffekte aus (i) Transaktionskosten, (ii) Separierungskosten und (iii) anderen Einmaleffekten.

(4) Bereinigtes Konzernergebnis ist definiert als Konzernergebnis bereinigt um bestimmte Einmaleffekte aus (i) Ergebniseffekten aus Kaufpreisallokationen, (ii) Transaktionskosten, (iii) Separierungskosten (iv) anderen Einmaleffekten und (v) Bewertungseffekte im Zusammenhang mit Änderungen des beizulegenden Zeitwerts des eingebetteten Derivats, das in unserer dieser bestehenden Darlehensfazilität enthalten ist, und Effekte, die sich aus der Ausübung von Optionen zur vorzeitigen Beendigung Darlehensfazilität ergeben, jeweils auch unter Berücksichtigung des jeweiligen Steueranpassungseffekts des Einmaleffekts. Für die Zwecke dieser Steueranpassung haben wir angenommen, dass (a) die Einmaleffekte denjenigen entsprechen, die zum Zwecke des Bereinigten EBIT (in Art und Umfang) bereinigt wurden, (b) ein konstanter Konzernsteuersatz von 28,3% für steuerlich absetzbare Positionen gilt und (c) alle Einmaleffekte außer Transaktionskosten steuerlich absetzbar sind.

(5) Bereinigtes Bruttoergebnis ist definiert als Bruttoergebnis bereinigt um bestimmte Einmaleffekte aus (i) Wechselkursschwankungen, (ii) Ergebniseffekten aus Kaufpreisallokationen (iii) Separierungskosten, (iv) anderen Einmaleffekten und (v) Neuklassifizierungen und sonstigen Posten.

(6) Bereinigter Free Cashflow vor Steuern und Zinsen ist definiert als die Summe aus (i) Cashflow aus laufender Geschäftstätigkeit bereinigt um (a) bestimmte Einmaleffekte aus (α) Transaktionskosten, (ß) Separierungskosten und (γ) sonstigen Einmaleffekten, (b) gezahlte Zinsen (einschließlich, im Jahr 2019, Zinsen auf Leasingverbindlichkeiten), (c) Zahlungen/Rückerstattungen von Ertragsteuern, (d) Ergebnisanteile an Unternehmen, die nach der Equity-Methode bilanziert werden sowie (e) Abgang von assoziierten Unternehmen, sonstigen Beteiligungen und übrigen langfristigen Finanzanlagen und (ii) Cashflow aus Investitionstätigkeit bereinigt um (a) Einzahlungen aus dem Verkauf von immateriellen Vermögenswerten und Sachanlagen, (b) Erwerb von assoziierten Unternehmen, sonstigen Beteiligungen und übrigen langfristigen Finanzanlagen, (c) Erwerb von Tochterunternehmen abzüglich erworbener liquider Mittel, (d) Abgang von assoziierten Unternehmen, sonstigen Beteiligungen und übrigen langfristigen Finanzanlagen sowie (e) Sonstige.

(7) Auftragsbestand ist definiert als der Wert unseres Auftragsbuchs zu einem bestimmten Stichtag, unter Erfassung von Kundenaufträgen ab dem Anfangsbestand und Berücksichtigung von Umsatzerlösen und Anpassungen für den jeweiligen Berichtszeitraum bis zum Endbestand.

(iii) Welches sind die zentralen Risiken, die für die Emittentin spezifisch sind?

Eine Investition in Aktien der Gesellschaft unterliegt einer Reihe von Risiken, von denen einige in diesem Abschnitt und unter Abschnitt „*C.(iii) Welches sind die zentralen Risiken, die für die Wertpapiere spezifisch sind?*“ dieser Zusammenfassung dargestellt werden.

Die folgenden Risiken sind wesentliche, für uns spezifische Risiken:

- Aufgrund unserer Kundenstruktur ist unser Geschäft direkt und indirekt von den Verteidigungs- und Sicherheitsausgaben von Regierungen, supranationalen Organisationen und ihren Streit- und Sicherheitskräften abhängig, die unter anderem von Auswirkungen der Covid-19-Pandemie betroffen sein könnten.
- Unser internationales Geschäft unterliegt Verkaufs- und Exportbeschränkungen und -kontrollen, die für unsere Produkte und die Produkte oder Plattformen, in die unsere Produkte integriert sind, gelten, einschließlich behördlicher Genehmigungsanforderungen und Moratorien.
- Wir können von Konflikten und Entwicklungen auf internationaler, nationaler, politischer und ökonomischer Ebene betroffen sein, unter anderem durch Handelsbeschränkungen, zusätzliche Komplexität und Hindernisse für unsere Verkaufs- und Lieferkette oder politische Unterstützung für Wettbewerber.
- Unsere Geschäftsentwicklung hängt von der Einbeziehung und Beteiligung an großen Verteidigungsprojekten und -plattformen ab.
- Wir können Geschäft an Wettbewerber verlieren, die zum Teil Unternehmen sind, die über umfassendere Ressourcen verfügen als wir oder von nationalen Förderprogrammen in ihren Heimatländern profitieren.
- Wir könnten an der Umsetzung unserer Wachstumsstrategie scheitern, unter anderem wegen operativer Herausforderungen aufgrund von Planungsunsicherheit sowie vergangener und geplanter zukünftiger Expansion.
- Unsere Wettbewerbsfähigkeit hängt von unserer Fähigkeit ab, Marktnachfrage zu antizipieren und Produkte zu entwickeln, die den Kundenerwartungen entsprechen.
- Da wir mit hochsensiblen Informationen umgehen und Kunden unsere Produkte zum Umgang mit solchen Informationen nutzen, sind wir und unsere Produkte anfällig für Verletzungen, Angriffe oder Störungen unserer Cyber- und IT-Technologie und -Infrastruktur, und solche Vorfälle können kritische Auswirkungen haben.
- Produktfehler und andere Qualitätsprobleme können zu Rückrufaktionen, regulatorischen Untersuchungen, Verzögerungen bei der Einführung neuer Produkte, Strafen und Haftungsansprüchen oder einer Beschädigung unserer Reputation führen.
- Unsere Geschäftstätigkeit unterliegt Sanktionen, Anti-Korruptions- und Anti-Geldwäschegesetzen und -vorschriften und wir können finanziellen, Reputations- und geschäftlichen Schaden erleiden, falls unsere internen Kontrollsysteme unzureichend sind, um diese einzuhalten.
- Wir unterliegen zahlreichen regulatorischen Anforderungen, insbesondere hinsichtlich der Wahrung der Vertraulichkeit unserer Geschäftstätigkeit, die uns unter anderem Compliance-Kosten und das Risiko negativer Auswirkungen auf unser Geschäft im Falle der Nichteinhaltung auferlegen.
- Unsere Vermögenswerte, insbesondere Goodwill und immaterielle Vermögenswerte wie Technologien, Kundenbeziehungen, unfertige Erzeugnisse, unsere Marke und aktivierte Entwicklungsausgaben unterliegen dem Risiko einer Wertminderung.

C. Basisinformationen über die Wertpapiere

(i) Welches sind die wichtigsten Merkmale der Wertpapiere?

Der Prospekt bezieht sich auf Inhaberaktien ohne Nennwert (Stückaktien), jeweils mit einem anteiligen Betrag am Grundkapital der Gesellschaft von je EUR 1,00 und voller Dividendenberechtigung ab dem 1. Januar 2020 mit der ISIN: DE000HAG0005. Alle Aktien der Gesellschaft sind gleicher Gattung und in Euro denominiert.

Jede Aktie der Gesellschaft berechtigt den Aktionär zu einer Stimme in der Hauptversammlung der Gesellschaft. Es bestehen keine Stimmrechtsbeschränkungen. Die Aktien der Gesellschaft sind im Falle einer Insolvenz der Gesellschaft allen anderen Wertpapieren und Ansprüchen nachrangig; alle Aktien haben Anspruch auf einen Anteil an dem ausschüttungsfähigen Liquidationserlös oder Insolvenzüberschuss im Verhältnis ihres Anteils am Grundkapital. Vorbehaltlich üblicher Lock-up-Verpflichtungen der Gesellschaft und des Abgebenden Aktionärs jeweils für sechs Monate nach Aufnahme des Handels der Aktien der Gesellschaft, sowie Verkaufsbeschränkungen für internationale Verkäufe sind die Aktien der Gesellschaft nach den gesetzlichen Bestimmungen für Inhaberaktien frei übertragbar.

Die Gesellschaft beabsichtigt, mit der Zahlung von Dividenden im Jahr 2021 für das am 31. Dezember 2020 endende Geschäftsjahr zu beginnen. Vorbehaltlich der Verfügbarkeit eines Bilanzgewinns und ausschüttungsfähiger Mittel strebt die Gesellschaft an, bis zu 20% des Bereinigten Konzernergebnisses je Geschäftsjahr auszuschütten; für das am 31. Dezember 2020 endende Geschäftsjahr wird angesichts des erwarteten Zeitpunkts des Angebots (wie unten definiert) eine anteilige Ausschüttung von einem Viertel dieses Betrags erwartet (entsprechend drei Monaten des Geschäftsjahres). Mittelfristig strebt die Gesellschaft an, zwischen 30% und 40% des Bereinigten Konzernergebnisses je Geschäftsjahr auszuschütten.

(ii) Wo werden die Wertpapiere gehandelt?

Die Gesellschaft wird die Zulassung ihrer Aktien zum Handel am regulierten Markt der Frankfurter Wertpapierbörse mit gleichzeitiger Zulassung zu dessen Teilbereich mit weiteren Zulassungsfolgepflichten (Prime Standard) beantragen.

(iii) Welches sind die zentralen Risiken, die für die Wertpapiere spezifisch sind?

Die folgenden Risiken sind zentrale Risiken, die für die Aktien der Gesellschaft spezifisch sind:

- Die Aktien der Gesellschaft wurden bisher nicht öffentlich gehandelt und es ist nicht sichergestellt, dass sich ein liquider Handelsmarkt entwickeln wird. Daher können der Preis und das Handelsvolumen der Aktien der Gesellschaft erheblich schwanken und Investoren können ihre Investition ganz oder teilweise verlieren.
- Wir haben einen Mehrheitsaktionär mit erheblichem Einfluss auf unsere Unternehmensangelegenheiten, und die Bundesrepublik Deutschland könnte einen erheblichen Anteil an den Aktien der Gesellschaft erwerben; ihre jeweiligen Interessen decken sich möglicherweise nicht mit unseren oder den Interessen der übrigen Aktionäre der Gesellschaft.
- Der Erwerb einer wesentlichen Beteiligung an der Gesellschaft durch ausländische Investoren bedarf behördlicher Zustimmung, was möglicherweise bestimmte Investitionen und die Nachfrage nach den Aktien der Gesellschaft beschränkt.

D. Basisinformationen über das öffentliche Angebot von Wertpapieren und die Zulassung zum Handel an einem geregelten Markt

(i) Zu welchen Konditionen und nach welchem Zeitplan kann ich in dieses Wertpapier investieren?

a. Konditionen des Angebots

Das Angebot bezieht sich auf 45.808.333 Aktien der Gesellschaft (das „**Angebot**“), bestehend aus (i) 25.000.000 neu auszugebenden Inhaberaktien ohne Nennwert (Stückaktien) aus einer von einer außerordentlichen Hauptversammlung der Gesellschaft am 3. September 2020 beschlossenen und voraussichtlich am oder um den 24. September 2020 vollzogenen Kapitalerhöhung gegen Bareinlage (die „**Primären Basisaktien**“), (ii) 8.333.333 bestehenden Inhaberaktien ohne Nennwert (Stückaktien) aus der Beteiligung des Abgebenden Aktionärs (die „**Sekundären Basisaktien**“ und, zusammen mit den Primären Basisaktien, die „**Basisaktien**“), (iii) 6.500.000 bestehenden Inhaberaktien ohne Nennwert (Stückaktien) aus der Beteiligung des Abgebenden Aktionärs (die „**Zusätzlichen Basisaktien**“), vorbehaltlich der (teilweisen oder vollständigen) Ausübung einer Erhöhungsoption durch den Abgebenden Aktionär zum Zeitpunkt der Preisfestsetzung, und (iv) 5.975.000 bestehenden Inhaberaktien ohne Nennwert (Stückaktien) aus der Beteiligung des Abgebenden Aktionärs zur Abdeckung potenzieller Mehrzuteilungen (die „**Mehrzuteilungsaktien**“ und, zusammen mit den Basisaktien und den Zusätzlichen Basisaktien, die „**Angebotsaktien**“).

Das Angebot besteht aus (i) einem öffentlichen Angebot in Deutschland, (ii) Privatplatzierungen in bestimmten Ländern außerhalb der Vereinigten Staaten von Amerika (die „**Vereinigten Staaten**") im Rahmen von Offshore-Transaktionen auf der Grundlage von Regulation S des U.S. Securities Act von 1933 in der jeweils gültigen Fassung (der „**Securities Act**") und (iii) Privatplatzierungen in den Vereinigten Staaten an qualifizierte institutionelle Käufer (*Qualified Institutional Buyers*) im Sinne von Rule 144A des Securities Act. Die Angebotsaktien wurden und werden nicht gemäß dem Securities Act oder den Wertpapiergesetzen eines Bundesstaates oder einer anderen Jurisdiktion der Vereinigten Staaten registriert und dürfen nicht in die oder innerhalb der Vereinigten Staaten angeboten, verkauft oder anderweitig übertragen werden, außer gemäß einer Ausnahme von den Registrierungsanforderungen des Securities Act oder im Rahmen einer Transaktion, die nicht den Registrierungsanforderungen des Securities Act unterliegt, und in Übereinstimmung mit etwaig geltenden Wertpapiergesetzen eines Bundesstaates oder einer anderen Jurisdiktion in den Vereinigten Staaten.

b. Voraussichtlicher Zeitplan

Der voraussichtliche Zeitplan für das Angebot, das verlängert oder verkürzt werden kann und Änderungen vorbehalten bleibt, sieht wie folgt aus:

15. September 2020	Billigung des Prospekts durch die BaFin; Veröffentlichung des Prospekts auf der Website der Gesellschaft
16. September 2020	Beginn des Zeitraums, in dem Anleger Kaufangebote für die Angebotsaktien abgeben können (der „**Angebotszeitraum**"); Antrag auf Zulassung der Aktien der Gesellschaft zum regulierten Markt der Frankfurter Wertpapierbörse mit gleichzeitiger Zulassung zu dessen Teilbereich mit weiteren Zulassungsfolgepflichten (Prime Standard)
23. September 2020	Ende des Angebotszeitraums um (i) 12:00 Uhr (MESZ) für Privatanleger und (ii) 14:00 Uhr (MESZ) für institutionelle Anleger; Festlegung und Veröffentlichung des endgültigen Angebotspreises (der „**Angebotspreis**") und der endgültigen Anzahl der zugeteilten Aktien
24. September 2020	Vollzug der Kapitalerhöhung für die Primären Basisaktien, die im Zusammenhang mit dem Angebot platziert werden; Erteilung des Zulassungsbeschlusses der Frankfurter Wertpapierbörse
25. September 2020	Aufnahme des Handels der Aktien der Gesellschaft im regulierten Markt der Frankfurter Wertpapierbörse und dessen Teilbereich mit weiteren Zulassungsfolgepflichten (Prime Standard)
29. September 2020	Buchmäßige Lieferung der Angebotsaktien gegen Zahlung des Angebotspreises (Abwicklung und Vollzug)

c. Angebotsbedingungen

Die Preisspanne, innerhalb derer Kaufangebote abgegeben werden können, liegt zwischen EUR 12,00 und EUR 16,00 pro Angebotsaktie (die „**Preisspanne**"). Der Abgebende Aktionär behält sich das Recht vor, nach Rücksprache mit der Gesellschaft und den Joint Global Coordinators die Gesamtzahl der Angebotsaktien zu erhöhen oder herabzusetzen, die Ober- und/oder Untergrenze der Preisspanne zu erhöhen oder zu senken und/oder den Angebotszeitraum zu verlängern oder zu verkürzen.

Der Angebotspreis wird von der Gesellschaft, dem Abgebenden Aktionär und den Konsortialbanken auf der Grundlage der eingereichten Kaufangebote festgelegt. Die Anzahl der Primären Basisaktien, die im Zusammenhang mit dem Angebot platziert werden, wird auf der Grundlage des Angebotspreises festgelegt und wird voraussichtlich so viele Aktien umfassen, wie notwendig sind, um der Gesellschaft einen Brutto-Gesamterlös von rund EUR 300 Mio. zu verschaffen. Infolgedessen erwartet die Gesellschaft, dass am oberen Ende der Preisspanne 18.750.000 Primäre Basisaktien (entspricht 23% des bestehenden Grundkapitals der Gesellschaft), in der Mitte der Preisspanne 21.428.571 Primäre Basisaktien (entspricht 27% des bestehenden Grundkapitals der Gesellschaft), und am unteren Ende der Preisspanne 25.000.000 Primäre Basisaktien (entspricht 31% des bestehenden Grundkapitals der Gesellschaft) im Zusammenhang mit dem Angebot platziert werden. Die Anzahl der Sekundären Basisaktien, die im Zusammenhang mit dem Angebot platziert werden, wird auf der Grundlage des Angebotspreises festgelegt und wird voraussichtlich so viele Aktien umfassen, wie notwendig sind, um dem Abgebenden Aktionär einen Brutto-Gesamterlös von rund EUR 100 Mio. zu verschaffen. Infolgedessen erwartet die Gesellschaft, dass am oberen Ende der Preisspanne 6.250.000 Sekundäre Basisaktien (entspricht 8% des bestehenden Grundkapitals der Gesellschaft), in der Mitte der Preisspanne 7.142.857 Sekundäre Basisaktien (entspricht 9% des bestehenden Grundkapitals der Gesellschaft) und am unteren Ende der Preisspanne 8.333.333 Sekundäre Basisaktien (entspricht 10% des bestehenden Grundkapitals der Gesellschaft) im Zusammenhang mit dem Angebot platziert werden.

d. *Plan für den Vertrieb*

Die Zuteilung von Angebotsaktien an Privatanleger und institutionelle Investoren wird von der Gesellschaft und dem Abgebenden Aktionär nach Rücksprache mit den Joint Global Coordinators beschlossen. Die Gesellschaft, der Abgebende Aktionär und die Konsortialbanken halten sich an die „Grundsätze für die Zuteilung von Aktienemissionen an Privatanleger“ der Börsensachverständigenkommission vom 7. Juni 2000.

e. *Stabilisierungsmaßnahmen, Mehrzuteilung und Greenshoe-Option*

Im Zusammenhang mit der Platzierung der Angebotsaktien handelt BofA Securities, oder in ihrem Namen handelnde Personen, als Stabilisierungsmanager und kann entsprechend den gesetzlichen Vorschriften Stabilisierungsmaßnahmen ergreifen, um den Kurs der Aktien der Gesellschaft während eines Zeitraums, der spätestens 30 Kalendertage nach Handelsbeginn der Aktien der Gesellschaft am regulierten Markt der Frankfurter Wertpapierbörse – voraussichtlich am oder um den 25. September 2020 – endet, zu stützen und dadurch einen etwaigen Verkaufsdruck zu mindern. Die Anzahl der Mehrzuteilungsaktien, die zugeteilt werden dürfen, darf 15% der Summe der zugeteilten Basisaktien und gegebenenfalls der Zusätzlichen Basisaktien nicht überschreiten (diese Anzahl von Mehrzuteilungsaktien, zusammen mit den Zusätzlichen Basisaktien, die “**Zusätzlichen Aktien**”). Der Stabilisierungsmanager ist nicht verpflichtet, Stabilisierungsmaßnahmen zu ergreifen. Im Rahmen der möglichen Stabilisierungsmaßnahmen können Anlegern zusätzlich zu den Basisaktien und, möglicherweise, den Zusätzlichen Basisaktien, Mehrzuteilungsaktien zugeteilt werden. Im Zusammenhang mit potenziellen Mehrzuteilungen gewährt der Abgebende Aktionär den Konsortialbanken eine Option zum Erwerb aller oder eines Teils der zugeteilten Mehrzuteilungsaktien gegen Zahlung des Angebotspreises abzüglich vereinbarter Provisionen (die „**Greenshoe-Option**“, und solche Mehrzuteilungsaktien, die bei Ausübung der Greenshoe-Option erworben wurden, die „**Greenshoe-Aktien**“).

f. *Verwässerung*

Zum 30. Juni 2020 betrug der den Aktionären der Gesellschaft in der Konzernbilanz auf der Grundlage des Ungeprüften Konzernzwischenabschlusses zuzurechnende Nettovermögenswert, berechnet als Summe Aktiva abzüglich der gesamten Schulden und nicht beherrschenden Anteile, EUR 56,7 Mio., was EUR 0,71 je Aktie auf der Grundlage von 80.000.000 ausstehenden Aktien unmittelbar vor dem Angebot entspricht.

Unter der Annahme einer Platzierung von 21.428.571 Primären Basisaktien und 7.142.857 Sekundären Basisaktien zum Mittelwert der Preisspanne würde der den Aktionären zum 30. Juni 2020 zurechenbare Nettovermögenswert nach Abschluss des Angebots EUR 3,37 pro Aktie betragen, was einer unmittelbaren Verwässerung von 76% entspricht.

g. *Kosten*

Die Kosten im Zusammenhang mit dem Angebot der Angebotsaktien und der Zulassung des gesamten Grundkapitals der Gesellschaft zum Handel am regulierten Markt der Frankfurter Wertpapierbörse werden voraussichtlich rund EUR 39 Mio. betragen (davon schätzt die Gesellschaft die Kosten für die Gesellschaft auf rund EUR 24 Mio. und die Kosten für den Abgebenden Aktionär auf rund EUR 15 Mio.), unter der Annahme einer Platzierung von 21.428.571 Primären Basisaktien und 7.142.857 Sekundären Basisaktien zum Mittelwert der Preisspanne, der vollständigen Platzierung der Zusätzlichen Aktien, der vollständigen Ausübung der Greenshoe-Option und der vollständigen Zahlung einer Ermessensgebühr.

Anlegern werden von der Gesellschaft, dem Abgebenden Aktionär oder den Konsortialbanken (in ihrer Eigenschaft als Konsortialbanken) keine Kosten in Rechnung gestellt. Anleger können jedoch die üblichen Transaktions- und Abwicklungsgebühren zu tragen haben, die von ihren Brokern oder anderen Finanzinstituten, über die sie ihre Wertpapiere halten, erhoben werden.

(ii) Wer ist der Anbieter und/oder die die Zulassung zum Handel beantragende Person?

Das Angebot wird von BofA Securities, einer Gesellschaft mit unbeschränkter Haftung (*private unlimited company*) mit Sitz in 2 King Edward Street, London EC1A 1HQ, Vereinigtes Königreich, eingetragen in und unterliegend den Gesetzen von England und Wales, JPM, einer Aktiengesellschaft (*public limited company*) mit Sitz in 25 Bank Street, Canary Wharf, London E14 5JP, Vereinigtes Königreich, eingetragen in und unterliegend den Gesetzen von England und Wales, KCM, einer Gesellschaft mit beschränkter Haftung (*limited liability partnership*) mit Sitz in 7 Carlton Gardens, Stirling Square, London SW1Y 5AD, Vereinigtes Königreich, eingetragen in und unterliegend den Gesetzen von England und Wales, DB, einer Aktiengesellschaft mit Sitz in Taunusanlage 12, 60325 Frankfurt am Main, Deutschland, eingetragen in und unterliegend den Gesetzen von Deutschland, Citigroup Global Markets Limited, einer Gesellschaft mit beschränkter Haftung (*private limited company*) mit Sitz in Citigroup Centre, Canada Square, London E145LB, Vereinigtes Königreich, eingetragen in und unterliegend den Gesetzen von England und Wales, COMMERZBANK Aktiengesellschaft, einer Aktiengesellschaft mit Sitz in Kaiserstraße 16 (Kaiserplatz), 60311 Frankfurt am Main, Deutschland, eingetragen in und unterliegend den Gesetzen von Deutschland, UniCredit Bank AG, einer Aktiengesellschaft mit Sitz in Arabellastraße 12, 81925 München, Deutschland, eingetragen in und unterliegend den Gesetzen von Deutschland, Crédit Agricole Corporate and

Investment Bank, einer Aktiengesellschaft (*société anonyme*) mit Sitz in 12 place des Etats-Unis, CS 70052, 92547 Montrouge Cedex, Frankreich, eingetragen in und unterliegend den Gesetzen von Frankreich, und Mizuho International plc, einer Aktiengesellschaft (*public limited company*) mit Sitz in Mizuho House, 30 Old Bailey, London EC4M 7AU, Vereinigtes Königreich, eingetragen in und unterliegend den Gesetzen von England und Wales, unterbreitet.

Die Gesellschaft beabsichtigt, gemeinsam mit DB, die als Listing Agent handelt, die Zulassung zum Handel zu beantragen.

(iii) Weshalb wird dieser Prospekt erstellt?

a. Gründe für das Angebot und die Zulassung zum Handel

Die Gesellschaft beabsichtigt, mit dem Angebot ihr Eigenkapital zu erhöhen und Barmittel zu generieren. Mit der beabsichtigten Zulassung ihrer Aktien zum Handel beabsichtigt sie, einen besseren Zugang zu den Kapitalmärkten zu erhalten. Der Abgebende Aktionär beabsichtigt, seine Beteiligung an der Gesellschaft im Zusammenhang mit dem Angebot teilweise zu veräußern.

Die Gesellschaft und der Abgebende Aktionär sind der Ansicht, dass die Zulassung der Aktien der Gesellschaft zum Handel der Gruppe eine Reihe von Vorteilen bringen wird, darunter eine verbesserte Visibilität und Bekanntheit ihrer Marke sowie erhöhte Flexibilität und Fähigkeit, das Geschäft der Gruppe durch organisches Wachstum und ausgewählte Akquisitionen zu unterstützen und zu entwickeln.

b. Zweckbestimmung und geschätzter Nettobetrag der Erlöse

Die Gesellschaft beabsichtigt, den geschätzten Nettoerlös aus dem Angebot der Primären Basisaktien in Höhe von rund EUR 276 Mio. (unter der Annahme einer Platzierung von 21.428.571 Primären Basisaktien und 7.142.857 Sekundären Basisaktien zum Mittelwert der Preisspanne, der vollständigen Platzierung der Zusätzlichen Aktien, der vollständigen Ausübung der Greenshoe-Option und der vollständigen Zahlung einer Ermessensgebühr) dazu zu verwenden, (i) ihre Unternehmensstrategie weiter umzusetzen, unter anderem durch die Expansion entlang der Wertschöpfungskette integrierter Sensorlösungen und die Erweiterung ihres Sensorportfolios, die Entwicklung ihres Vertriebsnetzes und die Durchführung strategischer Akquisitionen, für die die Gruppe potenzielle Ziele laufend beobachtet und bewertet, (ii) zusammen mit Mitteln, die im Rahmen der neuen Finanzierungsvereinbarung der Gruppe zur Verfügung gestellt werden, alle Finanzverbindlichkeiten im Rahmen der bestehenden vorrangigen Finanzierungsvereinbarung der Gruppe zu tilgen, wodurch eine Nettoverschuldungsquote (berechnet als das Verhältnis von (i) der Summe von langfristigen Finanzverbindlichkeiten, langfristigen Leasingverbindlichkeiten, kurzfristigen Finanzverbindlichkeiten und kurzfristigen Leasingverbindlichkeiten abzüglich der liquiden Mittel zum jeweiligen Bilanzstichtag im Verhältnis zu (ii) dem bereinigten EBITDA für den Zwölfmonatszeitraum, der an diesem Bilanzstichtag endete) von etwa 3 bis zum Jahresende 2020 (unter Annahme einer gleichbleibenden Gruppenstruktur) angestrebt wird und (iii) allgemeine Unternehmenszwecke zu verfolgen.

Unter der Annahme einer Platzierung von 21.428.571 Primären Basisaktien und 7.142.857 Sekundären Basisaktien zum Mittelwert der Preisspanne, der vollständigen Platzierung der Zusätzlichen Aktien, der vollständigen Ausübung der Greenshoe-Option und der vollständigen Zahlung einer Ermessensgebühr schätzt die Gesellschaft, dass sich der Nettoerlös für den Abgebenden Aktionär auf rund EUR 250 Mio. belaufen würde.

c. Übernahmevertrag

Die Gesellschaft, der Abgebende Aktionär und die Konsortialbanken haben am 15. September einen Übernahmevertrag über die Koordination, Strukturierung und Durchführung des Angebots abgeschlossen (der „**Übernahmevertrag**“). In dem Übernahmevertrag haben sich die Konsortialbanken verpflichtet, die Basisaktien und die Zusätzlichen Basisaktien zu kaufen und diese Aktien im Rahmen des Angebots an Investoren zu verkaufen, wobei diese Verpflichtung verschiedenen Bedingungen unterliegt, darunter unter anderem der Abschluss einer Preisfestsetzungsvereinbarung.

d. Wesentlichste Interessenkonflikte in Bezug auf das Angebot oder die Zulassung zum Handel

Die Konsortialbanken handeln für die Gesellschaft und den Abgebenden Aktionär im Zusammenhang mit dem Angebot und der Koordination, Strukturierung und Durchführung des Angebots. Darüber hinaus wurde JPM beauftragt, als Designated Sponsor für die Aktien der Gesellschaft zu handeln, und DB wurde als Zahlstelle beauftragt. Nach erfolgreicher Durchführung des Angebots erhalten die Konsortialbanken eine Provision. Aufgrund dieser Vertragsbeziehungen haben die Konsortialbanken ein finanzielles Interesse am Erfolg des Angebots. Zudem unterhalten einige der Konsortialbanken oder mit ihnen verbundene Unternehmen Geschäftsbeziehungen mit der Gruppe (einschließlich der Kreditvergabe) und können diese zukünftig von Zeit zu Zeit unterhalten oder im Rahmen des normalen Geschäftsbetriebs Dienstleistungen für die Gruppe erbringen.

Der Abgebende Aktionär erhält den Erlös aus dem Verkauf der Sekundären Basisaktien und der Zusätzlichen Aktien. Dementsprechend hat der Abgebende Aktionär ein Interesse am erfolgreichen Abschluss des Angebots. Bestimmte Mitglieder des Aufsichtsrates der Gesellschaft, Johannes P. Huth, Christian Ollig und Claire Wellby, haben Funktionen bei verbundenen Gesellschaften des Abgebenden Aktionärs inne. Darüber hinaus ist KCM eine verbundene Gesellschaft des Abgebenden Aktionärs. Dementsprechend stimmen ihre Interessen in Bezug auf das Angebot und die Zulassung der Aktien der Gesellschaft möglicherweise nicht mit denen der Gesellschaft oder der anderen Aktionäre der Gesellschaft überein, was einen potenziellen Interessenkonflikt darstellt.

Mehrere Vorstands- und Aufsichtsratsmitglieder der Gesellschaft sowie weitere Mitarbeiter der Gruppe sind indirekt an der Gesellschaft beteiligt. Dementsprechend haben alle diese Personen ein Interesse am Erfolg des Angebots zu bestmöglichen Bedingungen. Der Vorsitzende des Aufsichtsrats der Gesellschaft plant, im Rahmen des Angebots Aktien der Gesellschaft zu erwerben und hätte in diesem Fall ein finanzielles Interesse an der Entwicklung des Aktienkurses der Gesellschaft.

1. RISK FACTORS

*Prospective investors should carefully consider the risk factors set out below, together with the other information contained in this prospectus (the "**Prospectus**"), before investing in shares of HENSOLDT AG (the "**Company**" and, together with its consolidated subsidiaries, the "**Group**", "**we**", "**our**", and "**us**"). The Company was established in September 2019 and became the parent company of the Group in November 2019, when Square Lux Holding II S.à r.l., a limited liability company (société à responsabilité limitée) under the laws of Luxembourg (the "**Selling Shareholder**"), contributed all shares held by the Selling Shareholder in HENSOLDT Holding GmbH, previously the parent company of the Group, to the Company. For the time period before such contribution, the terms "**Group**", "**we**", "**our**", and "**us**" refer to HENSOLDT Holding GmbH, together with its consolidated subsidiaries.*

In each category, the most material risks, in the assessment undertaken by the Company, taking into account the expected magnitude of their negative impact on the Company and the probability of their occurrence, are set out first, with at least the two most material risk factors mentioned at the beginning of each category. Irrespective of this order, however, the occurrence of any of these risks, individually or together with other circumstances and uncertainties currently unknown to us or deemed immaterial by us, could have a material adverse effect on our business, results of operations, financial position, and cash flows. Consequently, the value of the shares of the Company could decrease as a result of the occurrence of any of these risks.

1.1. Risks Related to the Markets We Operate in

1.1.1. Due to our customer structure, our business depends, directly and indirectly, on defense and security spending by governments, supranational organizations, and their armed and security forces, which may be affected, among other things, by impacts of the Covid-19 pandemic.

We are a platform-independent provider of defense and security sensor solutions. Our portfolio comprises sensor solutions in the fields of radar, electronic warfare, avionics (electronic systems used on aircraft, such as crash recorders), and optronics (electro-optical systems, such as thermal imaging devices). We sell our products and solutions to the German and foreign governments, as well as supranational organizations such as the North Atlantic Treaty Organization ("**NATO**"), and their armed and security forces either directly or indirectly, for example via commercial customers or as part of consortiums or joint ventures. In the case of indirect sales, our products are typically installed as components of integrated products or platforms, for example aircraft, naval vessels (including submarines), and land vehicles (including tanks), as part of procurement projects for armed and security forces of governments and supranational organizations as end-customers.

The vast majority of our revenue over the period 2017 to 2019 and over the six-month period ended June 30, 2020 directly or indirectly originated from governments' defense and security-related programs, whether through direct sales to governments and their armed and security forces, or indirectly through components supplied by us for other products and platforms ultimately purchased by governments.

The funding of contracts awarded by governments or supranational organizations can fluctuate and depends on numerous factors that are beyond our control. Such factors include, among other things, political budgets and appropriation processes, geopolitical events and developments, and macroeconomic conditions and fluctuations. Funding of contracts might also depend on changes to defense and security spending in reaction to geopolitical events or macroeconomic developments. For example, in response to the Coronavirus SARS-CoV-2 ("**Covid-19**") pandemic, governments might reallocate part of their defense budgets for the benefit of other areas, such as healthcare and economic stimulus measures. In addition, the effects of the Covid-19 pandemic might also result in a decreasing demand for our products from our commercial customers. Such effects could be reinforced in the event of a "second wave" or further "waves" of the Covid-19 pandemic in European and other countries, leading to further political and economic instability.

Moreover, the budgetary decision-making processes of governments tend to be time-consuming, and depending on policies, defense-related appropriations in particular may rank lower than other areas in

terms of priority. Even when a budgetary decision regarding a certain defense program or project has been made, it may take substantial time (sometimes exceeding a year) until specific contracts are awarded. Additionally, changes in governments' compositions, elections, or financial, economic, or diplomatic crises may lead to policy overturns and defense budget cuts, which might reduce the funding of current or future projects in which we participate or might participate, or delay or terminate such projects altogether. In particular, the prioritization and allocation of existing defense budgets, whether in connection with budget cuts or independently from such, might not favor our product offering, for example, because budget might be spent on personnel rather than equipment, or because governments might decide to purchase existing or future platforms developed and produced without our involvement, rather than to invest in platforms in which we might have participated.

The German government's defense equipment expenditure for the different branches of its armed forces (*Bundeswehr*) was our largest single revenue source in each of the years 2017 to 2019, as well as in the six-month period ended June 30, 2020, and we expect to continue to depend on the development of the German government's defense spending in the future. The German government had repeatedly stated its intention to increase its defense budget to 1.5% of its gross domestic product ("**GDP**") by 2024, which target is already likely to be exceeded in 2020 due to the economic impacts of the Covid-19 pandemic and the anticipated GDP contraction. While we expect the Federal Republic of Germany (hereinafter also "**Germany**") to maintain its level of defense spending, there can be no assurance with respect to future spending by Germany or other countries, or that any such future spending will benefit our business. In particular, Germany and other countries might also revisit their budgets and their defense spending for the coming years as a result of the Covid-19 pandemic and the acceleration (front-loading) of defense spending in the context of stimulus packages. In case of any sustained economic downturn, for example due to the Covid-19 pandemic, leading to a GDP contraction or lower-than-expected growth, defense spending in Germany and other countries may also decrease, or not grow as anticipated, despite meeting respective GDP percentage targets.

As Germany is one of the leading participants and decision makers for European and international defense projects, defense spending decisions by the German government may also impact our business in other ways. For example, if the previously communicated increase in Germany's defense budget is not pursued, or if the German political environment changes towards decreasing government defense spending, this may also impact or jeopardize our business prospects related to major European or international defense projects. Additionally, budgetary constraints and adverse economic consequences resulting from, for instance, the Covid-19 pandemic and/or the recent sharp decrease and continuing volatility of the oil price, may result in project delays and cancellations.

1.1.2. Our international business is subject to sales and export restrictions and controls applicable to our products, and the products or platforms into which our products are integrated, including government approval requirements and moratoriums.

Almost all products in our portfolio qualify either as military goods or services or as dual-use goods (usable for both civil and military purposes) under export control regulations. Products in both categories are subject to various sales and export restrictions. Sales and export restrictions pose challenges (such as additional cost and compliance risks) and, in some cases, limit or prevent our access to certain markets or end-customers. Restrictions include, in particular, export controls (for example, under the German Foreign Trade and Payments Act (*Außenwirtschaftsgesetz*) and the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*)) and license requirements. Moreover, some countries, such as France, Germany, South Africa, the United Kingdom, and the United States of America ("**United States**" or "**U.S.**"), as well as, for example, the Security Council of the United Nations and the Council of the European Union, impose moratoriums on exports to certain countries. In addition, our products are often incorporated into integrated products or platforms, such as the Eurofighter jet or the Leopard 2 main battle tank, which are considered weapons of war and, as such, subject to additional restrictions and controls. These restrictions and controls include, in particular, the German War Weapons Control Act (*Gesetz über die Kontrolle von Kriegswaffen*), as well as similar laws in other jurisdictions.

The impact of restrictions and controls relating to our products may be exacerbated due to their extraterritorial approach, in particular for products we develop or produce in Germany. Relevant restrictions and controls do not only apply to our direct exports to restricted destinations, but also to

sales to non-restricted destinations to the extent that our products are intended to be integrated as components in other products or platforms that are exported to a restricted end-customer or destination. We might therefore be excluded as a component supplier from the international commercialization of certain products.

In addition, there are calls for and efforts to adopt stricter export policies by certain German political parties. In the recent past, exports to, for example, certain countries in the Middle East, such as Saudi Arabia, Turkey, and the United Arab Emirates, have come under heightened scrutiny in the public opinion, which may result in a further reduction of export licenses.

The risk that some of our components become unsuitable or unavailable for integrated products or platforms due to German export restrictions and controls could induce our non-German customers to source components for their projects from providers that are not subject to German export restrictions and controls. Our access to such customers and projects might thus become limited or be prevented entirely. In addition, we are subject to different export regimes depending on the jurisdiction in which we operate. Even if we comply with all applicable restrictions and controls imposed by one jurisdiction in which we operate, we might also suffer damages to our reputation and customer relationships from practices that would have been limited or not permitted in other jurisdictions.

The introduction of new or more stringent restrictions or controls, or the stricter interpretation or handling of existing restrictions or controls, whether due to, for instance, changes in governments' composition, elections, media coverage, geopolitical events and developments, or policy changes, might result in additional obstacles to, or entirely prevent, our access to certain markets or end-customers in the future. This may also lead to the revocation of previously granted permits and approvals. For example, we are prevented from or have limited access to exports to certain countries, such as China, Iran, and Russia.

Under our contractual agreements, as the supplier, we typically bear the risk of tightening export restrictions applicable to our products. Accordingly, our customers might be entitled to terminate their contracts with us if we are unable to deliver our products due to export restrictions, and we might not be entitled to any compensation for our products or developments. In addition, the effects of any export restrictions or controls on our profitability may be amplified by the fact that products we export are typically advanced in their product lifecycle, already established in the market, and, thus, important for our overall profitability. Conversely, any delay of or failure to implement export facilitations or exemptions, such as a common approach to arms exports for joint projects of Germany and France, might adversely affect our envisaged future growth.

1.1.3. We may be affected by conflicts and developments on an international, national, political and economic level, including by way of trade restrictions, added complexity and barriers to our sales and supply chain, or political support for competitors.

Conflicts and developments, around the world and locally, as well as on a political and economic level, may add complexity and barriers to our international sales and our supply chain. Their effects might be aggravated due to the unpredictability of certain conflicts and developments, which may be caused by sudden political or economic crises, for instance due to regime changes, coups d'état, or natural disasters or pandemics (such as the recent outbreak of Covid-19).

An example of international affairs and developments that has, to a certain degree, affected our business in 2018 and 2019 includes the German government's moratorium on exports to Saudi Arabia until December 31, 2020. This and similar measures may continue to impact our business, in particular because the Gulf region and especially Saudi Arabia is one of the main export regions for our products to non-NATO member states. Other international conflicts, such as those between India and Pakistan, or Israel and other countries in the Middle East, might have similar effects in the future, as any of the countries involved, as well as third parties or foreign governments, might impose comparable trade restrictions on military and dual-use goods, for instance.

In addition, many of the projects in which we participate directly or indirectly have long lead times, while at the same time, political circumstances, political support, and demand for these projects are subject to change, both rapidly and over time. For example, sudden regime changes, such as in

Algeria in 2019, can have adverse repercussions on the calculated demand for certain defense platforms in which we participate, and similar sudden developments might affect our, or our customers', long-term planning in the future.

Strategic considerations might also affect the participation of countries in multinational defense projects, or the inclusion of our products therein. For example, certain governments might have security concerns regarding the transmission of sensitive information to other countries in connection with such projects, leading them to abandon such projects, or to object to our inclusion in such projects.

Similarly, nationalist or anti-European movements, the failure to reach a post-Brexit trade agreement between the European Union and the United Kingdom until the end of the transition period on December 31, 2020, or other political events might lead to the unilateral abandonment of bi- or multinational projects or a reduction of defense cooperation generally, which would harm our market prospects. In addition, such events may directly affect our foreign subsidiaries in the countries in which they operate. For example, HENSOLDT UK may be exposed to new regulations, custom duties, export restrictions, and other restrictive measures if a post-Brexit trade agreement is not established before the end of the transition period. As a result, our ability to interact between different international locations may be limited, which might adversely affect our internal supply chain, among other things.

Further, national protectionist policies may also result in additional trade barriers for our products, such as tariffs, as well as subsidies or political support for our international competitors. For instance, in an attempt to give greater weight to domestic business interests, the current U.S. administration aims to speed up defense deal approvals and increase the role of senior U.S. officials in closing sales by U.S. companies to foreign customers, which could benefit our U.S. competitors.

Conflicts or strategic considerations might, for instance, also lead to changes to the U.S. International Traffic in Arms Regulations ("**ITAR**"). The ITAR impose a requirement for approval by the U.S. Directorate of Defense Trade Controls of exports and re-exports/re-transfers of certain products (even without crossing a border) when the sales are to persons not covered by a previously granted license. Due to the extensive scope of the ITAR, including on resales, an ITAR product designation may have a deterrent effect even on persons permitted to purchase such products. If tensions between the United States and another country or other reasons lead to changes to these rules, resulting in any of our products unexpectedly being subject to the ITAR, this could limit the number of potential customers for such products. In addition, any changes might force us to cease procuring components from certain suppliers, in order to keep our products outside the scope of the ITAR.

Any international expansion of our sales or supply chain would likely amplify our exposure to these risks.

1.1.4. Our business performance depends on the inclusion and participation in major defense projects and platforms.

In particular due to increasing consolidation in our industry and increasing defense cooperation among governments, there is a limited number of potential government customers (which term shall include supranational organizations) and non-government customers in our industry. For example, in 2019, sales to our three largest direct customers accounted for 43% of our revenue, and our most important end-customer, Germany, accounted for slightly more than two fifths of our revenue. In addition, there are a limited number of relevant defense projects or platforms that are open to our participation and particularly attractive for us. Despite our platform-independent strategy, our business prospects remain dependent on the inclusion of our products in such key projects and platforms.

We believe that our business prospects are particularly influenced by winning contracts in conjunction with spending and procurement processes by the German armed forces (*Bundeswehr*), because it is our single largest revenue source and because we believe successful tenders in our home market demonstrate the quality of our products to export customers. Compared to other countries, however, in Germany, less emphasis may be given to the prioritization of domestic defense products and solutions. Instead, general public procurement law is applied and calls for tender are open broadly. In our key German market, we thus compete for contracts with a number of international competitors on market terms, which is not always the case in procurement processes in the domestic markets of certain of our competitors. This may sometimes result in competitive challenges for us.

Besides German projects, a significant and growing part of the largest current and future defense projects in which we participate or strive to participate is undertaken through bi- or multinational cooperation. For example, the Eurofighter jet, including updates and retrofits to existing aircraft, is jointly developed and manufactured by Germany, Italy, Spain, and the United Kingdom. In addition, Germany and France are jointly developing several platforms, such as the Future Combat Air System ("**FCAS**") (together with Spain), the Main Ground Combat System ("**MGCS**"), and the Maritime Airborne Warfare System ("**MAWS**"). The decision as to which components will be included in such cooperative projects or platforms depends on numerous factors, including political considerations and negotiations. We therefore depend on continued political support, in particular by the German government, for inclusion of our products in such projects.

Other factors we believe to be relevant for our involvement in domestic or international projects include the suitability of our existing products and technology for the end-product, our capacity to develop new products according to demand and customer instructions, our ability to assure timely delivery, the attractiveness of our products compared to those of our competitors, our products' compliance with national or international standards and corresponding certifications, a satisfactory service level, the extent to which export restrictions and controls are applicable to our products, and our overall business relationships with the respective (end-)customer(s).

For example, for one of our key product developments for the Eurofighter jet, the Eurofighter Common Radar System Mk1 ("**ECRS Mk1**"), Leonardo UK is planning to develop a parallel system for the United Kingdom and Italy, which international customers might prefer over the ECRS Mk1. If we do not succeed in convincing our customers of our ability to deliver in the abovementioned categories, or if we lack continued political support, we may also not be included in future key programs such as FCAS, MGCS, and MAWS. These programs, which are expected to be significant, long-lasting platforms, are currently in the early stages of their development and we have started preparations in order to be able to submit competitive bids in the future. If we, together with our partners and consortiums, are not awarded contracts under these programs, or if such future programs are delayed or cancelled, we may incur a loss of opportunities and may not be able to participate in our markets' expected potential, thereby converting such opportunities into a significant revenue and profit stream.

In particular, due to the limited number of potential customers in our industry, failure to perform satisfactorily in any of the projects in which we participate can have an adverse effect on our inclusion in future projects. In addition, to the extent we participate in consortiums or other forms of cooperation to win orders for certain projects, our success also depends on our cooperation with, and support of, our partners, as well as factors outside our control.

1.1.5. We may lose business to competitors, which include companies that have more comprehensive resources than we do or benefit from national promotion programs in their home countries.

We operate in a competitive industry and compete for business with a variety of different types of companies, in particular from Europe, the United States, and Israel, but also new market entrants, for example from India and South Korea. While our small and mid-size competitors, such as Terma, are typically specialized in certain market niches, we also compete with large defense companies, such as Thales, Leonardo, and Lockheed Martin. Some of these competitors have more extensive resources than we do, including financial resources, research and development ("**R&D**") budgets, and more diverse operations, and may therefore be better positioned to develop and market new products and take advantage of economies of scale.

Such larger companies may be able to cross-subsidize the divisions we compete with, or may benefit from technology or intellectual property ("**IP**") developed for other divisions, and may be better positioned in following new industry trends and meeting market demand. As their product range comprises products competing with our products as well as additional products, these competitors may also be in a position to offer integrated solutions, platforms, and packaged deals to end-customers, potentially at a discount, with which we may have difficulty competing. Given their global presence, large sales infrastructure, and potentially better-known brand name, these competitors may have better access to certain customers. Some of our competitors also face less stringent legal restrictions and controls, including moratoriums, government approval requirements, and trade barriers, as they are located or operate in different jurisdictions. All these factors pose competitive challenges.

Moreover, some of our competitors in the defense and security industry, particularly U.S.-based original equipment manufacturers, benefit from national promotion programs and political support. A prominent example is the Foreign Military Sales ("**FMS**") program of the U.S. Department of Defense ("**DoD**"), which facilitates sales of U.S. arms and defense equipment to foreign governments by permitting such governments to procure through the DoD rather than directly from the manufacturer. The benefits of procuring through the DoD may include lower unit costs through consolidation with DoD purchases, higher service standards, and improved relationships with the U.S. military. In some cases, the U.S. also provides financing to support specific projects or platforms. Potential customers may also use special financing provided by the United States to help foreign countries purchase U.S. weapons and defense equipment. By facilitating foreign investment into U.S. weapons programs, FMS and the related financing options thus generate sales and support local R&D and production, which our U.S. competitors benefit from.

Due to the competitive situation in our industry, we may lose business to these and other companies. As consolidation and vertical integration are expected to increase in the European defense electronics industry in the future, competition-related risks, in particular from larger competitors, may further increase in the future.

1.1.6. We sell to and engage in cooperations with our competitors, which may adversely affect our competitive situation.

From time to time and in different constellations, we sell our technology and products to companies that we compete with, or engage in cooperations with such companies, for example as partners in a consortium or a joint venture. Our main cooperation partners, for instance, include Airbus, Leonardo, Lockheed Martin, Thales, and Raytheon, all of which also produce similar products as we do and are competitors for certain of our products and projects. These business relationships with competitors expose us to specific risks, including competitors accessing our technology, violations of antitrust rules, and liability risks.

More specifically, organizations and facilities that design, manufacture, or maintain aircraft or aircraft equipment for the German armed forces (*Bundeswehr*), like us, need to be approved in accordance with German Military Airworthiness Requirements. These requirements are monitored, among other things, through extensive checks of internal procedures and on-site audits. The German armed forces (*Bundeswehr*) are considering outsourcing such monitoring to the respective project-leading contractor, which, for the projects we participate in as a sub-contractor, may be a company that is also our competitor. Thus, and because of our cooperations in general, our competitors might get access to our technologies, trade secrets, and IP, which could harm our competitive position. In addition, with respect to cooperations with competitors in particular, there is a narrow framework that needs to be followed from a regulatory perspective, including due to antitrust rules, which we and our competitors might fail to comply with. Cooperations with competitors might also lead to conflicts of interests among the participants, and our competitive position may be harmed as a result. For instance, our competitors may attempt to reduce our contribution in a consortium or joint venture to maximize their own benefit, or we may enter into arrangements under which we assume significant or shared liability with a competitor in order to participate in a program. In particular, whenever one of our competitors leads a consortium we participate in or a competitor is a majority shareholder in one of our joint ventures, we may have limited recourse against adverse actions taken by such competitor.

1.1.7. We are subject to offset obligations in connection with the award of commercial contracts.

When awarding a contract in the defense sector, some governments, such as Australia, India, Saudi Arabia, South Korea, and Switzerland require that contracting companies like ourselves assume certain offset obligations. Such obligations may include, for instance, procurement or production at a local level, the provision of maintenance and aftermarket services through joint ventures with local entities, investments in local industrial projects, or IP transfers. Saudi Arabia's National Transformation Plan, for instance, known as "Vision 2030", aims to, among other things, promote technology transfers to develop domestic defense capabilities.

We may be unable to meet such offset obligations in the future (for example, due to restrictions according to German national security regulations or lack of suitable local partners), or incorrectly

budget associated costs, in particular in long-term projects. The number of governments requiring us to assume offset obligations might also increase and the requirements for offset obligations might change over time, including by way of policies that require greater shares of direct offset obligations, which relate to the specific product provided by us, instead of indirect offset obligations. Besides direct costs, we may experience quality issues in cases of required local procurement or production, or contribute to the creation of potential new competitors with technology transfers, any of which might outweigh the benefits we realize from a particular project. If we do not meet our offset obligations, we may face penalties and, in certain cases, we may be prevented from participating in future contract award procedures in the countries concerned. Moreover, depending on the particular arrangements and beneficiaries, some of the offset obligations might prove to be problematic from an anti-corruption compliance perspective or inconsistent with our anti-corruption compliance program.

Offset obligations may also be a competitive hurdle for us against competitors with a more diversified product range, larger procurement and production volumes, greater R&D budgets, or a larger geographic footprint. In particular for indirect offsets, which are unrelated to the specific product to be sold, such competitors might have more offset options available to offer to potential customers and might thus be more attractive for such customers, or might be able to comply with offset obligations at less cost.

1.1.8. Sales of our products to governments, whether directly or indirectly, involve delays and uncertainty, including due to required parliamentary or administrative approvals and order amendments or cancellations.

Sales of our products to governments and their armed forces, whether directly or indirectly (for example, via non-government customers), involve specific challenges related to the nature of our end-customer. For example, such sales are generally subject to procurement approval requirements by the respective country's parliament or other stakeholders, or governments might request to amend or cancel previous orders.

In Germany, for instance, procurement projects by the German armed forces (*Bundeswehr*) in excess of EUR 25 million require parliamentary approval by the defense and budget committees of the German Bundestag, which is a lengthy and not always predictable process due to the various stakeholders involved. More specifically, after a contract with a value in excess of this threshold has been negotiated with the Federal Office of Bundeswehr Equipment, Information Technology and In-Service Support (*Bundesamt für Ausrüstung, Informationstechnik und Nutzung der Bundeswehr*, "**BAAINBw**"), the BAAINBw must submit a proposal for parliamentary approval, which is reviewed by the federal ministries for defense and finance and then tabled at meetings of the defense and budget committees of the German Bundestag. Only once each committee has given its approval, the BAAINBw may enter into the pre-negotiated contract.

Such parliamentary procurement approvals, in Germany or other countries, create uncertainty, in particular with respect to timing around our business prospects. Various factors beyond our control, such as political considerations by members of a parliament or, at an earlier stage, by the ministries involved, including due to the influence of lobbying groups, or adverse media coverage, may impede, slow down, or prevent procurement approvals. In addition, because procurement contracts must be fully negotiated before a proposal for parliamentary approval is submitted, we may spend significant time and resources on exploring demand, developing capabilities to meet the demand, and negotiating contracts with the relevant procurement department, with no certainty regarding the timing of future compensation, if any.

Separately, our relationship with our government and non-government customers, as well as industrial partners in consortiums and joint ventures, is characterized by their significant political and/or purchasing power, economic size, financial strength, and commercial sophistication, as well as the general reliance of suppliers like us on contracts being awarded by them. For these reasons, and due to our desire to maintain good relationships with our customers with a view to future orders, we might follow requests for discounts or order reductions or cancellations without legal cause. As a result, we may not always be able to recognize the expected revenue from such contracts or in exceptional circumstances suffer losses if the agreed compensation does not cover our costs. Moreover, procurement agencies, such as the BAAINBw, increasingly demand contractual protection from suppliers against delays and insist on contractual penalties, which, if incurred, could have similar effects.

Furthermore, when we are dealing with the German government, the prices we may charge for our products are regulated under public price law. This limits the profit margins that we may include in our prices, with details being governed by the complex "Bonn formula" (*Bonner Formel*) customarily applied in the German defense and armaments industry.

1.1.9. Expanding our presence in non-defense markets might prove to be challenging.

As part of our business strategy, we intend to expand our presence in select markets for non-defense applications of our technology. These markets include certain portions of the markets for (i) aircraft avionics, (ii) civil air traffic control ("**ATC**") systems, (iii) border security systems, and (iv) counter unmanned aerial vehicles systems. Such expansion might be more challenging or costly or take longer than we anticipate, or might not be successful at all.

With respect to non-defense applications of our technology, we are subject to a larger field of potential competitors than in our core market, as there are generally less barriers to entry than in highly regulated defense markets. We might overestimate the opportunities that the targeted market represents, or may not have the required resources, infrastructure, and sales network that we would need to develop our market presence as planned. In particular, our non-defense portfolio, which includes, among other things, ATC radars used for civil aviation and our drone detection and defeat system Xpeller, which can be used, for example, to protect civil airports or public events, may lose revenue and market opportunities as areas in which these products are used are heavily affected by the Covid-19 pandemic. In addition, any failure of our products used for such non-defense applications could, apart from liability risks, lead to considerable damage to our reputation, which might also have repercussions for our position in our core markets.

In case we are not successful with any expansion into these non-defense markets, the resources we will have decided to devote to such expansion might have been futile.

1.2. Risks Related to Our Operations

1.2.1. We may fail to implement our growth strategy because of, among other things, operational challenges as a result of planning uncertainty as well as past and targeted future expansion.

We may face certain challenges in connection with our growth strategy. Challenges in the implementation of our growth strategy arise, in particular, from complex forecasts of overall demand, as well as difficulty in making necessary adjustments to our infrastructure in line with demand.

We plan R&D and production capacity for our projects several years in advance, on the basis of expected market developments, order intake, and order backlog. However, demand for our products is a function of a wide range of factors that cannot always be anticipated with certainty. In particular, the ongoing strategic and technological transformation in the defense and security industry makes it more difficult to forecast future sales of our products. On the one hand, if we overestimate demand for our products, there is a risk that available capacity will be underutilized, resulting in lower returns on the capital invested in building such capacity and reduced profit margins. Overly cautious forecasts, on the other hand, could result in insufficient capacity to meet demand, lost business, and customer dissatisfaction.

In addition to planning uncertainty, we may not always be able to quickly adjust our infrastructure to actual market demand. In particular, we may be unable to ramp-up our operations to meet any sudden and rapid increase in demand for our products. For example, we may be unable to compete for certain orders if our capacity is exhausted by other orders, which could result in us not participating in overall industry growth and losing market share to competitors.

Moreover, our transformation and growth in recent years have already placed significant demands on our management, as well as operational and financial infrastructure. As we aim to continue growing in terms of headcount and operations, resulting in an increasing complexity of our corporate structure, we may face new challenges, including for our internal control systems. As a result, we may experience, for instance, increased costs, temporary delays in the ramp-up of our operations, and a deterioration of the quality of our products and services.

We have also only been a stand-alone company for a limited amount of time. Since our separation from Airbus, we have been responsible for managing various central functions that had historically been provided by Airbus, including, among other things, administrative functions, financial reporting, and compliance procedures. The development of these functions has resulted in additional expenditures and continues to expose us to risks of unforeseen costs, including for regulatory non-compliance. Similar changes in our cost structure, as well as in our management, financing, and business operations may continue to occur in the future as a result of past and targeted future expansion. In particular, we may face challenges when managing inorganic growth in connection with acquisitions, for instance if we are unable to control associated costs or to successfully integrate an acquired business, including its personnel, product lines, and technologies. The materialization of any of these risks may not only result in the non-realization of anticipated benefits, but also in adverse disruptions to our existing operations.

1.2.2. Our competitiveness depends on our ability to anticipate market demand and to develop products according to customers' expectations.

The markets in which we compete are characterized by rapid technological developments. Our success thus depends on our ability to timely develop and commercialize new and enhance existing products and services, tailored to the needs of our customers. The need for new developments and improvements is particularly challenging given that we consider many of our products at the cutting edge of existing technologies, which requires us to develop technological innovations that break new ground and consequently bear a certain risk of malfunction. We also face the risk that an important part of our underlying technology or of our products becomes obsolete if we are unable to develop relevant upgrades in a timely manner.

In order to maintain our market position, we depend on accurate predictions of market developments and customer demand, as well as sufficient investments in innovative R&D corresponding to those developments and demand. The precise prediction as well as the strategic investment decision are subject to uncertainty, in particular due to long development cycles typical for our products and product enhancements. As platforms and programs in the defense industry usually have a lifecycle of several decades, the requirements for our products can also change substantially over time. There can be no assurance that our predictions will be accurate and that our investments will prove successful within the expected time schedule or at all.

Many of our products also require extensive and costly development and manufacturing processes. Due to the complex and advanced nature of our technology and products, we face technological challenges that arise in the development and manufacture of new products, which may lead to, for example, cost increases, quality issues, or delivery delays.

In addition, for nearly all early-stage technological developments in the radar and optronics sectors, we rely on successful cooperations with renowned universities and research institutes, mainly in Germany. However, certain of these research institutions are increasingly reluctant to cooperate with defense industry businesses due to public scrutiny and political influence. In certain cases, the use of specific newly developed technologies may be restricted by their exclusive designation for non-defense use. If we are unable to continue such cooperations, we might need to in-source early-stage R&D, resulting in additional expenses and entailing a significant degree of uncertainty.

1.2.3. Because we handle, and our customers use our products to handle, highly sensitive information, we and our solutions are particularly prone to breaches, attacks, or disruptions of our cyber- and IT-technology and infrastructure, and such incidents might have a critical impact.

We design, develop, sell, and, in some cases, operate products or systems with inbuilt cyber-security capabilities, which are often used for critical purposes and under circumstances where our customers expect particularly high cyber-security and data safety standards. Our products and systems might prove insufficient for these purposes, for example in the event of cyber-attacks, and result in malfunctions for our customers. The materialization of these risks might result in product liability or other claims of our customers and might damage our reputation.

At the same time, we are particularly prone to attempts to penetrate our own cyber-security defenses, damage or disrupt our computer and communications systems, and misappropriate or compromise our

IP or other confidential information, including that of our customers. In particular, because we handle certain highly sensitive customer information, we may become subject to cyber-attacks from highly skilled computer specialists sponsored by governments or government-funded organizations with significant resources at their disposal. Threats to our cyber- and IT-technology and infrastructure might include, for example, computer viruses, break-ins, phishing attacks, distributed denial-of-service attacks, identity theft, theft of address files or user identification or password data, customized malware seeking to access infrastructure and gather critical information, and unauthorized use of data, systems, products, or services by employees or customers. Moreover, we rely on certain third-party partners and providers for our cyber- and IT-technology and infrastructure and may have limited control over or influence on the security of the systems provided by such third parties.

Specifically, in the past, we have experienced singular incidents of data loss. The measures we took to prevent such incidents in the future, including extensive employee awareness campaigns and trainings, might prove insufficient, and we may continue to be vulnerable as a result of human error and misbehavior. Furthermore, other cyber-security measures we have implemented, including a dedicated cyber-security team and budget, security monitoring, a Group-wide security operations team, penetration testing, and internal IT audits we carry out from time to time may also, individually or in the aggregate, be inadequate to protect us from the threats we are facing.

If we are unable to secure our systems and databases and meet cyber-protection and data security standards, we may face data breaches, loss of IP, interruptions in our operations, administrative fines and measures imposed by data protection or other competent authorities, liability towards third parties, including our customers, and reputational harm. In particular, we do not have any cyber-insurance coverage in place, and our current efforts to obtain the same might not be successful or lead to additional costs.

1.2.4. We may be unable to retain or expand our position as a technology and quality leader.

In order to maintain high quality standards for our products and comply with government-prescribed safety, security, and other standards, we incur substantial costs for monitoring, certification, and quality assurance. Meeting government-mandated standards is costly and often technologically challenging, particularly in cases where required standards conflict with one another. Standards might change over the course of a project, adding cost to product development or production that we may not be able to recover from our customers. In addition, there is a risk that the quality tests we carry out prove to be insufficient.

We might also face challenges with respect to product quality in connection with cooperations or our participation in consortiums. Similar to government-mandated standards, design standards set by a consortium leader might be difficult for us to meet for various reasons, including lack of specificity, different interpretations, or frequent changes. We might also be required to make compromises with respect to the quality of components supplied by us, including due to cost restrictions. In addition, quality issues outside our control might be attributed to us if they occur in a product sold jointly.

Moreover, most customer orders have unique specifications, which may be subject to change over time and require extensive customization. We are facing constant challenges to meet these specifications and demands of our customers. Even when we meet contractually agreed specifications, our products may be deemed “not fit for purpose” due to an actual or perceived discrepancy between the contractually agreed specifications and the needs of the persons operating our products, or the platforms in which our products are integrated.

In addition, we produce highly technical, complex products that typically require special, expensive production facilities, such as measuring chambers, simulation environments, special production machines, etc. If these production facilities experience errors or decreasing performance, they might not be readily replaceable, if at all, which could result in quality deterioration or delays of parts of our production.

Any failure to maintain high quality standards for our products, whether actual or perceived by our customers, could damage our reputation and thereby negatively affect the market acceptance of our products.

1.2.5. We incur substantial expenditures for R&D, which we may be unable to recover, and are exposed to risks from customer-commissioned R&D.

Due to the nature of our business, R&D is important to us. Our R&D activities are either self-funded by us or commissioned by our customers, and both categories entail certain risks.

Our self-funded R&D activities, which include the development of entirely new products, as well as product variants and enhancements, are based on our own assessment and predictions of market demand and technology developments, and as such, are subject to risks and uncertainties involved in these independent assessments and predictions. We also conduct R&D tailored towards future key defense projects, in the expectation that any pre-developed technology or product that meets our potential customers' expectations might help us compete for orders in connection with these projects. In addition, we fund R&D in connection with individual customer orders, including for attempts to leverage developments for such individual orders by developing related products that are attractive to a wider group of potential customers. If any of our market predictions or product developments should prove not to be in line with expected market demand, or if our competitors develop superior or less expensive competing products, this might result not only in futile R&D costs or impairments of capitalized development costs, but might also be detrimental to our competitive position, which, may be difficult to reverse. There is also a risk that we may be forced to make large upfront investments in R&D for other technologies in order to retain existing market shares or to regain market share that has been lost to competitors.

Besides our self-funded R&D programs, we also conduct fully or partly customer-commissioned R&D, which includes research programs or programs tailored towards agreed product or technology developments. In addition to the risks related to our self-funded R&D described above, these customer-commissioned R&D programs carry further risks. Depending on the particular arrangements, upon successful development of the desired product or technology, our customers might own or possess certain rights with respect to the resulting IP, or a right to procure developed products at a discounted price from us. At the same time, there is typically no guarantee that these customers will procure any products at all, and the program, even though successfully completed, might not generate business as envisaged. If our R&D efforts do not yield results to our sponsoring customers' satisfaction, or if we do not use the funds we receive for the designated purposes, we might also become subject to refund or penalty obligations with respect to our customers' funding. In addition, customers might decide to discontinue customer-commissioned R&D programs or reduce the level of funding they make available for R&D, in which case the resources we allocated to such programs may prove to be futile or we may lack sufficient funding for our critical R&D efforts.

With respect to all our R&D activities, we are exposed to risks relating to the efficient allocation of our resources, in particular engineers. Our allocation decisions, both between our self-funded and customer-commissioned R&D, as well as between particular programs in each category, are based on predictions and might prove to be wrong, which could cause a loss of opportunity from other programs that might have been more successful. In addition, we face organizational challenges with respect to adjustments of our R&D resources in line with fluctuating demand.

1.2.6. We are subject to organizational and performance risks in connection with the planning and implementation of complex projects, which might increase in the future.

We are involved in and manage complex and often long-running projects with demanding technical and volume requirements against stringent, and sometimes fluctuating, customer schedules. This requires project calculation and planning on the basis of estimates and assumptions, which might prove to be wrong, as well as the coordination of various functions, including R&D, production facilities and operations, human resources, external supply chain, and our partners and customers, over long periods.

We are therefore subject to various calculation and performance risks, such as the risk related to economically calculating and planning complex projects that are often running for several years or decades, including taking into account the provision of spare parts and services for extended time periods after delivery of the original product, as well as deficiencies in, or external negative influences on, our, or our partners' or customers', internal organization and processes. In particular, when we

enter into a new project, or our involvement in an existing project increases, we might experience difficulties in adequately ramping up our operations, for example with respect to personnel and infrastructure required for R&D and production. Various challenges may arise regarding the technical and economical handling of our projects, and we may face unexpected problems with business partners, suppliers, and customers.

Events beyond our control may affect our ability to execute projects according to plan. For example, the Covid-19 pandemic recently forced us to temporarily close offices and certain production facilities in France, Germany, the United Kingdom, and South Africa, among others. Some of our offices and production facilities were closed for several weeks, and in some cases resumed operations at a lower capacity utilization, resulting in production downtimes and delays in our business operations, which in certain instances lead to lower margins. Similar closures of offices and production facilities may be required again in the future, including in case of a “second wave” or further “waves” of the Covid-19 pandemic or any national, regional, or local lockdowns due to new outbreaks or for other reasons in any of the locations in which we operate. As another example of an event outside our control, the development of the medium extended air defense system (MEADS), an air and missile defense system initiated in 1999, was formally closed in 2014 after various delays and the withdrawal of partners, and, besides the lost business opportunity, we did not recoup our expenses relating to the preparation of bids and the gathering of specific know-how.

Challenges to our successful project performance and execution are likely to increase in line with increasing responsibility assumed in future projects, for example, as a supplier of further integrated products or leader in consortiums. If we do not perform according to our customers’ expectations, we might not be able to collect payment for the relevant contract, become subject to penalties or contract termination, and our market position might deteriorate. More specifically, the technical requirements and specifications that are provided to us at the time a project is awarded are often not as detailed as required for accurate planning and economic calculation. As a result, we may face incalculable additional expenses and quality risks. In addition, to the extent we assume project leadership roles, a certain share of the total contract volume is assigned to our partners and suppliers, reflecting the shared risk and contributions, with typically negligible margins for us, which results in a dilution of our profitability (the “**pass-through business**”). As we aim to assume more leadership roles, the share of our pass-through business may increase in the future.

In recent years, our customers have also increasingly insisted on including fixed-price clauses in our contractual arrangements, under which we assume the risk that increased or unexpected costs after entering into the contract reduce our anticipated profits or even generate a loss. Factors that might cause our cost estimates to materially deviate from actual developments include, for instance, wrong assumptions and estimates with respect to development or production costs, product design flaws, issues with components procured from suppliers, or delays in or higher than anticipated costs for operational ramp-ups.

1.2.7. We depend on suppliers to deliver our product components on time and in good quality.

We manufacture few of our product components ourselves, and our in-house production process for some of our products only consists of the final assembly of purchased components. We are therefore dependent on the timely delivery of high-quality components and raw materials by our suppliers. Any delay in receiving supplies, including as a result of the ongoing impact of the Covid-19 pandemic, could impair our ability to timely deliver products to our customers and fulfill existing contracts. As we strategically aim to offer more integrated systems and solutions, our dependence on our suppliers might further increase in the future.

The composition of our supply chain poses a number of strategic challenges. For instance, we require for our production a large variety of different components and materials, but in most cases we only acquire comparatively low volumes of individual materials. Many of these components are also used in other industries, and we regularly purchase only small fractions of a supplier’s total output. Our negotiating position vis-à-vis our suppliers with respect to prices, delivery modalities, and other terms is therefore often relatively weak, and in case of capacity restrictions, we may be among the first customers to no longer be supplied. In particular, due to demand fluctuations for our products, our supplies demand fluctuates accordingly, which may lead to under-capacities in our supply chain. Our

suppliers might also themselves depend on sub-suppliers, amplifying our exposure to supply-chain risks. If one of our suppliers fails to meet its delivery obligations or delivers poor-quality products, we may be forced to purchase products from other suppliers at higher prices or may face delays and additional costs for necessary adjustments and re-engineering.

Certain components we procure are customized for our products or are only available from a small number of suppliers, and in certain cases, including a few that are material for our business (such as certain conductors and semi-conductors), a single source. If one of these suppliers becomes unavailable or stops delivery of its components on commercially reasonable terms, finding another source could result in added cost and manufacturing delays, or we could be forced to cease production of the relevant product altogether. Due to the relatively limited number of defense component suppliers, the risks we are facing in this regard may be larger than in other industries. Furthermore, suppliers may try to exploit our dependency on them by raising prices or requiring other commercial advantages such as more favorable payment terms, exposing us to additional costs and risks of interruptions in our supply chain.

Increased costs or interruptions in our supply chain may be caused by, for instance, regulatory restrictions, commodity price fluctuations, export and sales restrictions and controls, as well as other factors beyond our control (such as business interruptions or border closures due to contagious diseases, including a “second wave” or further “waves” of the Covid-19 pandemic in European or other countries). Changes in economic and financial conditions may obstruct or delay our procurement processes as well. For example, the expiry of the post-Brexit transition period on December 31, 2020 without the European Union and the United Kingdom having concluded a trade agreement may adversely affect our supply chain by way of, among other things, newly imposed customs duties, administrative challenges, as well as delays at the border.

To the extent our suppliers’ products include technologies and components that are covered by export control regulations in their respective countries or by the ITAR, we depend on the required approvals in order to be able to procure such goods and, hence, manufacture our products. In particular, technologies or components developed in or procured from Germany by our non-German subsidiaries might be subject to German export restrictions and controls. Due to their extraterritorial approach, these restrictions and controls might also apply to the products manufactured by such non-German subsidiaries.

If our suppliers fail to meet their design, quality, or delivery obligations, we may face production delays and liability towards our customers, for which we may be unable to obtain full or partial recovery from our suppliers. Furthermore, additional costs, interruptions in our existing supply chain, and difficulties in finding suppliers for new products and technologies might reduce our operating margins.

1.2.8. We face certain challenges in recruiting and retaining qualified personnel, as well as effectively managing labor costs.

As a company dependent on sales of innovative, technologically sophisticated products to a relatively small number of customers, our success, in particular during growth periods, depends on our ability to attract and retain highly qualified engineering personnel, as well as skilled salespeople and capable management. Our demand for such employees could intensify even further in the future if we continue on our targeted growth trajectory. There is competition for the services of such personnel, and we may not be able to convince the people we desire to retain to choose us as their employer. We might also fail to achieve and maintain diversity in our workforce, which could adversely affect our competitiveness, public perception, and ability to satisfy customer expectations.

If we are unable to retain certain essential employees, besides the loss in workforce, we might suffer from a loss of specialized knowledge of such employees, in particular because of the concentration of certain sensitive information within our organization due to secrecy obligations, for example. Additional adverse competitive effects might occur should our competitors hire, and gain access to the expertise of, such employees.

Separately, much of our business is project-related. This requires us to continuously adjust R&D and production capacities. For this purpose, we utilize certain measures such as flexible work hours, temporary workers, and a production network configuration to calibrate production capacity. We may not be able to adjust R&D and production capacities sufficiently and in the timeframe required if

demand fluctuates beyond our organizational and technical flexibility. We may also face unexpected costs in connection with such measures, for example if temporary workers are reclassified as permanent employees by the competent authorities.

Moreover, our ability to meet our demands for qualified personnel, while controlling labor costs, is subject to external factors, including competition for and availability of employees, unemployment levels, prevailing wage rates, minimum wage laws, laws relating to temporary workers' rights, health and other insurance costs, union membership levels and activity among our employees, and changes in employment and labor laws or other workplace regulation. Any shortage of qualified employees may require increases in wage and benefit offerings to compete effectively in the hiring and retention of qualified employees or to retain more expensive employees.

Our business, future growth, and success depend also to a significant extent on the experience, knowledge, and business relationships of members of our senior management, who could be difficult to replace. In particular, we believe that the implementation and execution of our strategy depends on the continued availability of our senior management and other key personnel.

1.2.9. Maintaining or intensifying our cost discipline during our current and targeted growth might be more difficult than expected and any performance improvement program might not yield the benefits we anticipate.

We operate in an industry where efficiency improvements and cost savings are crucial in order to maintain competitiveness and profitability. Our future success will therefore depend on our ability to successfully implement operational efficiency programs within our business operations. However, there can be no assurance that the programs and initiatives will yield the targeted benefits, and maintaining or intensifying our cost discipline may be particularly challenging in light of our further targeted organic and inorganic growth, as well as political and economic uncertainty arising from the Covid-19 pandemic.

For example, we launched the HENSOLDT GO! program in 2017 for a holistic operational, commercial, and cultural overhaul, with a focus on production, engineering, and procurement. Under the program, we set ourselves five targets in order to achieve product portfolio and geographical expansion: (i) develop innovative products and solutions; (ii) grow our addressable market; (iii) increase customer intimacy; (iv) develop a strong company culture; and (v) improve operational efficiency. After the completion of the first phase of the program, in the second phase, we aim in particular to improve cooperation in our operations in order to further increase efficiency, for example through the integration of our supply chain management across functions.

We might fail to fully implement the initiatives planned under the HENSOLDT GO! program and any future performance improvement program, or these initiatives might fail to generate the anticipated results. Moreover, the cost of implementing these initiatives, including their distractive effects on our management and ongoing business operations, could end up being higher than expected and outweigh any benefits.

1.2.10. We enter into partnerships, such as consortiums or joint ventures, in which we share control and risk with our partners.

We enter or are requested by our government customers to enter into consortiums, joint ventures, and other forms of industrial cooperation with other companies, such as the Euroradar consortium that develops the nose radar for the Eurofighter jet, and might continue to use partnerships and alliances as a means to develop and market certain products in the future.

Due to the shared control and risk, industrial cooperation involves a number of specific risks and uncertainties. In some cases, we may have to assume unanticipated liabilities or be required to provide additional equity contributions, while in other cases, our anticipated cash flows from these undertakings may be delayed or we may face losses or our reputation may suffer. For example, we might be held liable for the full amount of any liability of a consortium, and while we may have a legal claim against our partners for a contribution according to their share or responsibility for such liability, we may not be able to recover such contribution amounts. Our customers might also refuse to accept and pay for a jointly sold product due to quality issues outside our responsibility. To the extent we are not the leader of a consortium or the majority shareholder in a joint venture, we may have to follow and implement

decisions, for example with respect to product design or supplier selection, which we consider adverse to our interests. Additional risks in any form of cooperation might include, for instance, our dependence on adequate performance by our partners, a divergence of views between us and our partners on the identification and achievement of operating and strategic objectives, competition of jointly developed products with our proprietary products, claims for damages or contractual penalties under the relevant agreements, regulatory requirements regarding the establishment or continuation of such cooperations and antitrust issues, and limits on our ability to exercise control or extract profits. In particular, we believe that in certain instances, the partners we have chosen to cooperate with in a tender process have caused us not to be selected for an order, whether due to quality issues, lack of experience, applicable export or other legal constraints, or political reasons, all of which might again be reasons for losing bids in the future.

For various reasons, including regulatory ones, we might desire or be forced to exit or dissolve a consortium or joint venture, which can be a long and costly process and could require us to share or transfer technology and know-how that we originally contributed. In addition, due to the relatively small number of market participants in our industry, any deterioration of our business relationship with a former partner because of either party's failure to cooperate in a partnership could have a lasting adverse effect on our market position.

1.2.11. Our acquisitions are subject to risks and might not deliver the benefits we anticipate.

We have made several acquisitions since 2017 and continue to evaluate strategic acquisitions of different sizes and complexity. Acquisitions involving companies in our industry, however, may pose special challenges. These include, for instance, a lack of information that may be disclosed by the target or its owner(s), including for confidentiality and secrecy reasons, and requirements for complex or time-consuming government or other stakeholder approvals, including difficulties in determining whether such approvals are required in the first place. In addition, in particular due to the relatively small number of competitors and customers in our industry, acquisitions frequently need antitrust clearance in various jurisdictions and may fail for this reason. In case a contemplated acquisition cannot be completed as planned, we face sunk costs related to previously devoted resources for pursuing the transaction, which would not provide any benefit to us. It is also possible that not all material risks in connection with acquisitions will be identified in the due diligence process, and while the respective contractual agreements contain representations, warranties, and indemnities in our favor, such representations, warranties, and indemnities are typically subject to limitations such as caps and baskets and, thus, cover related risks only to a certain degree.

Once we close an acquisition, no assurance can be given that we will realize the targeted benefits or that such acquisition will not cause us losses. Any integration of businesses, personnel, product lines, and technologies can be difficult and time-consuming and is subject to other integration risks. For example, we could suffer business disruptions and management distraction, incur unanticipated costs or liabilities, lose key revenue sources or personnel from acquired companies, or fail to integrate technologies, capture synergies, or establish adequate internal controls and compliance procedures. Furthermore, we might assume or incur additional debt or issue additional equity securities to pay for future acquisitions, which may negatively impact our results or dilute our then-existing shareholders' ownership interests.

In addition, particularly acquisitions of foreign targets may add further regulatory complexity to our business or may restrict license or approval processes for our current business operations. We may also have to enter into security arrangements with foreign governments allowing them certain control or veto rights in connection with such acquisitions, which might prevent us from achieving the expected benefits.

1.2.12. Our customer support and services business might not perform as expected.

We offer a wide range of customer support solutions and services, which we aim to further expand in the future. Our customer support and services portfolio includes both aftermarket support for our products, such as technical assistance, commissioning and installment, logistic support, parts supply, maintenance, and repair and overhaul, as well as simulation solutions, technology trainings, and a number of special services.

The targeted expansion of our customer support and services business is subject to a number of specific risks and challenges. There can be no assurance that the business will generate the revenue and profitability we aim to achieve, or that it will not decline in importance over time. Specific risks we face with respect to our customer support and services business include, for example, typically tighter customer budgets for ongoing services than for product procurement, increased competitive pressure due to lower market entrance barriers and competing in-house service providers, lower demand for services as a result of product quality improvements, difficult predictions regarding the costs of long-term services (for instance, for keeping supply parts in stock), and changes in customers' decision-makers for customer support and services that are typically different from our contacts for product sales. Furthermore, our ability to provide customer support and services may be impaired by border closures and travel restrictions; for example, due to containment measures in connection with the Covid-19 pandemic, our employees were unable to visit customers on site in several instances.

The occurrence of any of the foregoing developments could adversely affect our customer support and services business and result in a lower return on investments in our service network.

1.3. Legal, Regulatory, Tax, and IP-Related Risks

1.3.1. Product defects and other quality issues could lead to recalls, regulatory inquiries, delays in new product launches, penalties and liability claims, or damage to our reputation.

We face risks, including liability and reputational risks, from flaws in the design or production of, or usage instructions for, our products. For example, we are involved in arbitral proceedings with one of our customers, Airbus Defence and Space GmbH, concerning alleged product defects and other complaints under a supply contract for our NightOwl cameras, which, if resolved adversely, could result in liabilities in excess of EUR 30 million. We are also currently in discussions with another customer regarding an antenna that was damaged under (what we believe to be) extreme weather conditions. In a worst-case scenario, we may be liable for the damages and may face liquidated damages and additional costs. Moreover, we are in discussions with another customer regarding the termination of a radar contract due to alleged product issues and delays.

We may also be held liable for product errors not directly caused by us, for instance in connection with joint ventures or consortiums in which we participate, or due to our reliance on outside suppliers for most product manufacturing steps. As an example, the German armed forces (*Bundeswehr*) recently refused acceptance of a major air platform for which we are a supplier due to quality issues outside our responsibility, which received substantial media attention, may harm our reputation, and may impact our relationship to the German armed forces (*Bundeswehr*).

The adoption of new technologies, many of which are still being refined for use in the defense industry, may increase our exposure to product defects and product liability. Furthermore, certain of our products are only manufactured in small batches or just as a single unit, hence we cannot draw from existing experience for such products' design and production. If our products prove to be, or are alleged to be, faulty or defective, we may face order cancellations or be forced to take extensive measures to rectify such faults or defects, which may result in delayed deliveries, increased project costs, and reputational damage, as well as lost future opportunities.

Moreover, some of our products, such as our missile protection and warning systems, are designed to increase personal safety and protect lives. If there are defects in the design, production, or testing of our or our suppliers' products and systems sold for these or similar purposes, we could face liability for damages, as well as repair, replacement, or service costs. In addition, defective products, product liability claims, warranty claims, product recalls, and similar proceedings could result in adverse publicity, damage our reputation, and reduce confidence among customers.

To the extent our efforts to implement appropriate design, testing, and manufacturing processes for our products and systems are insufficient to prevent defects, we may not be able to obtain insurance on commercially reasonable terms in the future. Any failure to obtain adequate product liability insurance might also have repercussions on our ability to obtain contracts in the first place, as many of our customers request evidence of such insurance before committing to a purchase.

1.3.2. Our operations are subject to sanctions, anti-corruption, and anti-money laundering laws and regulations, and we may suffer financial, reputational, and business damage if our internal control systems are inadequate to comply with them.

Our operations subject us to compliance risks with respect to various rules and regulations, including, among other things, regarding international sanctions, anti-corruption, and anti-money laundering. More specifically, we are subject to economic sanction programs imposed by multiple authorities, such as the United Nations, the EU and its member states, the United Kingdom, and the United States. Economic sanctions programs do and will continue to restrict our ability to engage in business dealings with certain customers. Our international operations are also subject to anti-corruption laws and regulations in the jurisdictions in which we operate, such as German and French anti-corruption laws, the United Kingdom Bribery Act of 2010, and the U.S. Foreign Corrupt Practices Act of 1977. In addition, we are subject to anti-money laundering laws and regulations, including laws implemented under the EU's Fifth Anti-Money-Laundering Directive (Directive (EU) 2018/843), which was adopted in 2018 and has become effective in the beginning of 2020.

Sanctions, anti-corruption, and anti-money laundering regimes evolve over time and it is difficult for us to predict the interpretation, implementation, or enforcement of governmental policies in this area. Government enforcement authorities or other third parties could find upon a review of our compliance policies and procedures that those policies and procedures are not designed or have not been implemented in a manner that effectively prevents and detects breaches of relevant laws. Our existing internal control and compliance systems (which include the screening and onboarding from a compliance perspective of potential business partners) may also not prove to be effective in detecting and preventing sanctions violations, corruption, money laundering, or violations of other laws by our employees, sales agents, resellers, distributors, customers, or partners, especially as we sometimes have limited possibilities to enforce our internal control and compliance processes, for example, because we only hold a minority stake in a cooperation. Of particular note, the industry in which we operate is at risk of corruption due to the regular dealing with government officials, and some of our international sales are into countries that are considered to be particularly high risk from an anti-corruption compliance perspective. Our failure to comply with applicable rules and standards could result not only in the imposition of fines and penalties, the confiscation of profits, adverse tax consequences, and reputational damage, but also in the modification, termination, or reduction in value of some of our contracts with customers that have strict compliance policies with respect to their procurement. Our failure to meet all formal requirements of public tender procedures, due to the violation of certain laws or for other reasons (for example, as a consequence of a cancellation for cause of another contract awarded in a public tender procedure), may result in competitive disadvantages or our temporary suspension or, in exceptional cases, permanent exclusion from government contracting or subcontracting.

At the same time, the implementation and stringent application of our internal control systems resulted and may result in a loss of existing customer relationships and business opportunities, including in certain markets we consider high-risk from a compliance perspective. Moreover, the expansion of our internal control systems has resulted and may result in the future in delays in our sales and procurement procedures and require considerable human and other resources. Our compliance procedures may also be perceived as onerous by certain of our customers. In particular, the stringent anti-corruption and similar rules we are subject to and due diligence measures we perform may be undesirable for certain of our customers, and this might cause us to lose business to competitors that are subject to less rigorous requirements or do not apply the same compliance processes as we do.

1.3.3. We are subject to numerous regulatory requirements, in particular regarding the protection of secrecy of our operations, which impose, among other things, compliance costs and the risk of a negative impact on our business in the event of non-compliance.

As a manufacturer of products that are considered sensitive for national security purposes, we are subject to various regulatory requirements in the jurisdictions in which we operate, many of which are designed to maintain the secrecy of our operations.

For example, our specific obligations with regard to secrecy protection in Germany are set out in the confidentiality manual (*Geheimschutzhandbuch*) of the German Federal Ministry of Economic Affairs

and Energy (*Bundesministerium für Wirtschaft und Energie*, "**BMWi**") and are further regulated by a security order (*Sicherheitsbescheid*). To ensure compliance with these secrecy obligations, we are incorporated into the security clearance scheme (*Geheimschutzbetreuung*) of the BMWi. As such, we are required to obey detailed prescriptions regarding, among other things, our facilities, IT, document handling, and internal organization, including the appointment of a security officer (*Sicherheitsbeauftragter*), who is responsible for monitoring our compliance with such prescriptions and directly reports to the competent authorities. In addition to Germany, we are subject to similar secrecy and other obligations pursuant to undertakings and other arrangements for example in France and the United States, among others, to protect such countries' security interests, as well as pursuant to NATO security requirements and specific project-related secrecy instructions. If we fail to comply with our obligations, or if any of our arrangements are terminated for any reason (including, for example, in case of termination rights due to a change-of-control event), it could have an adverse effect on our business in such jurisdiction.

Due to their extensive scope and specificity, as well as enforcement pressure, for instance through surveillance and certification audits, compliance with these obligations is costly, prone to error, and might delay and interfere with our business activities. Any failure to meet our secrecy obligations, regardless of fault, could subject us to fines and penalties and deteriorate our reputation and relationship with the competent authorities. Such deterioration, in turn, might lead to our exclusion from certain defense and security-related projects awarded by such authorities in the future. At the same time, compliance with these secrecy obligations can lead to inefficiencies and dependencies within our organization, for example with respect to the sale and distribution of certain sensitive products and technologies cross-border or globally, with respect to the sharing within the Group of certain information including technical, commercial, and operating data which may be regarded as sensitive for national security reasons, by concentrating such information on a few employees or entities of the Group, and due to operational disruption in connection with audits. In addition, the scope and detail of information we may disclose publicly or to our shareholders, for example in response to questions in shareholders' meetings, might be limited due to secrecy or similar obligations, in line with the specific sensitivities in our industry and in compliance with available exemptions under applicable law.

In addition, we are subject to risks in connection with environmental laws and regulations in the jurisdictions in which we operate, for example, related to emissions into the environment, discharges to surface and sub-surface water and soil, handling of chemicals and hazardous substances (for example under Regulation (EC) No 1907/2006 ("**REACH Regulation**") and Directive 2011/65/EU (RoHS Directive)), disposal and treatment of hazardous waste materials, noise pollution, and restoration of contaminated sites. The cost of compliance with these regulatory requirements is considerable, and such costs are likely to increase in the future, given the expected increased scrutiny, regulatory changes, or novel interpretations of current regulations, and stricter enforcement by regulators globally. In particular, some substances relevant for our products and production processes that are currently listed on the REACH Regulation candidate list of substances might be regulated under the REACH Regulation in the future, which could cause us significant costs in order to continue to use these products or to find replacements. A violation of applicable regulations could lead to the imposition of penalties, fines, damages, recalls, restrictions on or revocations of our permits and licenses, restrictions on or prohibitions of business operations, reputational harm, and other adverse consequences.

In general, existing laws and regulations we have to comply with might be subject to amendments, novel interpretations, changes in their implementation, or stricter enforcement by regulators. In addition, new laws and regulations applicable to us and/or our business might be introduced. As a result of the foregoing, we might face additional costs, for example for tendering procedures or the performance of projects, or we might be unable to carry out certain projects as planned or at all.

Furthermore, following the offering of the shares to which the Prospectus relates, we will for the first time be subject to the legal requirements applicable to a listed company in Germany, including ad-hoc and other reporting obligations. Our accounting, controlling, legal, or other corporate administrative functions may not be able to meet these additional requirements, which may cause inefficiencies and additional expenditures, including costs or penalties for any non-compliance with such requirements.

1.3.4. The German government has certain information and veto rights to protect its security interests in our business.

The Company and certain other Group entities, among others, have entered into an agreement with the Federal Republic of Germany to protect the security interests of the Federal Republic of Germany with respect to the Group (as amended and updated from time to time, the "**GSSA**" (German State Special Security Agreement)).

The GSSA grants the Federal Republic of Germany certain rights and imposes restrictions on the Group with respect to certain activities and shareholdings that concern material security interests of the Federal Republic of Germany (the "**Sensitive Activities**"), which comprise a substantial part of the Group's business in Germany. Certain Group entities directly engaged in Sensitive Activities, including, in particular, HENSOLDT Sensors GmbH and HENSOLDT Optronics GmbH, which are the Group's main operating entities in Germany, are referred to as the "**Sensitive Entities**".

The specific rights of the Federal Republic of Germany and the restrictions on the Group under the GSSA include, among other things:

- information and consultation rights (on a regular basis, prior to material decisions, and upon demand) concerning Sensitive Activities, including regarding certain general business information and certain material matters concerning Sensitive Activities, such as:

    - certain material organizational or operational changes of a part of an operational unit or of a business area;

    - any transfer or encumbrance of shares of HENSOLDT Holding GmbH, HENSOLDT Holding Germany GmbH, or any of the Sensitive Entities and economically equivalent transactions, including the conclusion or amendment of intercompany agreements pursuant to Sections 291 et seq. of the German Stock Corporation Act (*Aktiengesetz*) (except for profit and loss pooling agreements between the Company or HENSOLDT Holding GmbH (as parent entity) and direct or indirect domestic subsidiaries of the Company or HENSOLDT Holding GmbH and, once the Federal Republic of Germany holds a minimal shareholding in HENSOLDT Holding Germany GmbH, domination and/or profit and loss pooling agreements between HENSOLDT Holding Germany GmbH (as parent entity) and other domestic Group entities (including Sensitive Entities)) or of agreements regarding the exercise of voting rights pertaining to shares of HENSOLDT Holding GmbH, HENSOLDT Holding Germany GmbH, or any of the Sensitive Entities, but excluding certain intra-group transfers of such shares between German Group entities and encumbrances of such shares exclusively to collateralize claims of banks financing the Group (including the realization of encumbrances and other collateral by these banks);

    - measures and transactions under the German Transformation Act (*Umwandlungsgesetz*) or comparable foreign laws, including mergers and demergers, or measures and transactions which are similar to these from an economic perspective excluding certain intra-group measures and transactions between German Group entities;

    - any sale, transfer, or encumbrance of assets that are material for Sensitive Activities excluding certain intra-group transfers between German Group entities;

    - certain relocations of Sensitive Activities to a site outside Germany;

    - entering into, materially amending, or terminating cooperations, partnerships (other than in the context of normal customer, supplier, or reseller relationships), or joint ventures;

    - amendments to the articles of association of HENSOLDT Holding GmbH, HENSOLDT Holding Germany GmbH, or any of the Sensitive Entities;

    - the dissolution or liquidation of HENSOLDT Holding GmbH, HENSOLDT Holding Germany GmbH, or any of the Sensitive Entities;

- o the admission to trading, or application for admission to trading, of the shares (or certain other rights) of HENSOLDT Holding GmbH, HENSOLDT Holding Germany GmbH, or any of the Sensitive Entities; and
- o actions resulting in products that are part of the Sensitive Activities becoming subject to ITAR regulation or to significantly more restrictive ITAR regulation than before

(such matters, the "**Material Matters GSSA 2020**"); and

- o a contemplated transfer outside the stock market of at least 5% of the Company's own shares by the Company to a strategic investor;

- an appointment right for the Federal Republic of Germany and Square Lux Holding II S.à r.l. (the "**Selling Shareholder**") for one member of the Company's supervisory board (the "**Supervisory Board**") with the right of the Federal Republic of Germany to solely appoint one additional Supervisory Board member if the Federal Republic of Germany directly or indirectly holds at least 25.1% of the Company's share capital;

- a requirement for prior approval for the implementation of certain corporate and business measures relating to HENSOLDT Holding GmbH, HENSOLDT Holding Germany GmbH, or any of the Sensitive Entities to the extent they concern Material Matters GSSA 2020, with the understanding that the Federal Republic of Germany will only withhold the approval as long as the relevant measure would (in the Federal Republic of Germany's sole discretion) affect its essential security interest;

- certain covenants regarding, among other things, the Group's financial position and investments in Sensitive Activities in accordance with the Group's finance and investment planning submitted to the Federal Republic of Germany;

- rights of first refusal in case of a sale or transfer of Sensitive Entities or Sensitive Activities to third parties, as well as direct purchase rights in case, among other things, (i) the GSSA is terminated by the Group or (ii) Sensitive Activities are (without the approval of the Federal Republic of Germany) discontinued, relocated to a country other than Germany, or materially reduced; and

- minimal shareholdings (or the right to acquire such shareholdings) of one share in each of HENSOLDT Holding GmbH, HENSOLDT Holding Germany GmbH (to be acquired by the Federal Republic of Germany once certain tax-related conditions are fulfilled but in any event no later than six months after completion of the offering to which the Prospectus relates), HENSOLDT Sensors GmbH (to be acquired by the Federal Republic of Germany after completion of the offering to which the Prospectus relates), HENSOLDT Optronics GmbH (to be acquired by the Federal Republic of Germany once certain tax-related conditions are fulfilled but in any event no later than six months after completion of the offering to which the Prospectus relates), and future directly or indirectly wholly-owned subsidiaries of the Company located in Germany that qualify as Sensitive Entities, in each case granting certain veto rights (but no dividend rights, and the rights in case of a dissolution of the respective company shall be capped at the nominal amount of the respective share) to the Federal Republic of Germany as shareholder of the respective entity, such veto rights to cover (i) a disposal of shares of the relevant entity (excluding the realization of encumbrances and other collateral by banks financing the Group), (ii) a direct or indirect disposal of shares of Sensitive Entities by the relevant entity (excluding the realization of encumbrances and other collateral by banks financing the Group), (iii) measures under the German Transformation Act (*Umwandlungsgesetz*), (iv) the conclusion or amendment of intercompany agreements pursuant to Sections 291 et seq. of the German Stock Corporation Act (*Aktiengesetz*) (excluding profit and loss transfer agreements of HENSOLDT Holding GmbH with the Company as parent entity, profit and loss pooling agreements of HENSOLDT Holding Germany GmbH with HENSOLDT Holding GmbH, as parent entity, and domination and/or profit and loss pooling agreements of each of HENSOLDT Sensors GmbH and HENSOLDT Optronics GmbH or other direct or indirect subsidiaries of HENSOLDT Holding Germany GmbH with HENSOLDT Holding Germany GmbH as parent entity), and (v) comparable measures under foreign laws as well as, with regard to the one share in each of HENSOLDT

Sensors GmbH, HENSOLDT Optronics GmbH, and future wholly-owned Sensitive Entities, the Material Matters GSSA 2020. With regard to Sensitive Entities which are located in Germany and not wholly-owned but directly or indirectly majority-owned by the Company, the Company shall consult with the Federal Republic of Germany on a potential minimal shareholding of the Federal Republic of Germany and, vis-à-vis the other shareholder(s), try to put the Federal Republic of Germany in a position to acquire a minimal shareholding in any such Sensitive Entity.

Due to these rights and restrictions, we may have to consider the interests of the Federal Republic of Germany, require its prior approval for certain actions, and must adhere to the other rights and restrictions mentioned above, and thus may not be able to take certain strategic and management decisions (in a timely manner or at all) that we might otherwise consider beneficial to our business and which a competitor might be able to take more easily or swiftly, and we may lose business opportunities or incur costs or experience other disadvantages.

1.3.5. We are exposed to risks regarding antitrust and state aid laws and regulations such as fines, damage claims, and restrictions on our ability to do business.

We are subject to antitrust and state aid laws and regulations in the European Union and other jurisdictions and therefore exposed to risks related to (private) enforcement actions and damage claims. The defense and security industry generally is becoming increasingly consolidated and therefore subject to heightened scrutiny by antitrust authorities. In addition, we have made several acquisitions in our recent past and regularly enter into partnerships, such as consortiums and joint ventures, including with competitors, each of which exposes us to additional risks and requires careful analysis of antitrust issues.

A finding of an infringement of antitrust or state aid laws and regulations could adversely affect us in a variety of ways. For example, it could result in significant fines (based on, among other factors, the value of the relevant sales), private enforcement claims by third parties, such as customers or competitors (including the exposure to joint and several liability in the context of cartel damage claims), disclosure of and changes in business practices, which may result in reduced revenue or margins, and reputational damage. In the case of state aid violations, the consideration we have received under certain of our development contracts with public authorities may qualify as a public grant and we may be subject to repayment obligations.

In addition, antitrust rules and regulations in certain jurisdictions, including merger control laws and regulations, may impose restrictions on our ability to carry out certain acquisitions or enter into cooperations and partnerships, thus limiting our ability to grow inorganically, or require forced divestments or other measures. We might also be forced to cease certain business activities as a result of such rules or regulations.

1.3.6. We may be unable to protect and effectively prevent unauthorized use of our IP.

Our business model relies on leveraging our research and technology expenses, and thus on the effective protection of our ideas and inventions.

We selectively protect our IP through the registration of patents, trademarks, and copyrights, as well as license agreements and other contractual provisions. Our registered IP rights might however not be sufficiently broad to prevent others from using our technologies or developing competing products. In addition, the issuance of a patent is not conclusive of its validity or enforceability. The patents on which we rely may also be challenged and invalidated, including by competitors, and our patent applications may not result in issued patents.

For the majority of our ideas and inventions, we do not file for patents, as patent registration would disclose such idea or invention to competitors and our end-customers' adversaries, and it may be difficult for us to prove transgressions of a patent by competitors due to limited access to their equipment. In such cases, which concern in particular self-developed software and algorithms, but also mechanical equipment, we rely on maintaining such IP confidential as trade secrets. The confidentiality of our non-registered IP is therefore crucial for maintaining and developing our competitive position.

In part, we seek to protect our non-registered IP by entering into confidentiality agreements with our employees, consultants, collaborators, and others upon the commencement of their relationships with

us. These agreements require that all confidential information developed by the individual or made known to the individual by us during the course of the individual's relationship with us be kept confidential. However, we may not obtain these agreements in all circumstances, and individuals with whom we have these agreements may not comply with their terms. Thus, despite the existence of such agreements, the knowledge about our non-registered IP may become available to third parties.

Monitoring unauthorized uses and disclosures of our IP is difficult, and we do not know whether the steps we have taken to protect our IP will be effective. Confidentiality agreements, even if obtained, may not provide adequate protection against or remediation of unauthorized use or disclosure of our trade secrets or other confidential information.

We may have difficulties in enforcing our IP rights against third parties in certain circumstances. In particular, customers who have funded R&D activities performed by us might own certain IP rights and have the right to royalty-free use of our products and technologies that have been developed under the relevant contracts, which weakens our IP protection. Under certain circumstances, the export of IP rights resulting from development contracts with public authorities, or the export of products in which such IP rights are used, requires the approval of the respective public authorities. In addition, we do not own some of the IP that we depend on (for example, IP that remained with Airbus when our business was separated from Airbus), and our usage rights with respect to such IP might be challenged, expire, or not be renewed, or we may be unable to enforce such IP against third parties. In certain jurisdictions in which we do business, patent protection may also be weaker or more difficult to enforce than in Germany.

To the extent our employees, consultants, or contractors use technology or know-how owned by third parties in their work for us, disputes may arise between us and those third parties as to the rights in related inventions. Our internal control system may also not prove to be effective in detecting and preventing unauthorized use of third parties' IP rights, especially open source software, by our employees, and we may be unable to timely and effectively identify any third parties' IP rights that we plan to use for our R&D.

Any IP-related claims, with or without merit, could be time-consuming and expensive, and could divert our management's attention away from other matters. If we were not to prevail in any of these claims, we could be required to give or obtain licenses, cease manufacturing of a product, transfer IP, or pay damages.

1.3.7. We are exposed to tax risks, which could arise in particular as a result of tax audits or in connection with the forfeiture of tax loss carryforwards or the non-recognition of fiscal unities, tax groups, and other tax consolidation schemes.

Due to the international nature of our business, we are subject to income and other taxes in multiple jurisdictions. Significant judgment and estimation is required in determining our provision for income, sales, value-add, withholding, and other taxes. In the ordinary course of our business, there are various transactions and calculations, including, for example, intercompany transactions, cross-jurisdictional transfer pricing, and transactions with specific documentation requirements, for which the ultimate tax determination or the timing of the tax effect is uncertain. Pursuant to transfer pricing rules that apply in several jurisdictions and in relation to cross-border business relationships, for instance, related enterprises are obligated to conduct any inter-company transactions on conditions which would also apply among unrelated third parties concluding comparable agreements (arm's length principle) and to provide sufficient documentation thereof. We cannot guarantee that our interpretations of the relevant tax laws will be accepted by the competent tax authorities who might challenge our compliance with these requirements.

We are regularly audited and our tax calculations and interpretation of laws are reviewed by tax authorities. The tax authorities may challenge our assessment that our tax estimates are reasonable and all tax filings and other documentation are in compliance with applicable law, as well as the factual and legal basis on which our tax filings and other tax-related documentation has been prepared. In any such case, the final determination of any such tax audits or reviews could differ from the position we have taken in our tax filings and in the calculation of our tax provisions and accruals, and we might therefore incur additional tax liabilities resulting from such final determination, as well as interest, penalties, or regulatory, administrative, or other sanctions related thereto.

While we attempt to assess in advance the likelihood of any adverse judgments or outcomes to tax proceedings, assessments, or claims, it is difficult to predict final outcomes with any degree of certainty. The final determination of any tax investigation, tax audit, tax review, tax litigation, and appeal of a tax authority's decision or similar proceedings, may differ from our expectations or estimates as reflected in our financial statements. There can also be no assurance that current audits and reviews will not be extended to other tax years or tax matters. In addition, changes in tax legislation or interpretation, as well as any emerging case law, could result in additional taxes and affect our effective tax rate, the carrying value of deferred tax assets, or our deferred tax liabilities.

As of December 31, 2019, the Group had tax loss carryforwards, recognized under deferred tax assets, in an amount of EUR 34.4 million. Once these are exhausted, which we expect around 2022, our effective tax rate, which was approximately 8% in 2019 and is expected to increase only slightly in the short term, is likely to increase toward the current statutory tax rate of approximately 28%. Besides, any change of control of the Company or a relevant Group entity could result in the forfeiture of our tax loss carryforwards if, subject to further prerequisites and exceptions, prior to the complete use of the tax loss carryforwards, for example, more than 50% of the subscribed capital or voting rights of the Company or a relevant Group entity will be, directly or indirectly, transferred to an acquirer (including parties related to such acquirer) within five years, or a comparable acquisition occurs. Such forfeiture would result in an immediate dissolution of the deferred tax assets.

In addition, certain Group entities have been in the past and are currently considered part of fiscal unities, tax groups, and other tax consolidation schemes. It cannot be ruled out that these entities will be held liable for unpaid taxes of the members of such tax consolidation schemes (including members outside the Group) under statutory law or contract. Furthermore, should such tax consolidation schemes no longer be available, for example as a result of a reorganization or other corporate measures, or should such schemes not be accepted by the tax authorities or a tax court, additional taxes, interest, and penalties may be imposed against us.

1.4. Financial Risks

1.4.1. Our assets, in particular goodwill and intangible assets such as technology, customer relationships, work in process, our brand, and capitalized development costs are subject to the risk of impairment.

As of December 31, 2019, we had a consolidated statement of financial position of EUR 2,453.6 million, including goodwill of EUR 647 million and intangible assets totaling EUR 403.3 million. The intangible assets mainly consisted of technology, customer relationships, work in process, our brand, and capitalized development costs. We capitalize development expenditures if development costs can be reliably estimated, the product or process is technically and commercially feasible, future benefit is probable, and we intend and have sufficient resources to be able to complete development and use or sell the asset. As of December 31, 2019, we had capitalized development costs of EUR 92.7 million on our consolidated statement of financial position.

We determine the value of the intangible assets, including the aforementioned, in accordance with applicable accounting principles and distinguish between amortizable intangible assets and non-amortizable assets. Under the International Financial Reporting Standards as applicable in the EU ("**IFRS**"), we are required to annually test our recorded goodwill, intangible assets not yet available for use, such as capitalized development costs, and indefinite-lived intangible assets, such as our brand, and to assess the carrying values of other intangible assets when impairment indicators exist.

Under financial reporting standard IFRS 9, introduced for the first time in 2018, contract assets and receivables are measured at amortized cost less impairment losses. Impairment losses on contract assets and receivables include significant judgments and estimates of management based on the credit rating of individual customers, which are in turn based on the assessment of external rating agencies, country-specific default risks, the current economic development, and analysis of past bad debts.

As a result of such tests, we could be required to recognize impairment losses in our income statement if the carrying value is in excess of the fair value. For example, in 2018, the impairment test of capitalized development costs resulted in a need to recognize impairment losses in the amount of

EUR 3.4 million for one project. Factors that could trigger goodwill impairments include the underperformance of our business relative to projected future operating results, negative industry developments or economic trends, including changes in borrowing rates or weighted average cost of capital, applicable tax rates or changes in working capital. Recognition of an impairment charge would reduce our reported assets and earnings. An impairment loss on goodwill cannot be reversed. Impairment losses on other assets can only be reversed to the extent that the carrying amount of the asset does not exceed the carrying amount that, less depreciation or amortization, would have been determined if no impairment had been recognized.

1.4.2. We are required to provide substantial performance, advance payment and other guarantees as well as letters of comfort.

Pursuant to the terms of certain of our existing and expected future contracts, we may continue to be required to provide performance, advance payment or other guarantees issued by Group entities or financial institutions on our behalf. As of December 31, 2019, corporate guarantees issued by Group entities amounted to approximately EUR 241 million and bank guarantees issued by financial institutions amounted to approximately EUR 255 million. Furthermore, some of our contracts require us to provide a letter of comfort for the subsidiary performing the contract, in which the Company often undertakes to equip the subsidiary with the financial capabilities to fulfill all obligations under the respective contract, and we may be required to provide more such letters of comfort in the future.

In case of non-performance or non-delivery by any Group entity, our customers benefitting from guarantees (some of which are on first demand) or letters of comfort might request payment, either directly by us in case of corporate guarantees and letters of comfort or, in case of bank guarantees, by a financial institution, which would in turn have a reimbursement claim against us.

In addition, when we compete for or are awarded a contract from a customer requesting a sizable bank guarantee, our existing bank facilities might be insufficient to cover such guarantee, in which case we might be required to incur additional cost to provide such facilities or might lose the order if we are unable to provide the requested guarantee. This is becoming increasingly significant for us, with respect to not only bank guarantees but also other guarantees and letters of comfort, as certain government customers have recently adapted their policies and started to demand higher amounts with longer maturities.

1.4.3. Defined benefit obligations under our pension plans could reduce our liquidity.

We have obligations with respect to defined benefit plans for certain of our current and former employees in Germany.

Under these plans, we are required to ensure specific retirement, invalidity, and survivors' benefits levels for employees participating in the plans. The plans are partly financed through contractual trust arrangements ("**CTAs**") that we sponsor. The calculation of expected liabilities arising from defined benefit plans is based on actuarial estimates and demographic and financial assumptions. As of December 31, 2019, the CTAs carried assets worth EUR 203.0 million vis-à-vis defined benefit obligations of EUR 428.7 million. Any deficit of the CTAs' assets, which amounted to EUR 225.7 million as of December 31, 2019, to the extent it affects the CTAs' ability to meet their pension payment obligations and relates to the employee-funded part of the plan, will have to be funded by us. We expect that we are required to contribute EUR 11.8 million to the CTAs in the financial year ending December 31, 2020, and might be required to make similar or larger contributions in the future, in particular, if the CTAs' funding status deteriorates due to the developments of their assets or defined benefit obligations as a result of changing parameters and assumptions, including, for instance, demographic developments, changes in prevailing interest rates, or volatility in the fair value of underlying plan assets.

1.4.4. We incur upfront investments in connection with our long-term projects and any impairment of assets, including from non-payment or payment delays, could place pressure on our liquidity.

Our business is capital intensive in nature. In the ordinary course of our business, the structure and duration of many of our complex, long-term projects and product development programs require us to invest significantly in engineering, development, and production for many years before deliveries are made and the product begins to generate cash flow.

In addition, we are regularly required to incur capital expenditures in order to, among other things, acquire, maintain, and improve R&D or production equipment, increase operating efficiency, improve existing products and services, and invest in and develop new technologies and products.

These upfront investments pose challenges to our cash flow and working capital management. One of our strategies to meet these challenges is to negotiate and collect customer advances and progress payments. However, intense competition in the markets in which we operate, and customers' negotiating power, may result in fewer and lower advance payments, leading to increasing discrepancies between our disbursements and amounts received on orders placed. In addition, any reduction in the overall volume of orders placed, or a deterioration of the payment terms on these orders, could place pressure on our liquidity and, thus, our operations.

Moreover, if circumstances arise that affect our customers' or partners' ability or willingness to pay us, we may experience payment delays or, in more severe circumstances, may not be able to collect certain payments at all. Accordingly, we might have to make provisions for doubtful receivables or incur write-offs.

1.4.5. Our results of operations are exposed to currency exchange rate fluctuations.

While our reporting currency is the Euro, due to our global operations, a portion of our revenue is denominated, and some of our consolidated subsidiaries report, in foreign currencies. Our 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 Sterling to the Euro. In addition, an increasing value of the Euro might adversely impact the competitiveness of our products outside the Eurozone due to price effects on local markets.

In the financial year ended December 31, 2019, we recognized a gain of EUR 2.1 million from exchange rate fluctuations. We cannot predict exchange rate developments and might recognize a loss in the future. In particular, the hedging transactions we enter into to limit our exposure to currency exchange rate fluctuations might be insufficient or too costly to balance adverse exchange rate developments. Exchange rate fluctuations may also affect certain of our key operating metrics such as order backlog which, as of June 30, 2020, was negatively impacted by foreign exchange rate adjustments in the amount of approximately EUR 75 million compared to December 31, 2019.

1.4.6. The contractual terms and conditions of our financing agreements impose restrictions on our business.

On September 7, 2020, we entered into a new term and revolving credit facilities agreement (the "**New Facilities Agreement**"), under which we expect loans in a total of EUR 950 million to be made available to us upon admission of the Company's shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), subject to certain conditions.

The New Facilities Agreement contains covenants that will restrict or limit, among other things, our ability to incur additional financial indebtedness, grant security, make mergers or asset disposals, or make a substantial change to the general nature of our business (in each case subject to certain exceptions). In addition, the New Facilities Agreement contains a financial covenant that will require us to maintain a maximum ratio of net debt to consolidated EBITDA, as determined in accordance with the terms of the New Facilities Agreement.

These covenants, or other covenants under future financing agreements, could limit our financing options and our ability to pursue certain business activities that may be in our interest or that could help grow our business. Furthermore, failure to make payments when due or to comply with covenants under the terms of such financing agreements could result in an event of default and acceleration of amounts due and enforcement of collateral securing such debt.

1.5. Risks Related to the Offering and the Company's Shares

1.5.1. The Company's shares have not previously been publicly traded, and there can be no assurance that a liquid trading market will develop. As a result, the price and trading volume of the Company's shares could fluctuate significantly, and investors could lose all or part of their investment.

Prior to the listing of the Company's shares, there has been no public trading in the shares of the Company and they have never been offered to the public. There is no assurance that an active, liquid trading market for the shares will develop or be sustained following the listing of the Company's shares. In addition, low liquidity of the Company's shares may also entail high volatility regarding share price, which means that investors may not be able to sell their shares quickly or at the market price if there is no active trading in the Company's shares. If an active market for the shares does not develop after the listing, the liquidity and market price of the shares may be adversely affected.

Following the listing of the Company's shares, the trading volume and share price of the Company's shares may fluctuate significantly. The Company's share price will be affected primarily by the supply and demand for its shares and could fluctuate significantly in response to numerous factors, many of which are beyond the Company's control. These factors include, among other things, fluctuations in actual or projected results of operations (including due to the impact of a significant ramp-up or ramp-down of major projects), changes in projected earnings or failure to meet securities analysts' earnings expectations, the absence of analyst coverage on the Company's shares, changes in trading volumes in the Company's shares, the activities of the Group's competitors and suppliers, changes in the market valuations of similar companies, changes in investor and analyst perception of the Group's industry (including due to changes in public opinion, for example as a result of adverse media coverage), changes in the statutory framework in which the Group operates, changes in macroeconomic conditions, including fluctuations in foreign currencies and general stock market plunges, such as several times in 2020 as a reaction to new developments in relation to the Covid-19 pandemic, and other factors. Stock prices of many companies, including defense companies, have experienced price and volume fluctuations in a manner often unrelated to the operating performance of such companies. In particular, the adoption or further refinement of ESG (environmental, social, and governance) investment principles by investors (for example, so-called green funds) might lead to a divestment of shares of companies in the defense industry, including the Company's.

If the Company's share price or the trading volume in its shares declines as a result of the realization of any or all of these events, investors could lose part or all of their investment in the Company's shares. This also applies in the event of an insolvency of the Company since the Company's shares are subordinated to all other securities and claims.

1.5.2. We have a majority shareholder with significant influence over our corporate affairs, and the Federal Republic of Germany may acquire a substantial shareholding in the Company's shares; their individual interests may deviate from our or the Company's other shareholders' interest.

The Selling Shareholder, which is indirectly owned by investment funds and other entities affiliated with Kohlberg Kravis Roberts & Co. L.P. (collectively, "**KKR**"), currently holds all of the Company's ordinary shares, and immediately following completion of the offering to which the Prospectus relates, is expected to remain the Company's majority shareholder holding more than 50% in the Company's share capital. Accordingly, as long as KKR maintains an indirect majority or substantial stake in the Company, we expect KKR to have significant influence over any matters requiring shareholder approval, including, for instance, the election of the shareholder representatives of the Supervisory Board and thus, indirectly, the members of the Company's management board (the "**Management Board**") appointed by the Supervisory Board, and other shareholders' influence to be limited correspondingly.

In addition, pursuant to the terms of an existing security agreement (in addition to the GSSA) entered into by, among others, the Selling Shareholder and the Federal Republic of Germany, which aims to protect the Federal Republic of Germany's security interests in certain entities and activities of the Group, the Federal Republic of Germany has the right to acquire a strategic interest in the Company by increasing its shareholding in the Company, directly (or indirectly through any legal entity under the

control (majority of more than 50%) of the Federal Republic of Germany, for example, Kreditanstalt für Wiederaufbau), to up to 25.1%, by purchasing from the Selling Shareholder a corresponding number of shares. Such right may be exercised (i) between October 1, 2020 and December 31, 2020, in which case the shares so acquired shall correspond to at least 10% of the Company's share capital at the time of completion of the acquisition, at a fixed price of EUR 600 million for 25.1% of the shares of the Company (such amount to be reduced in case of an acquisition of less than 25.1% of the Company's shares on a *pro rata* basis) and (ii) in case the Selling Shareholder intends to reduce its shareholding in the Company to less than 25.1% of the Company's share capital, in which case the Selling Shareholder shall submit an offer to the Federal Republic of Germany to purchase its remaining shares equal to up to 25.1%, which offer may be accepted within two months after receipt, at a price per share equal to the volume-weighted average trading price of the Company's shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) during the 45 trading days prior to such offer by the Selling Shareholder. Prior to the exercise of the first mentioned right, the Federal Republic of Germany is entitled to request and perform certain due diligence procedures with respect to the Company and the Group. In case of the exercise of each of the aforementioned rights, the closing of the acquisition of the Company's shares would be subject to certain conditions, including regulatory approvals, and the Federal Republic of Germany would not be allowed to sell the shares so acquired for 36 months.

Each of KKR and the Federal Republic of Germany may pursue their own interests and strategic considerations with their shareholding, which may deviate from our or the Company's other shareholders' interests.

1.5.3. The acquisition of a substantial interest in the Company by foreign investors requires government approval, which may restrict certain investments and limit demand for the Company's shares.

Under foreign trade law, including in Germany, France, and potentially other jurisdictions, the acquisition of a certain shareholding in the Company is subject to government approval requirements. For example, in Germany, the BMWi may in specific cases review the direct or indirect acquisition of the Company's shares by a foreign acquirer, in particular if the acquirer directly or indirectly will control 10% or more of the voting rights of the Company following the acquisition. The applicable law provides for two sets of clearance proceedings: a BMWi clearance within the sector-specific examination (Sections 60 et seqq. of the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*)) and, subordinately, a BMWi certificate of non-objection within the cross-sectoral examination (Sections 55 et seqq. of the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*)). Pursuant to the sector-specific examination, the contemplated acquisition must be reported in writing to the BMWi, which only clears the acquisition if there are no objections to the acquisition in terms of essential security interests of the Federal Republic of Germany.

If Section 60 of the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*) does not apply, the BMWi may still prohibit or restrict an acquisition if it endangers the public order or security in Germany (cross-sectoral examination). In response to a request in writing, the BMWi can issue a certificate of non-objection (*Unbedenklichkeitsbescheinigung*) with respect to an acquisition within the meaning of Section 55 of the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*) if there is no objection to the acquisition in terms of public order or security in Germany. If an objection is found, the BMWi can prohibit the direct acquirer from making an acquisition within the meaning of Section 55 of the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*) within two months of the receipt of the request in writing, or issue instructions in order to ensure the public order or security in Germany.

These restrictions on and approval requirements for the acquisition of a substantial shareholding in the Company's shares may restrict certain investments and limit demand for the Company's shares.

1.5.4. Future sales by the Company's shareholders, or the perception that such sales occur, could depress the Company's share price.

Sales of a substantial number of the Company's shares in the public market following the listing of the Company's shares, or the perception that such sales might occur, could depress the market price of the Company's shares and could impair the Company's ability to raise capital through the sale of additional equity securities.

In particular, the shares owned by the Selling Shareholder are subject to a customary lock-up period following the listing of the Company's shares, subject to certain exemptions. The Selling Shareholder, whose interests may not be aligned with those of other shareholders of the Company, may dispose of its shares of the Company under such exemptions or upon expiration of the lock-up period. If this happens, or if one or more of the Company's other shareholders effect a sale or sales of a substantial number of the Company's shares, or if the market believes that such sales might take place, this could have a material adverse effect on the share price of the Company's shares.

The Selling Shareholder has retained the right to enter into margin loan facilities following the listing of the Company's shares. Should the Selling Shareholder decide to enter into any margin loan facility, the security granted by the Selling Shareholder in favor of the relevant margin loan lenders could potentially represent all or a significant majority of the shares of the Company that the Selling Shareholder will hold following the listing of the Company's shares. The terms of any margin loan facility may contain requirements for the Selling Shareholder to take steps to restore the margin loan lenders' position if the shares granted as security were to decline in value. If there were to be a significant fall in value of such shares, and the Selling Shareholder declined to, or was unable to, restore the margin loan lenders' position, then, after any applicable grace period, the margin loan lenders would typically be entitled to enforce their security over such shares by disposing of them. If these circumstances were to develop and lead to an enforcement of such security, in whole or in part, by the relevant margin loan lenders, both outside or within a period of six months following the first day of trading of the Company's shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), this could result in a substantial number of shares of the Company being sold in the open market, potentially prior to the expiry of the lock-up arrangements to which the Selling Shareholder is subject.

1.5.5. Future offerings of debt or equity securities may adversely affect the market price of the Company's shares, and future capital measures could lead to a dilution of existing shareholdings.

We may require further capital in the future to finance our business operations and planned growth or to fulfill regulatory requirements. Therefore, we may seek to raise capital through offerings of debt securities (possibly including convertible debt securities) or additional equity securities of the Company. An issuance of additional equity securities or securities with a right to convert into equity, such as convertible bonds or warrant bonds, could adversely affect the market price of the Company's shares and would dilute the economic and voting interests of existing shareholders if made without granting subscription rights to existing shareholders. Even if existing shareholders were granted subscription rights, investors in certain jurisdictions (particularly in the United States) may not be able to acquire or exercise any subscription rights due to local laws.

Because the timing and nature of any future offering would depend on market conditions, it is not possible to predict or estimate the amount, timing, or nature of future offerings. In addition, the acquisition of other companies or investments in companies in exchange for newly issued shares of the Company, as well as the exercise of stock options by our employees in the context of possible future stock option programs or the issuance of shares to employees in the context of possible future employee stock participation programs, could lead to a dilution of the economic and voting interests of existing shareholders. Furthermore, a proposal to the shareholders' meeting to take any of the abovementioned measures, with dilutive effects on the existing shareholdings, or any other announcement thereof, could adversely affect the market price of the Company's shares.

1.5.6. Shareholders in jurisdictions outside Germany may not be able to participate in future issues of the Company's shares unless we decide to take additional steps to comply with applicable local laws and regulations of such jurisdictions.

In the case of certain increases in the Company's issued share capital, the Company's existing shareholders are generally entitled to subscribe to the newly issued shares unless such subscription rights are specifically excluded. Shareholders outside Germany may however not be able to exercise their subscription rights unless the Company decides to comply with applicable local laws and regulations. We cannot assure any shareholders outside Germany that steps will be taken to enable them to exercise their subscription rights, or to permit them to receive any proceeds or other amounts relating to their subscription rights.

1.5.7. The Company's ability to pay dividends depends upon, among other things, our results of operations, financial investment needs, the availability of distributable reserves, and overall financial position.

The Company's shareholders' meeting will decide matters relating to the payment of future dividends. These decisions will be based on the particular situation of the Group at the time. The Company's ability to pay dividends depends upon, among other things, our results of operations, financing and investment requirements, as well as the availability of distributable profit (*Bilanzgewinn*). Certain reserves must be established by law and must be deducted when calculating the distributable profit (*Bilanzgewinn*). In addition, our debt financing arrangements contain and future debt financing arrangements may contain covenants which impose restrictions on our business, and future debt financing arrangements may also contain covenants which limit the Company's ability to pay dividends under certain circumstances. Any of these factors, individually or in combination, could restrict the Company's ability to pay dividends. Given that the Company's shares are, and any dividends to be paid in respect of them will be, denominated in Euro, an investment in the Company's shares by an investor whose principal currency is not the Euro exposes the investor to an additional foreign currency exchange rate risk.

1.5.8. The ability of shareholders to bring actions or enforce judgments against the Company or members of its management board or supervisory board may be limited.

The ability of shareholders to bring an action against the Company may be limited. The Company is a stock corporation (*Aktiengesellschaft*) incorporated under the laws of Germany. The rights of shareholders are governed by German law and by the Company's articles of association. These rights differ from the rights of shareholders in other jurisdictions. It may be difficult for a shareholder to prevail in a claim against the Company or to enforce liabilities predicated upon the laws of jurisdictions other than Germany.

A shareholder may not be able to enforce a judgment against some or all of the members of the Company's management board (the "**Management Board**") or the Supervisory Board. It may not be possible for a shareholder to effect service of process upon members of the Management Board or Supervisory Board within such shareholder's country of residence, or to enforce against members of the Management Board or Supervisory Board judgments of courts of such shareholder's country of residence based on civil liabilities under that country's securities laws. There can be no assurance that a shareholder will be able to enforce any judgment in civil and commercial matters or any judgments against the members of the Management Board or Supervisory Board who are residents of countries other than those in which the judgment is made. In addition, German and other courts may not impose civil liability on members of the Management Board or Supervisory Board in any original action based solely on foreign securities laws brought against the Company or members of the Management Board or Supervisory Board in a court of competent jurisdiction in Germany or other countries.

All members of the Management Board and Supervisory Board are non-residents of the United States, and substantially all or a significant portion of the assets of the Group and those of the Company's directors and executive officers are located outside the United States. As a result, a shareholder may be unable to enforce judgments obtained in U.S. courts against them. Moreover, in light of recent decisions of the Supreme Court of the United States, actions of the Company may not be subject to the civil liability provisions of U.S. federal securities laws.

2. GENERAL INFORMATION

2.1. Responsibility for the Content of the Prospectus

HENSOLDT AG is a German stock corporation (*Aktiengesellschaft*) with its registered seat in Taufkirchen, Federal Republic of Germany (hereinafter also "**Germany**") and its business address at Willy-Messerschmitt-Straße 3, 82024 Taufkirchen, Germany, registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Munich, Germany, under HRB 258711, Legal Entity Identifier ("**LEI**") 894500686FYLLZD3M624 (the "**Company**" and, together with its consolidated subsidiaries, the "**Group**", "**we**", "**our**", and "**us**"). The Company was established in September 2019 and became the parent company of the Group in November 2019, when Square Lux Holding II S.à r.l., a limited liability company (société à responsabilité limitée) under the laws of Luxembourg, registered with the Commercial and Company Register (*Registre de Commerce et des Sociétés*) of Luxembourg under no. B 202695 and with registered office in 2 Rue Edward Steichen, 2540 Luxembourg (the "**Selling Shareholder**"), contributed all shares held by the Selling Shareholder in HENSOLDT Holding GmbH, previously the parent company of the Group, to the Company. For the time period before such contribution, the terms "**Group**", "**we**", "**our**", and "**us**" refer to HENSOLDT Holding GmbH, together with its consolidated subsidiaries. The Company together with Merrill Lynch International with its registered seat at 2 King Edward Street, London EC1A 1HQ, United Kingdom, LEI GGDZP1UYGU9STUHRDP48 ("**BofA Securities**"), J.P. Morgan Securities plc with its registered seat at 25 Bank Street, Canary Wharf, London E14 5JP, United Kingdom, LEI K6Q0W1PS1L1O4IQL9C32 ("**JPM**"), KKR Capital Markets Partners LLP with its registered seat at 7 Carlton Gardens, Stirling Square, London SW1Y 5AD, United Kingdom, LEI 213800TSSR6EVD45MW84 ("**KCM**"), and Deutsche Bank Aktiengesellschaft with its registered seat at Taunusanlage 12, 60325 Frankfurt am Main, Germany, LEI 7LTWFZYICNSX8D621K86 ("**DB**", and together with BofA Securities, JPM, and KCM, the "**Joint Global Coordinators**"), and Citigroup Global Markets Limited with its registered seat at Citigroup Centre, Canada Square, London E145LB, United Kingdom, LEI XKZZ2JZF41MRHTR1V493 ("**Citigroup**"), COMMERZBANK Aktiengesellschaft with its registered seat at Kaiserstraße 16 (Kaiserplatz), 60311 Frankfurt am Main, Germany, LEI 851WYGNLUQLFZBSYGB56 ("**COMMERZBANK**"), UniCredit Bank AG with its registered seat at Arabellastraße 12, 81925 Munich, Germany, LEI 2ZCNRR8UK83OBTEK2170, and Crédit Agricole Corporate and Investment Bank with its registered seat at 12 place des Etats-Unis, CS 70052, 92547 Montrouge Cedex, France, LEI 1VUV7VQFKUOQSJ21A208 ("**Crédit Agricole CIB**") (Citigroup, COMMERZBANK, UniCredit Bank AG, and Crédit Agricole CIB, together with the Joint Global Coordinators, the "**Joint Bookrunners**"), and Mizuho International plc with its registered seat at Mizuho House, 30 Old Bailey, London EC4M 7AU, United Kingdom, LEI 213800HZ54TG54H2KV03 (together with the Joint Bookrunners, the "**Underwriters**") assume responsibility for the contents of this prospectus (the "**Prospectus**") and hereby declare that, to the best of their knowledge, the information contained in the Prospectus is in accordance with the facts and that the Prospectus makes no omission likely to affect its import.

Neither the Company nor the Underwriters are required by law to update the Prospectus subsequent to the date hereof, except in accordance with Article 23 of Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"), which stipulates that every significant new factor, material mistake, or material inaccuracy relating to the information included in a prospectus which may affect the assessment of the securities and which arises or is noted between the time when the prospectus is approved and the closing of the offer period or the time when trading on a regulated market begins, whichever occurs later, shall be mentioned in a supplement to the prospectus without undue delay. In any event, the obligation to supplement a prospectus does no longer apply when a prospectus is no longer valid. The closing of the offer period is expected to occur on September 23, 2020 and the time when trading on a regulated market begins is expected to occur on September 25, 2020. Accordingly, the validity of the prospectus is expected to expire at the end of the day on September 25, 2020.

The Prospectus constitutes a prospectus for the purposes of Article 3 of the Prospectus Regulation and has been approved by the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*, "**BaFin**"), as competent authority under the Prospectus Regulation. BaFin only approves this prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation and such approval should not be considered as an endorsement of the Company or its shares. Investors should make their own assessment as to the suitability of investing in the securities. BaFin can be contacted at Marie-Curie-Str. 24-28, 60439 Frankfurt am Main, Germany, by telephone +49 228 4108-0, or via its website: www.bafin.de.

Where a claim relating to the information contained in a prospectus is brought before a court, the plaintiff investor might, under the respective national legislation of the relevant member state of the European Economic Area ("**EEA**"), have to bear the costs of translating the Prospectus before the legal proceedings are initiated.

2.2. Subject Matter of the Prospectus

The Prospectus relates to the offer of 45,808,333 bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) of the Company, each such share with a proportionate amount of EUR 1.00 in the share capital and full dividend rights as from January 1, 2020 (the "**Offering**"), comprising:

- 25,000,000 bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) to be newly issued from a capital increase against contribution in cash resolved by an extraordinary shareholders' meeting of the Company on September 3, 2020 and expected to be consummated on or about September 24, 2020 (the "**Primary Base Shares**");
- 8,333,333 existing bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) from the holdings of the Selling Shareholder (the "**Secondary Base Shares**" and, together with the Primary Base Shares, the "**Base Shares**");
- 6,500,000 existing bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) from the holdings of the Selling Shareholder (the "**Additional Base Shares**") subject to the exercise of an upsize option by the Selling Shareholder (in part or in full) on the date of pricing (the "**Upsize Option**"); and
- 5,975,000 existing bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) from the holdings of the Selling Shareholder to cover potential over-allotments (the "**Over-Allotment Shares**" and, together with the Base Shares and the Additional Base Shares, the "**Offer Shares**").

The Selling Shareholder is an entity indirectly owned by investment funds and other entities affiliated with Kohlberg Kravis Roberts & Co. L.P. (collectively, "**KKR**"), and the voting rights held by the Selling Shareholder are attributed through various entities to KKR Management LLP and KKR SP Limited (see also "*13.1. Major Shareholders*").

Furthermore, for purposes of admission to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard), the Prospectus relates to up to 105,000,000 bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) of the Company (the Company's entire share capital, including the Primary Base Shares to be placed in connection with the Offering), each such share with a proportionate amount of EUR 1.00 in the share capital and full dividend rights as from January 1, 2020.

The Prospectus does not constitute an offer to sell, or a solicitation of an offer to buy, any shares offered by any person in any jurisdiction in which it is unlawful for such person to make such an offer or solicitation. For further information on certain selling restrictions with respect to the Offer Shares, see "*17.5. Selling Restrictions*".

For further information on the Offering, see "*3. The Offering*".

2.3. Forward-Looking Statements

The Prospectus contains certain forward-looking statements. A forward-looking statement is any statement that does not relate to historical facts or events or to facts or events as of the date of the Prospectus. This applies, in particular, to statements in the Prospectus containing information on our future earnings capacity, plans and expectations regarding our business, growth, and profitability, as well as the general economic and legal conditions to which we are exposed. Statements made using forward-looking terminology such as "aim", "anticipate", "expect", "intend", "plan", "predict", "project", and "target", or the negative of these words, are an indication of forward-looking statements. Certain forward-looking statements throughout the Prospectus, in particular in sections "*9. Markets and Competitive Environment*" and "*10. Business*", relating to forecasts or expectations of market developments in the years 2020 and future years are indicated by an "E" after the year, for example, "2020E", "2021E", etc.

The forward-looking statements contained in the Prospectus are based on our current estimates and assessments. They are based on assumptions, such as constant foreign exchange rates and no significant changes to the Group structure, due to future M&A activities or otherwise, and subject to risks, uncertainties, and other factors, the occurrence or non-occurrence of which could cause actual circumstances – including with regard to our business, results of operations, financial position, cash flows, and prospects – to differ materially from or fail to meet the expectations expressed or implied in the forward-looking statements. Even if our future results meet the expectations expressed herein, they may not be indicative of the results of any succeeding periods.

Our business is also subject to a number of risks and uncertainties that could cause a forward-looking statement, estimate, or prediction in the Prospectus to become inaccurate. Accordingly, investors are strongly advised to consider the Prospectus as a whole and particularly ensure that they have read the following sections of the Prospectus, which include more detailed descriptions of factors that might influence our business performance and the markets in which we operate: "*1. Risk Factors*", "*8. Operating and Financial Review*", "*9. Markets and Competitive Environment*", "*10. Business*", and "*20. Recent Developments and Outlook*".

In light of these assumptions, as well as risks, uncertainties, and other factors, it is also possible that the future events mentioned in the Prospectus may not occur or may differ materially from actual events. In addition, the forward-looking estimates and forecasts reproduced in the Prospectus from third-party sources could prove to be inaccurate. For more information on third-party sources see "*2.4. Information from Third Parties*". Actual results, performance, or events may differ materially from those in such statements due to, among other reasons:

- defense and security spending by governments, supranational organizations, and their armed and security forces;
- sales and export restrictions and controls applicable to sales of our products, or the products or platforms into which our products are integrated, including government approval requirements and moratoriums;
- conflicts and developments on an international, national, political, or economic level, including trade restrictions, added complexity and barriers to our sales and supply chain, or political support for competitors;
- our inclusion and participation in major defense projects and platforms;
- our competitive situation;
- our ability to implement our growth strategy;
- our ability to anticipate market demand and to develop products according to customers' expectations;
- our ability to retain or expand our position as a technology and quality leader;
- product defects and other quality issues;
- sanctions, anti-corruption, and anti-money laundering laws and regulations that our operations are subject to, and financial, reputational, or business damage if our internal control systems turn out to be inadequate to comply with them;
- numerous regulatory requirements, in particular, regarding the protection of secrecy of our operations;
- impairment of our assets, in particular goodwill and intangible assets such as technology, customer relationships, work in process, our brand, and capitalized development costs; and
- the impact of the Coronavirus SARS-CoV-2 ("**Covid-19**") pandemic or future epidemics on our business, including the potential for governmental lock-down measures, facility closures or work stoppages, supply chain disruptions, delays in programs and decisions of governments, as well as, changing government funding and procurement priorities.

The forward-looking statements contained in the Prospectus speak only as of the date of the Prospectus. Investors are advised that neither we nor the Underwriters assume any obligation and do

not intend, except as required by law, to publicly release any updates or revisions to these forward-looking statements to reflect any change in our expectations with regard thereto or any change in events, conditions, or circumstances on which any such statement is based or to adjust them in line with future events or developments.

2.4. Information from Third Parties

The Prospectus contains industry and customer-related data, as well as calculations sourced from industry reports published by third parties, market research reports, publicly available information, and commercial publications of third parties. These publications generally state that the information they contain has originated from sources assumed to be reliable but that the accuracy and completeness of such information is not guaranteed and that the calculations contained therein are based on assumptions. In particular, these sources may not fully reflect the potential impact of the ongoing Covid-19 pandemic due to, among other things, uncertainties surrounding its further development. In view of the potential effects of this pandemic on the economy, society and markets in which we operate, all current forecasts can be made only with a considerably higher degree of uncertainty. This applies particularly in the context of links and interrelations between the global financial markets, economies and political decisions, which each individually may have an influence on the economic and political development, and when combined are currently impossible to assess with any certainty ex ante.

Irrespective of the assumption of responsibility for the contents of the Prospectus by the Company and the Underwriters (see "*2.1. Responsibility for the Content of the Prospectus*"), neither the Company nor the Underwriters have independently verified such information or make any representation or give any warranty as to the accuracy or completeness of such information.

Where information in the Prospectus has been sourced from a third party, the Company confirms that this information has been accurately reproduced and that, as far as the Company is aware and able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this information with caution.

In preparing the Prospectus, the following sources of third party information were used:

- Commissioned study prepared by Renaissance Strategic Advisors II, LLC ("**RSA**") on trends in the Global Defense Market, Global Defense Electronics Market, German Defense Market and German Defense Electronics Market entitled "Global Defense Electronics Market: Trends, Drivers and Outlook for 2020 and Beyond" and dated September 2020, available at https://rsadvisors.com/wp-content/uploads/2020/09/RSAdvisors-Global-Defence-Electronics-Market-Perspectives-Sept2020-vFF.pdf (the "**RSAdvisors Study**");

- *11. Bericht des Bundesministeriums der Verteidigung zu Rüstungsangelegenheiten, Teil 1*, dated June 2020, available at https://www.bmvg.de/resource/blob/263830/274c9b18032991fe3233bf1770ce22a5/200200609-download-11-bericht-des-bmvg-zu-ruestungsangelegenheiten-data.pdf (the "**June 2020 BMVg Report**");

- *Antwort der Bundesregierung auf die Kleine Anfrage der Abgeordneten Andrej Hunko, u. a. sowie der Fraktion DIE LINKE vom 31. März 2020*, dated May 7, 2020, available at https://www.andrej-hunko.de/start/download/dokumente/1478-ausbau-des-drohnenflugplatzes-in-jagel/file (the "**German Government's Response**");

- Cambridge Global Risk Index 2019 – Executive Summary by University of Cambridge Judge Business School, Cambridge Center of Risk Studies, available at https://www.jbs.cam.ac.uk/fileadmin/user_upload/research/centres/risk/downloads/crs-global-risk-index-exec-summary-2019.pdf (the "**Cambridge Global Risk Index 2019**");

- *Haushälter genehmigen Anzahlung auf Bombardier-Jets für Bundeswehr-Aufklärung*, published July 2, 2020, available at https://de.reuters.com/article/deutschland-r-stung-bombardier-idDEKBN2430KQ (the "**Reuters Pegasus Article**");

- *Strategiepapier der Bundesregierung zur Stärkung der Sicherheits- und Verteidigungsindustrie*, published February 14, 2020, available at https://www.bmwi.de/Redaktion/DE/Downloads/S-T/

strategiepapier-staerkung-sicherits-und-verteidigungsindustrie.pdf?__blob=publicationFile&v=4 (the "**German Government's 2020 Strategy Paper**");

- The EU Budget Powering the Recovery Plan For Europe, dated May 27, 2020, COM(2020) 442 final, available at https://ec.europa.eu/info/sites/info/files/about_the_european_commission/eu_budget/1_en_act_part1_v9.pdf (the "**EU Budget Proposal**");

- The Future of NATO – Fog over the Atlantic, Strategic Monitor 2018-2019, available at https://www.clingendael.org/pub/2018/strategic-monitor-2018-2019/the-future-of-nato ("**The Future of NATO**"); and

- Worldwide Threat Assessment of the U.S. Intelligence Community dated January 29, 2019, available at https://www.dni.gov/files/ODNI/documents/2019-ATA-SFR---SSCI.pdf ("**Worldwide Threat Assessment 2019**").

The Prospectus also contains estimates of market and other data and information derived from such data that cannot be obtained from publications by market research institutes or from other independent sources. Such information is partly based on our own market observations, the evaluation of industry information (from conferences, sector events, etc.), and internal assessments. We believe that our estimates of market and other data and the information derived from such data assist investors in gaining a better understanding of the industry in which we operate and our position therein. Our own estimates have not been checked or verified externally. We nevertheless believe that our own market observations are reliable. We assume no responsibility for the accuracy of our own estimates and the information derived therefrom. They may however differ from estimates made by our competitors or from current and future studies conducted by market research institutes or other independent sources.

Information contained on any website mentioned in the Prospectus, including our own website, is not incorporated by reference in the Prospectus and is not part of the Prospectus.

2.5. Documents Available for Inspection

For as long as the Prospectus is valid, copies of the following documents (with the exception of the RSAdvisors Study), as well as the Company's future financial statements, will be available for inspection on the Company's website at www.hensoldt.net:

- the Company's articles of association dated August 18, 2020 (the "**Articles of Association**");

- the unaudited condensed consolidated interim financial statements prepared by the Company (at that time still HENSOLDT GmbH) in accordance with the International Financial Reporting Standards as adopted by the European Union ("**IFRS**") on interim financial reporting (IAS 34) as of and for the six-month period ended June 30, 2020 (the "**Unaudited Interim Consolidated Financial Statements**");

- the audited consolidated financial statements prepared by the Company (at that time still HENSOLDT GmbH) in accordance with IFRS as of and for the financial year ended December 31, 2019 (the "**Audited Consolidated Financial Statements 2019**");

- the audited consolidated financial statements prepared by HENSOLDT Holding GmbH (at that time the parent company of the Group) in accordance with IFRS as of and for the financial year ended December 31, 2018 (the "**Audited Consolidated Financial Statements 2018**");

- the audited consolidated financial statements prepared by HENSOLDT Holding GmbH (at that time the parent company of the Group) in accordance with IFRS as of and for the financial year ended December 31, 2017 (the "**Audited Consolidated Financial Statements 2017**" and, together with the Audited Consolidated Financial Statements 2019 and the Audited Consolidated Financial Statements 2018, the "**Audited Consolidated Financial Statements**");

- the audited unconsolidated financial statements prepared by the Company (at that time still HENSOLDT GmbH) in accordance with the German Commercial Code (*Handelsgesetzbuch*) as of and for the financial year ended December 31, 2019 (the "**Audited Unconsolidated**

Financial Statements" and, together with the Audited Consolidated Financial Statements, the "**Audited Financial Statements**"); and

- the RSAdvisors Study.

2.6. Note on Currency

The following table explains the denotation of currencies which are material to the Audited Consolidated Financial Statements and, as the case may be, used in the Prospectus:

Amounts in	Refer to the Legal Currency of
"EUR" or "Euro"	the Eurozone, including Germany and France
"USD" or "U.S. Dollar"	the United States of America
"GBP" or "British Pound Sterling"	the United Kingdom
"ZAR" or "South African Rand"	South Africa

The abbreviation "k" preceding currency data stands for "thousand", the abbreviation "m" stands for "million", and the abbreviation "bn" stands for billion.

The functional currency of the Company is the Euro and its financial statements are prepared in Euro.

In the Audited Consolidated Financial Statements 2019, foreign currencies are accounted for as follows:

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

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

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

  - An investment in equity securities designated at fair value through other comprehensive income (except on impairment, in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss);

  - A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and

  - Qualifying cash flow hedges to the extent that the hedges are effective.

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

- In the separate financial statements of our subsidiaries, transactions denominated in foreign currency are translated at the exchange rate applicable on the date the transaction is recorded. Gains and losses from settling such transactions and from the translation of monetary assets

and liabilities using the exchange rate prevailing on the reporting date are recognized in profit or loss.

- The financial statements of foreign subsidiaries are translated into Euro on the basis of the functional currency method in accordance with IAS 21 – The Effects of Changes in Foreign Exchange Rates. The functional currency is the respective local currency of the entity. Assets and liabilities, as well as contingent liabilities and other financial obligations are translated at the exchange rate prevailing on the reporting date (closing rate). The items in the income statement and consequently the net income for the year recognized in the income statement are translated at the average monthly exchange rate of the accounting period. The equity in place at the date of initial consolidation is translated at historical exchange rates for the foreign entities included in the consolidated financial statements. Any resulting differences are recorded as a reserve in equity with no effect on profit or loss.

The table below shows the average exchange rates, as well as the rate on the reporting date, of key foreign currencies against the Euro for 2019, 2018, and 2017 and as of December 31, 2019, 2018, and 2017:

	Average Exchange Rate for			Closing Rate as of December 31,		
1.00 EUR equivalent to	**2019**	**2018**	**2017**	**2019**	**2018**	**2017**
USD	1.1195	1.1810	1.1297	1.1213	1.1450	1.1993
GBP	0.8778	0.8847	0.8767	0.8456	0.8945	0.8872
ZAR	16.1757	15.6186	15.0492	15.7105	16.4594	14.8054

2019 and 2018 figures based on vwd Vereinigte Wirtschaftsdienste GmbH; 2017 figures based on Bloomberg L.P.

2.7. Note Regarding the Presentation of Certain Financial Information

The financial years ended December 31, 2019, 2018, and 2017 are also referred to in the Prospectus as "**financial year 2019**" or "**2019**", "**financial year 2018**" or "**2018**", and "**financial year 2017**" or "**2017**", respectively. The six-month periods ended June 30, 2020 and 2019 are also referred to in the Prospectus as "**first half 2020**" and "**first half 2019**", respectively.

Financial information for the Group in the Prospectus presented as "audited" has been taken from the Audited Consolidated Financial Statements. Financial information for the Group in the Prospectus presented as "unaudited" has not been taken from the Audited Consolidated Financial Statements, but was taken from the Unaudited Interim Consolidated Financial Statements or the Company's accounting records or internal management reporting systems, or is based on calculations using these figures.

The Audited Financial Statements were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Klingelhöferstraße 18, 10785 Berlin, Germany ("**KPMG**") who, in each case, issued an unqualified auditor's report thereon as included in section "*19. Financial Information*" of the Prospectus beginning on page F-1.

In addition, we present certain selected financial information for the financial year ended December 31, 2016 (also referred to in the Prospectus as "**financial year 2016**" or "**2016**"), which is based on unaudited management accounts of Airbus, and certain selected financial information for 2017, which is adjusted to reflect our business for the full twelve months, since the Audited Consolidated Financial Statements 2017 *de facto* reflect our business as from February 28, 2017 only (see also "*8.2. Presentation of Financial Information and Principal Factors Affecting Comparability*"). This adjusted 2017 financial data is based on the sum of financial information from the Audited Consolidated Financial Statements 2017 for March 2017 through December 2017 and unaudited management accounts of Airbus for January 2017 and February 2017. Such adjusted 2017 financial data including unaudited management accounts is denoted with "**∑2017**" in the Prospectus.

The following tables present selected information from our consolidated income statement and certain other APMs (as defined below) and operating metrics for 2017 and ∑2017. For information on our reporting segments, namely (i) Sensors, including its divisions (a) Radar, IFF & COMMS, (b) Spectrum Dominance & Airborne Solutions, and (c) Customer Services and (ii) Optronics, see "*8.2.2.1. Our Segments*".

(in EUR thousand)	∑2017	2017
	(unaudited, unless otherwise indicated)	
Revenue	1,017,838	917,093*
Sensors	774,499	704,277
thereof Radar, IFF & COMMS	*282,132*	*269,352*
thereof Spectrum Dominance & Airborne Solutions	*320,443*	*288,669*
thereof Customer Services	*149,662*	*129,856*
Others/Elimination	*22,262*	*16,400*
Optronics	245,763	215,196
Elimination/Transversal/Others	(2,424)	(2,381)
Cost of sales	(931,276)	(831,496)*
Impairment gains/(losses) on trade receivables and contract assets	(610)	197*
Gross profit	**85,951**	**85,794***
Selling and distribution expenses	(58,348)	(49,000)*
General administrative expenses	(87,111)	(80,372)*
Research and development costs	(35,558)	(29,767)*
Other operating income	12,441	23,390*
Other operating expenses	—	(19,104)*
Share of profit from investments accounted for using the equity method	—	—*
Earnings before finance result and income tax (EBIT)	**(82,626)**	**(69,059)***

* Audited.

(in EUR thousand)	∑2017	2017
	(unaudited, unless otherwise indicated)	
Revenue	1,017,838	917,093*
Order Intake	1,171,233	1,042,211
Adjusted EBIT	131,106	144,673
Sensors	103,581	115,312
Optronics	24,152	26,203
Elimination/Transversal	3,373	3,159
Adjusted EBITDA	154,666	164,408
Adjusted Net Income	47,442	61,009
Adjusted Gross Profit	265,017	258,205
Adjusted Pre-Tax Unlevered Free Cash Flow	102,355	132,515

* Audited.

For the definitions of the APMs and operating metrics presented above, as well as a reconciliation of these APMs to results or other performance measures presented in accordance with IFRS, see "*8.4. Our Key Performance Indicators and Other Alternative Performance Measures*".

For an overview of certain factors affecting comparability of the financial information contained in the Prospectus, see "*8.2. Presentation of Financial Information and Principal Factors Affecting Comparability*".

2.8. Non-IFRS Measures/Alternative Performance Measures

In accordance with the Commission Delegated Regulation (EU) 2016/301 and the European Securities and Markets Authority ("**ESMA**") Guidelines published on October 5, 2015 (the "**ESMA Guidelines**"), the following list sets out information related to certain financial measures of the Group that are not required by, or not presented in accordance with, IFRS or the German Commercial Code

(*Handelsgesetzbuch*) and German generally accepted accounting principles, which the Group regards as alternative performance measures ("**APMs**") within the meaning of the ESMA Guidelines:

- Adjusted EBIT;
- Adjusted EBITDA;
- Adjusted Gross Profit;
- Adjusted Net Income; and
- Adjusted Pre-Tax Unlevered Free Cash Flow.

In addition, we show two operating metrics:

- Order Backlog; and
- Order Intake.

For a definition of these APMs and operating metrics, as well as a reconciliation of these APMs to results or other performance measures presented in accordance with IFRS, see "*8.4. Our Key Performance Indicators and Other Alternative Performance Measures*".

We present these APMs and operating metrics as (i) supplemental information because they are used by our management to measure operating performance or as an auxiliary control profitability parameter, including in presentations to our management, and as a basis for strategic planning and forecasting, and (ii) they represent measures that we believe are widely used by certain investors, securities analysts, and other parties as supplemental measures of operating and financial performance. These APMs and operating metrics may enhance management's and investors' understanding of our financial performance by excluding items that are not classified as part of its ongoing operations, such as income, interest payments, and non-cash expenses.

However, these APMs and operating metrics are not defined by IFRS or any other internationally accepted accounting principles, and you should not consider such items as an alternative to the historical financial results or other indicators of our performance, liabilities, or net assets based on IFRS measures. In particular, they should not be considered as alternatives to our net income as an indicator of our performance and profitability, or as alternatives to cash flows from operating activities as an indicator of our financial strength. The APMs and operating metrics, as defined by us, may not be comparable to similarly titled measures as presented by other companies due to differences in the way our APMs and operating metrics are calculated. Even though the APMs and operating metrics are used by management to assess ongoing operating performance and indebtedness, and though these types of measures are commonly used by investors, they have important limitations as analytical tools and you should not consider them in isolation, or as substitutes for, the analysis of our results of operations, financial position, and cash flows as reported under IFRS.

2.9. Note Regarding Figures and Technical Terms

Some figures (including percentages) in the Prospectus have been rounded in accordance with commercial rounding. In some instances, such rounded figures and percentages may not add up to 100% or to the totals or subtotals contained in the Prospectus. Furthermore, totals and subtotals in tables may differ slightly from unrounded figures contained in the Prospectus due to rounding in accordance with commercial rounding. In the Unaudited Interim Consolidated Financial Statements and the Audited Financial Statements contained under the heading "*19. Financial Information*" and in the main body of the Prospectus, a dash ("—") indicates that no data was reported for a specific line item in the relevant financial year or period, while a zero ("0") is used when the pertinent figure, after rounding, amounts to nil.

A glossary of certain technical and financial terms and abbreviations used in the Prospectus is provided at the end of the Prospectus under the heading "*21. Glossary*".

3. THE OFFERING

3.1. Subject Matter of the Offering

The Offering comprises 45,808,333 Offer Shares, comprising:

- 25,000,000 Primary Base Shares;
- 8,333,333 Secondary Base Shares;
- 6,500,000 Additional Base Shares; and
- 5,975,000 Over-Allotment Shares.

The Offering consists of (i) a public offering in Germany, (ii) private placements in certain jurisdictions outside the United States of America ("**United States**" or "**U.S.**") in offshore transactions in reliance on Regulation S ("**Regulation S**") under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and (iii) a private placement in the United States only to persons reasonably believed to be qualified institutional buyers ("**QIBs**") in accordance with Rule 144A under the Securities Act ("**Rule 144A**").

The Offer Shares have not been, and will not be, registered under the Securities Act, or the securities laws of any state or other jurisdiction of the United States and may not be offered, sold or otherwise transferred to or within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction in the United States.

The Offer Shares carry, and will carry upon admission to trading, the same rights as all other shares of the Company and confer no additional rights or benefits. All shares of the Company, including the Offer Shares, are subject to and governed by German corporate law. For information on the share capital of the Company, see "*14. Information on the Share Capital of the Company and Applicable Regulations*".

The Company will receive the proceeds from the sale of the Primary Base Shares, less certain commissions and expenses relating to the Offering. The Selling Shareholder will receive the proceeds from the sale of the Secondary Base Shares, and the potential sale of the Additional Base Shares and Over-Allotment Shares to the extent that the Upsize Option and the Greenshoe Option (as defined below) are exercised, respectively, in each case less commission in connection thereto.

Prior to completion of the Offering, the entire share capital of the Company is held by the Selling Shareholder, an entity indirectly owned by KKR. Following completion of the Offering and exercise of the Greenshoe Option, assuming a full placement of the Base Shares and the Additional Shares (as defined below) at the low end of the Price Range (see "*3.4. Price Range, Offer Period, Offer Price and Allotment*") and full exercise of the Greenshoe Option, the Selling Shareholder is expected to remain the majority shareholder of the Company holding at least approximately 56% of the share capital of the Company. Based on the same assumptions, but for a placement of 21,428,571 Primary Base Shares and 7,142,857 Secondary Base Shares at the mid-point of the Price Range, or 18,750,000 Primary Base Shares and 6,250,000 Secondary Base Shares at the high end of the Price Range, the Selling Shareholder is expected to remain the majority shareholder of the Company holding approximately 60% or 63% of the share capital of the Company, respectively.

Assuming a full placement of the Base Shares and the Additional Shares at the low end of the Price Range, but no exercise of the Greenshoe Option, the Selling Shareholder is expected to remain the majority shareholder of the Company holding approximately 62% of the share capital of the Company, following completion of the Offering and expiration of the Greenshoe Option. Based on the same assumptions, but for a placement of 21,428,571 Primary Base Shares and 7,142,857 Secondary Base Shares at the mid-point of the Price Range, or 18,750,000 Primary Base Shares and 6,250,000 Secondary Base Shares at the high end of the Price Range, the Selling Shareholder is expected to remain the majority shareholder of the Company holding approximately 65% or 68% of the share capital of the Company, respectively. For additional information, see "*13. Major Shareholders*".

BofA Securities, JPM, KCM, and DB are acting as Joint Global Coordinators. Citigroup, COMMERZBANK, UniCredit Bank AG, and Crédit Agricole CIB, together with the Joint Global Coordinators, are acting as Joint Bookrunners. The Joint Bookrunners, together with Mizuho International plc, are acting as the Underwriters.

Under the Offering, the Underwriters are offering 33,333,333 Base Shares and, subject to the exercise of the Upsize Option, 6,500,000 Additional Base Shares. In addition, the Selling Shareholder has granted an option to the Underwriters to borrow and acquire up to 5,975,000 further shares from the Selling Shareholder in connection with a potential sale of Over-Allotment Shares and the exercise of the Greenshoe Option, see "*3.10. Stabilization Measures, Over-Allotments, and Greenshoe Option*". The number of Over-Allotment Shares which may be allotted must not exceed 15% of the sum of the allotted Base Shares and Additional Base Shares, if any (such number of Over-Allotment Shares, together with the Additional Base Shares, the "**Additional Shares**").

In making an investment decision, each investor must rely on its own examination, analysis, and inquiry of the Company and the terms of the Offering, including the merits and risks involved.

None of the Company, the Selling Shareholder, or the Underwriters, or any of their respective affiliates, is making any representation to any offeree or purchaser of the Company's shares regarding the legality of an investment in the Offer Shares by such offeree or purchaser. Each investor should consult with his or her own advisors as to the legal, tax, business, financial, and related aspects of a purchase of the Company's shares.

The investors also acknowledge that (i) they have not relied on the Underwriters or any person affiliated with the Underwriters in connection with any investigation of the accuracy of any information contained in the Prospectus or their investment decision, (ii) they have relied only on the information contained in this document, and (iii) that no person has been authorized to give any information or to make any representation concerning us or the Company's shares (other than as contained in this document) and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Company, the Selling Shareholder, or the Underwriters.

3.2. Information on the Shares

3.2.1. Form and Representation of the Shares

As of the date of the Prospectus, the share capital of the Company amounts to EUR 80,000,000.00 and is divided into 80,000,000 ordinary bearer shares (*Inhaberaktien*) with no-par value (*Stückaktien*), each representing a proportionate amount of the share capital of EUR 1.00. The share capital has been fully paid up. The Company's shares were created pursuant to the laws of Germany and are denominated in Euro. All shares of the Company will be represented by one or multiple global share certificates which are or will be deposited with Clearstream Banking Aktiengesellschaft, Mergenthalerallee 61, 65760 Eschborn, Germany ("**Clearstream Banking AG**").

Following the consummation of the capital increase for purposes of the issuance of the Primary Base Shares to be placed in connection with the Offering, expected to be registered with the commercial register (*Handelsregister*) on or around September 24, 2020, the Company's share capital will amount to up to EUR 105,000,000.00, divided into up to 105,000,000 ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*), each representing a proportionate amount of the share capital of EUR 1.00. The share capital will be fully paid up.

For a description of the development of our share capital, see "*14.2. Development of the Share Capital since Incorporation*".

3.2.2. Voting Rights

Each of the Company's shares entitles the shareholder to one vote at the shareholders' meeting of the Company. There are no restrictions on voting rights. Major shareholders, including the Selling Shareholder, do not have different voting rights.

3.2.3. Transferability of the Shares

The Company's shares are freely transferable in accordance with the legal requirements for bearer shares (*Inhaberaktien*); except for the restrictions described under "*3.11. Lock-Up Commitments*" and "*17.5 Selling Restrictions*", there are no prohibitions on disposals or restrictions with respect to the transferability of the Company's shares.

3.2.4. Dividend Rights and Share in Liquidation Proceeds

The shares carry full dividend rights as from January 1, 2020. In the event of the Company's liquidation, any proceeds remaining after satisfaction of all liabilities of the Company will be distributed to the shareholders in proportion to their interest in the Company's share capital.

3.3. ISIN, WKN, Common Code, and Trading Symbol

International Securities Identification Number (ISIN)	DE000HAG0005
German Securities Code (*Wertpapier-Kenn-Nummer, WKN*)	HAG000
Common Code	222839734
Trading Symbol	HAG

3.4. Price Range, Offer Period, Offer Price, and Allotment

The price range within which purchase orders may be placed is from EUR 12.00 to EUR 16.00 per Offer Share (the "**Price Range**").

The Offering allows investors to submit purchase orders for the shares during a period which is expected to commence on September 16, 2020 and is expected to end on September 23, 2020 (the "**Offer Period**"). On the last day of the Offer Period, purchase orders may be submitted (i) until 12:00 (CEST) by retail investors and (ii) until 14:00 (CEST) by institutional investors. Purchase orders must be for at least ten Offer Shares and be expressed in full Euro amounts or increments of 25, 50, or 75 Eurocents.

The Selling Shareholder reserves the right, after consultation with the Company and the Joint Global Coordinators, to increase or decrease the total number of Offer Shares, to increase or decrease the upper and/or lower limit of the Price Range, and/or to extend or shorten the Offer Period. Changes in relation to the number of Offer Shares, changes to the Price Range, or the extension or shortening of the Offer Period will not invalidate any offers to purchase that have already been submitted. If such change requires the publication of a supplement to the Prospectus, investors who submitted purchase orders before the supplement is published shall have the right, pursuant to Article 23 of the Prospectus Regulation, to withdraw these offers to purchase within two working days of the publication of the supplement. To the extent that the terms of the Offering are changed, such change will be published by means of electronic media (such as Reuters or Bloomberg and/or the Company's website) and, if required by Regulation (EU) No 596/2014 (the "**Market Abuse Regulation**"), as an ad-hoc release via an electronic dissemination information system on the Company's website and as a supplement to the Prospectus. Investors who have submitted offers to purchase will not be notified individually. Under certain conditions, the Joint Global Coordinators acting on behalf of the Underwriters may terminate the underwriting agreement regarding the coordination, structuring, and implementation of the Offering, which was concluded by the Company, the Selling Shareholder, and the Underwriters on September 15, 2020 (the "**Underwriting Agreement**"), even after commencement of trading (*Aufnahme des Handels*) of the Company's shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (see also "*17.4. Termination/ Indemnification*").

The Selling Shareholder, after consultation with the Joint Global Coordinators, will decide whether and to what extent to exercise the Upsize Option in its free discretion, depending on market demand and based on the order book resulting from the bookbuilding process. The Selling Shareholder may sell up to 6,500,000 Additional Base Shares.

Investors are free to withdraw their offers to purchase until the end of the Offer Period. After the Offer Price has been set, the Offer Shares will be allotted to investors on the basis of the offers to purchase then available. Until and including September 29, 2020, the Underwriting Agreement may be terminated by the Underwriters. In the case of a termination of the Underwriting Agreement, the Offering will not take place, allocations of Offer Shares to investors will become ineffective, and investors have no claim regarding the delivery of the Offer Shares.

Once the Offer Period has expired, the final number of Offer Shares and the final offer price (the "**Offer Price**") will be determined by the Company, the Selling Shareholder, and the Underwriters. The Offer Price will be set on the basis of the purchase orders submitted by investors during the Offer Period that have been collated in the order book during the bookbuilding process. This procedure is expected to take place on or about September 23, 2020. The Company aims to achieve total gross proceeds from the offering of the Primary Base Shares of approximately EUR 300 million. The Selling Shareholder aims to achieve total gross proceeds from the offering of the Secondary Base Shares of approximately EUR 100 million. Consideration will also be given to whether the Offer Price and the number of shares to be placed allow for the reasonable expectation that the share price will demonstrate steady performance in the secondary market given the demand for the Company's shares noted in the order book during the book building process. Attention will be paid not only to the price offered by investors and the number of investors wanting shares at a particular price but also to the composition of the group of shareholders in the Company that would result at a given price (so-called investor mix) and expected investor behavior. For further information regarding allotment criteria, see "*3.5. Allotment Criteria*". The Company and the Selling Shareholder will not charge investors any expenses or taxes incurred in connection with the Offering. Particularly if the placement volume proves insufficient to satisfy all orders placed at the Offer Price, the Underwriters reserve the right to reject orders or to accept them in part only.

The number of Primary Base Shares that will be placed in connection with the Offering will be determined based on the Offer Price and is expected to be such number of shares as is necessary to provide the Company with total gross proceeds of approximately EUR 300 million. As a result, the Company expects that at the high end of the Price Range, 18,750,000 Primary Base Shares (equaling 23% of the Company's existing share capital), at the mid-point of the Price Range, 21,428,571 Primary Base Shares (equaling 27% of the Company's existing share capital), and at the low end of the Price Range, 25,000,000 Primary Base Shares (equaling 31% of the Company's existing share capital) will be placed in connection with the Offering.

The number of Secondary Base Shares that will be placed in connection with the Offering will be determined based on the Offer Price and is expected to be such number of shares as is necessary to provide the Selling Shareholder with total gross proceeds of approximately EUR 100 million. As a result, the Company expects that at the high end of the Price Range, 6,250,000 Secondary Base Shares (equaling 8% of the Company's existing share capital), at the mid-point of the Price Range, 7,142,857 Secondary Base Shares (equaling 9% of the Company's existing share capital), and at the low end of the Price Range, 8,333,333 Secondary Base Shares (equaling 10% of the Company's existing share capital) will be placed in connection with the Offering.

The final number of Offer Shares and the Offer Price are expected to be published on or about September 23, 2020 by means of an ad-hoc announcement in various media distributed across the entire EEA (*Medienbündel*) and on the Company's website (www.hensoldt.net). Investors who have placed purchase orders with one of the Underwriters can obtain information from that Underwriter about the Offer Price and the number of Offer Shares allotted to them, at the earliest, on the first bank business day following the pricing. As trading in the Company's shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) is expected to commence one business day following the setting of the Offer Price, investors may not have obtained information about the number of shares allotted to them at the time of commencement of trading. Book-entry delivery of the allotted Offer Shares against payment of the Offer Price is expected to occur two business days after commencement of trading.

3.5. Allotment Criteria

The allotment of Offer Shares to retail investors and institutional investors will be decided by the Company and the Selling Shareholder after consultation with the Joint Global Coordinators. The decision ultimately rests with the Company and the Selling Shareholder. Allotments will be made on the basis of the quality of the individual orders and – in case of individual investors – the quality of the individual investors, such as the expected investment horizon and expected trading behavior of the investor, as well as other important allotment criteria, for example the timing of the order, to be determined by the Company and the Selling Shareholder after consultation with the Joint Global Coordinators. No investor will be allotted Offer Shares corresponding to 10% or more of the voting rights in the Company following implementation of the Offering; for further background, see

"*11.9.1. German Foreign Investment Regime*" and "*1.5.3. The acquisition of a substantial interest in the Company by foreign investors requires government approval, which may restrict certain investments and limit demand for the Company's shares.*". To comply with such restriction, or if the placement volume proves insufficient to satisfy all orders placed at the Offer Price, the Company and the Selling Shareholder, after consultation with the Joint Global Coordinators, reserve the right to reject orders or to accept them in part only. If the chairman of the Supervisory Board decides to place a purchase order in the Offering, he will be allotted Offer Shares at the Offer Price on a preferential basis (see also "*15.3.4. Supervisory Board – Remuneration and Benefits; Share Ownership*").

The Company, the Selling Shareholder, and the Underwriters will adhere to the "Principles for the Allotment of Share Issues to Private Investors" (*Grundsätze für die Zuteilung von Aktienemissionen an Privatanleger*) issued by the German Commission of Stock Exchange Experts (*Börsensachverständigenkommission*) of the German Federal Ministry of Finance (*Bundesministerium der Finanzen*) on June 7, 2000. "Qualified Investors" (*qualifizierte Anleger*) under the German Securities Prospectus Act (*Wertpapierprospektgesetz*) in connection with the Prospectus Regulation, as well as "professional clients" (*professionelle Kunden*) and "suitable counterparties" (*geeignete Gegenparteien*) as defined under the German Securities Trading Act (*Wertpapierhandelsgesetz*), are not viewed as "private investors" within the meaning of the allotment rules. The details of the allotment procedure will be stipulated after expiration of the Offer Period and published in accordance with the abovementioned allotment criteria.

3.6. Anticipated Timetable for the Offering

The anticipated timetable for the Offering, which may be extended or shortened and remains subject to change, is as follows:

September 15, 2020	Approval of the Prospectus by BaFin Publication of the Prospectus on the Company's website
September 16, 2020	Commencement of the Offer Period Application for the admission of the Company's shares to the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and, simultaneously, to the sub-segment thereof with additional post-admission obligations (Prime Standard)
September 23, 2020	Close of the Offer Period at (i) 12:00 (CEST) for retail investors and (ii) 14:00 (CEST) for institutional investors Determination and publication of the Offer Price and final number of shares allocated
September 24, 2020	Consummation of capital increase for the Primary Base Shares to be placed in connection with the Offering Admission decision to be issued by the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*)
September 25, 2020	Commencement of trading of the Company's shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and simultaneously, on the sub-segment thereof with additional post-admission obligations (Prime Standard)
September 29, 2020	Book-entry delivery of the Offer Shares against payment of the Offer Price (settlement and closing)

The Prospectus will be published on the Company's website at www.hensoldt.net under the "Investor Relations" section.

3.7. Stock Exchange Admission and Commencement of Trading

The Company, together with DB, who is acting as listing agent, expects to apply on or about September 16, 2020 for admission of its entire share capital (including the Primary Base Shares to be placed in connection with the Offering) to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and, simultaneously, the sub-segment thereof with additional post-admission obligations (Prime Standard).

The decision on the admission of the existing shares of the Company is expected to be announced on or about September 24, 2020. The decision on the admission of the Company's shares to trading will be made solely by the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) at its discretion. Trading of the shares of the Company on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) is expected to commence on or about September 25, 2020.

3.8. Delivery and Payment

The delivery of the Offer Shares against payment of the Offer Price and customary security commissions (*Effektenprovision*) is expected to take place two banking days (*i.e.*, days on which commercial banks are open in Frankfurt/Main for regular banking business) after listing commences, which means delivery is expected to occur on or about September 29, 2020. The Offer Shares will be made available to shareholders in book-entry form as co-ownership interests in the global share certificate. DB will act as settlement agent.

At their discretion, investors may choose to have shares they acquire in the Offering credited to the securities account of a German bank held for their account at Clearstream Banking AG, or to the securities account of a participant in Euroclear Bank S.A./N.V., 1, Boulevard Roi Albert II, 1120 Brussels, Belgium, as the operator of the Euroclear system, or to Clearstream Banking S.A., 42 Avenue JF Kennedy, 1855 Luxembourg, Luxembourg.

3.9. Stabilization Measures, Over-Allotments, and Greenshoe Option

In connection with the placement of the Offer Shares, BofA Securities, or persons acting on its behalf will act as stabilization manager (the "**Stabilization Manager**") and may, as the Stabilization Manager acting in accordance with legal requirements such as Article 5(4) and (5) of the Market Abuse Regulation in conjunction with Articles 5 through 8 of the Commission Delegated Regulation (EU) 2016/1052, take stabilization measures on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) to support the market price of the shares or any options, warrants, or rights with respect to, or other interest in, the shares or other securities of the Company during the Stabilization Period (as defined below) and thereby counteract any selling pressure. As set forth in Article 6(5) of the Commission Delegated Regulation (EU) 2016/1052, the Stabilization Manager shall act as central point responsible and shall assume responsibility for the public disclosure requirements and for handling any request from any competent authorities referred to in such regulation.

The Stabilization Manager must record each stabilization order and transaction pursuant to applicable regulations. In addition, details of all stabilization transactions must be reported to the competent authorities of each trading venue on which the securities are admitted to trading or traded, as well as the competent authority of each trading venue where transactions in associated instruments for the stabilization of securities are carried out (if any).

The Stabilization Manager is under no obligation to take any stabilization measures. Therefore, no assurance can be provided that any stabilization measures will be taken. Where stabilization measures are taken, these may be terminated at any time without notice. Such measures may be taken from the date of the commencement of trading of the shares of the Company on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) – expected to be on or about September 25, 2020 – and must be terminated no later than 30 calendar days after such date (the "**Stabilization Period**"). Any profits or losses out of or in connection with the stabilization measures shall be borne by the Underwriters.

The stabilization measures may result in a market price for shares of the Company that is higher than it would otherwise have been. Moreover, the market price may, temporarily, be at an unsustainable level. Stabilization measures shall not be executed above the Offer Price.

Under the possible stabilization measures, investors may, in addition to the Base Shares and, potentially, the Additional Base Shares, be allotted up to 5,975,000 additional shares of the Company as part of an over-allotment of the shares to be placed ("**Over-Allotment**"). The number of Over-Allotment Shares which may be allotted must not exceed 15% of the sum of the allotted Base Shares and Additional Base Shares, if any. In connection with potential Over-Allotments, the Stabilization Manager will be provided for the account of the Underwriters, in the form of a securities loan (*Wertpapierdarlehen*), with up to 5,975,000 shares of the Company from the holdings of the Selling Shareholder (which number of shares must also not exceed 15% of the number of placed Base Shares and, potentially, Additional Base Shares). In connection with potential Over-Allotments, the Selling Shareholder will grant the Underwriters an option to acquire all or part of the allotted Over-Allotment Shares against payment of the Offer Price less agreed commissions ("**Greenshoe Option**", and any such Over-Allotment Shares purchased upon exercise of the Greenshoe Option, the "**Greenshoe Shares**"). The maximum extent to which the Greenshoe Option may be exercised is the extent to which shares of the Company have been placed by way of Over-Allotments. The Over-Allotment facility and the Greenshoe Option shall be exercisable by the Stabilization Manager and will terminate 30 calendar days after commencement of the stock exchange trading of the shares, which is expected to take place on or about September 25, 2020.

Once the Stabilization Period has ended, an announcement will be published within a week in various media outlets distributed across the entire EEA (*Medienbündel*) as to (i) whether stabilization measures were undertaken, (ii) the date on which stabilization started and when it last occurred, (iii) the price range within which stabilization transactions were carried out; the latter will be made known for each date on which a price stabilization transaction was carried out, and (iv) the trading venues on which stabilization transactions were carried out, where applicable.

3.10. MiFID II Product Governance Requirements

Solely for the purposes of the product governance requirements contained within: (a) Directive 2014/65/EU on markets in financial instruments, as amended ("**MiFID II**"); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the "**MiFID II Product Governance Requirements**"), and without assuming any responsibility or liability, whether arising in tort, contract or otherwise, which any "manufacturer" (for the purposes of the MiFID II Product Governance Requirements) may otherwise have with respect thereto, the Offer Shares have been subject to a product approval process, which has determined that such Offer Shares are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II (the "**Target Market Assessment**").

Notwithstanding the Target Market Assessment, the price of the Offer Shares may decline and investors could lose all or part of their investment; the Offer Shares offer no guaranteed income and no capital protection; and an investment in the Offer Shares is suitable only for investors who do not need a guaranteed income or capital protection, who have at least informed knowledge and experience with financial instruments and (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment, and who have sufficient resources to be able to bear any losses that may result therefrom.

The Target Market Assessment is without prejudice to the requirements of any contractual, legal, or regulatory selling restrictions in relation to the Offering. Furthermore, it is noted that, notwithstanding the Target Market Assessment, the Joint Global Coordinators will only procure investors who meet the criteria of professional clients and eligible counterparties in the private placement parts of the Offering. For the avoidance of doubt, the Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID II or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to, the Offer Shares. Each distributor is responsible for undertaking its own Target Market Assessment in respect of the Offer Shares and determining appropriate distribution channels.

3.11. Lock-Up Commitments

3.11.1. Lock-Up of the Company

In the Underwriting Agreement, the Company has committed to an obligation *vis-à-vis* the Underwriters that the Company, or the Management Board or the Supervisory Board, will not, and will not agree to, for a period of six months following the first day of trading of the Company's shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), which is expected to take place on or about September 25, 2020, without the prior written consent of the Joint Global Coordinators, which consent may not be unreasonably withheld or delayed:

- announce or effect an increase of the share capital of the Company out of authorized capital;
- submit a proposal for a capital increase to any shareholders' meeting for resolution (other than in respect of the creation of authorized or conditional capital);
- announce to issue, effect, or submit a proposal for the issuance of any securities convertible into shares of the Company or with option rights for shares of the Company; or
- enter into a transaction or perform any action economically similar to those described in the preceding bullets.

The Company may, however, (i) issue or sell any shares or other securities to employees and members of executive bodies of the Company or its subsidiaries under management and employee participation plans and (ii) undertake any corporate action for purposes of entering into joint ventures, other forms of cooperations or acquisitions, provided that the respective other party assumes towards the Underwriters the obligation to comply with the restrictions on the disposal of shares to which the Selling Shareholder is subject, see "*3.11.2. Lock-Up of the Selling Shareholder*".

3.11.2. Lock-Up of the Selling Shareholder

In the Underwriting Agreement, the Selling Shareholder has committed to an obligation *vis-à-vis* the Underwriters that, for a period of six months following the first day of trading of the Company's shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), which is expected to take place on or about September 25, 2020, the Selling Shareholder will not, without the prior written consent of the Joint Global Coordinators, which consent may not be unreasonably withheld or delayed, offer, pledge, allot, sell, contract to sell, sell any option or contract to purchase, purchase any option to sell, grant any option, right or warrant to purchase, or otherwise transfer or dispose of, directly or indirectly, any shares of the Company held by the Selling Shareholder or any of its affiliated companies (other than members of the Group) (such shares the "**Lock-up Shares**") or enter into a transaction or perform any action economically similar to those.

These restrictions shall not prohibit the Selling Shareholder from:

- entering into transactions involving Lock-up Shares which are settled off-exchange (*außerbörslich*) and where the relevant counterparty to the Selling Shareholder agrees to be bound by an identical lock-up commitment to the Joint Global Coordinators from the time of the relevant transaction for the then-remaining term of this lock-up commitment;
- accepting a general offer made to all holders of shares of the Company, on terms which treat all such holders alike (and executing and delivering an irrevocable commitment or undertaking to accept such general offer);
- selling or otherwise disposing of Lock-up Shares pursuant to any offer by the Company to purchase its own shares which is made on identical terms to all holders of shares of the Company;
- transferring or disposing of Lock-up Shares pursuant to a compromise or arrangement between the Company and its creditors or any class of them;
- taking up any rights granted in respect of a rights issue or other pre-emptive share offering by the Company;

- transferring Lock-up Shares to any family member of or company associated with the Selling Shareholder;
- transferring Lock-up Shares to a trust whose beneficiaries (including any named discretionary beneficiaries) comprise connected persons (as defined in the Companies Act 2006 of England and Wales, as amended from time to time) or from such a trust to the Selling Shareholder or to any family member of or company associated with the Selling Shareholder;
- any transfer of Overallotment Shares on the Selling Shareholder's behalf in accordance with the terms and conditions of the Underwriting Agreement;
- any circumstances where a disposal is required by law or by any competent authority or by order of a court of competent jurisdiction;
- any transfer of the legal interest in Lock-up Shares provided that the beneficial owner shall not change;
- any disposal for the purpose of pledging or charging any Lock-up Share to or for the benefit of a lender in connection with any margin loan facility made available to the Selling Shareholder; or
- any disposal for the purposes of transferring any Lock-up Shares pursuant to any enforcement of the security over Lock-up Shares granted by the Selling Shareholder to or for the benefit of a lender in connection with any margin loan facility made available to the Selling Shareholder.

In addition, no restrictions shall apply to transactions by the Selling Shareholder relating to the performance of the Selling Shareholder's obligations in connection with the exercise of acquisition rights of the Federal Republic of Germany under a security agreement entered into by, among others, the Selling Shareholder and the Federal Republic of Germany, see "*10.20.2. German State Special Security Agreement*".

3.12. Designated Sponsor

JPM has agreed to assume the function of a designated sponsor (either itself or through one of its affiliates) of the Company's shares traded on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) for a period of two years.

Pursuant to the designated sponsor's agreement entered into between the Company and JPM, the designated sponsor will, among other things, place limited buy and sell orders for shares of the Company in the electronic trading system of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) during regular trading hours. This is intended to achieve greater liquidity in the market for the shares. The designated sponsor is entitled to delegate its duties under the designated sponsor's agreement to third parties. In accordance with Sections 81 and 82 of the Exchange Rules (*Börsenordnung*) for the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), the designated sponsor's agreement stipulates the duties and responsibilities of the designated sponsor. Among other things, the designated sponsor shall be available during trading hours and, upon receipt of a request for a quote, shall promptly supply quotes and enter into transactions on such basis. In addition, the designated sponsor shall provide quotes throughout the auction.

3.13. Interests of Parties Participating in the Offering

In connection with the Offering and admission of the Company's Shares to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard), the Underwriters have a contractual relationship with the Company and the Selling Shareholder. The Joint Global Coordinators are advising the Company on the transaction and are coordinating the structuring and execution of the transaction. In addition, JPM has been mandated to act as designated sponsor for the Company's shares and DB has been appointed to act as paying agent. Upon successful implementation of the Offering, the Underwriters will receive a commission. As a result of these contractual relationships, the Underwriters have a financial interest in the successful completion of the Offering.

Furthermore, in connection with the Offering, each of the Underwriters and any of their respective affiliates may take up a portion of the shares in the Offering as a principal position and in that capacity may retain, purchase, or sell for its own account such shares or related investments and may offer or sell such shares or other investments otherwise than in connection with the Offering.

Accordingly, references in the Prospectus to shares being offered or placed should be read as including any offering or placement of shares to any Underwriters or any of their respective affiliates acting in such capacity. In addition, certain of the Underwriters or their affiliates may enter into financing arrangements (including swaps, warrants, or contracts for differences) with investors in connection with which such Underwriters (or their affiliates) may from time to time acquire, hold, or dispose of shares of the Company, the Selling Shareholder, or their affiliates, for their own account or the account of customers. None of the Underwriters intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

The Selling Shareholder will receive the proceeds from the sale of the Secondary Base Shares and, potentially, the Additional Base Shares and the Over-Allotment Shares (to the extent the Upsize Option and the Greenshoe Option are exercised, respectively), after deducting fees and commissions. Assuming a placement of 21,428,571 Primary Base Shares and 7,142,857 Secondary Base Shares at the mid-point of the Price Range, full placement of the Additional Shares, full exercise of the Greenshoe Option, and payment in full of a discretionary fee, net proceeds to the Selling Shareholder would amount to approximately EUR 250 million, or 47% of the total net proceeds from the Offering (see also "*4.1. Proceeds and Costs of the Offering*"). Accordingly, the Selling Shareholder has an interest in the successful completion of the Offering. For an overview of direct and indirect shareholders of the Selling Shareholder, see "*13.1. Major Shareholders*" and "*13.3. Indirect Shareholders and Management Equity Participation*". Certain members of the Supervisory Board, Johannes P. Huth, Christian Ollig, and Claire Wellby, hold functions at affiliates of the Selling Shareholder; see "*15.3.3. Current Members of the Supervisory Board*". In addition, KCM is an affiliate of the Selling Shareholder (for a more detailed description, see "*16. Transactions and Legal Relationships with Related Parties*"). Accordingly, their interests with respect to the Offering and admission of the Company's Shares to trading on the regulated market segment (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) with simultaneous admission to the sub-segment thereof with additional post-admission obligations (Prime Standard) may not be aligned with those of the Company or the Company's other shareholders, which constitutes a potential conflict of interest.

In addition, the Selling Shareholder has retained the right to enter into margin loan facilities following the listing of the Company's shares. The relevant margin loan lenders in respect of any margin loan facility may include one or more of the Underwriters and/or their respective affiliates. Accordingly, such Underwriters could have a financial interest in the successful completion of the listing.

Some of the Underwriters or their affiliates have, and may from time to time in the future continue to have, business relations (including commercial banking, investment banking, advisory, and ancillary activities) with, and may perform services for, the Group, the Selling Shareholder, or their affiliates, in the ordinary course of business and for which they may receive customary compensation, fees, and/or commissions. In particular, certain Underwriters or Underwriters' affiliates, including Bank of America Merrill Lynch International Designated Activity Company, Citicorp North America, Inc., COMMERZBANK, Crédit Agricole Corporate and Investment Bank Deutschland, Deutsche Bank Luxembourg S.A., JPMorgan Chase Bank, N.A., London Branch, Mizuho Bank Europe N.V., and UniCredit Bank AG are arrangers, and one or more Underwriters or their affiliates may be lenders under the New Facilities Agreement (as defined below), see "*10.20.1.1. Post-IPO Financing Agreements*". In addition to the fees described under "*10.20.1.1. Post-IPO Financing Agreements*", subject to the first utilization under the New Facilities Agreement, which is conditioned upon admission of the Company's shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), each of the arrangers will be entitled to an upfront fee payable by the Company in the amount of 25 basis points around 1.00% of the aggregate amount of the commitments of such arranger as of the First Utilization Date under the New Facilities Agreement. Further, COMMERZBANK, Crédit Agricole Corporate and Investment Bank Deutschland, DB, Mizuho Bank, Ltd. (formerly Mizuho Bank Nederland N.V.), and UniCredit Bank AG are arrangers, and one or more Underwriters or their affiliates may be lenders under the Senior Facilities Agreement (as defined in "*10.20.1.2. Existing Financing Agreements*"), which is expected to be replaced by the New Facilities

Agreement following the admission of the Company's shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*). Accordingly, these Underwriters have a financial interest in the successful completion of the listing.

Upon the date of the first utilization under the New Facilities Agreement, which is subject to certain conditions, including the admission of the Company's shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) (see "*10.20.1.1. Post-IPO Financing Agreements*"), KKR Capital Markets (Ireland) Limited, an entity owned by KKR, will be entitled to a syndication agent fee payable by the Company equal to 0.58% of the total commitments under the New Facilities Agreement as of the date of the New Facilities Agreement. Accordingly, KKR Capital Markets (Ireland) Limited has a financial interest in the successful completion of the listing.

The members of the Management Board and one member of the Supervisory Board (Dr. Frank Döngi), as well as certain other employees of the Group, are indirectly invested in the Company and expected to indirectly receive certain proceeds of the Selling Shareholder from the Offering (see "*15.4.1. Management Equity Program*"). Accordingly, all these individuals have an interest in the success of the Offering at the best possible terms. The chairman of the Supervisory Board plans to acquire shares of the Company in the Offering (also see "*3.5. Allotment Criteria*"), in which case he will have a financial interest in the development of the Company's share price.

Other than the interests described above, there are no material interests, in particular no material conflicts of interests, with respect to the Offering.

4. PROCEEDS AND COSTS OF THE OFFERING AND THE LISTING, REASONS FOR THE OFFERING AND THE LISTING AND USE OF PROCEEDS

4.1. Proceeds and Costs of the Offering and the Listing

The Company will receive the proceeds from the sale of the Primary Base Shares. The Selling Shareholder will receive the proceeds from the sale of the Secondary Base Shares and, potentially, the Additional Base Shares and the Over-Allotment Shares, if and to the extent the Upsize Option and the Greenshoe Option are exercised.

The amount of the total proceeds of the Offering as well as the costs related to the Offering and listing of the Company's share capital on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and, simultaneously, the sub-segment thereof with additional post-admission obligations (Prime Standard), depend on the Offer Price, which also determines the number of Offer Shares that will be placed in connection with the Offering.

The Company aims to achieve total gross proceeds from the sale of the Primary Base Shares of approximately EUR 300 million. If the Offer Price is set at the low end of the Price Range, this corresponds to a full placement of the Primary Base Shares, *i.e.*, 25,000,000 Primary Base Shares. If the Offer Price is set at the mid-point or at the high end of the Price Range, the number of Primary Base Shares to be placed may be significantly lower than at the low end of the Price Range. To achieve total gross proceeds for the Company of approximately EUR 300 million at an Offer Price at the mid-point and at the high end of the Price Range, 21,428,571 and 18,750,000 Primary Base Shares would need to be placed, respectively. The Selling Shareholder aims to achieve total gross proceeds from the sale of the Secondary Base Shares of approximately EUR 100 million. If the Offer Price is set at the low end of the Price Range, this corresponds to a full placement of the Secondary Base Shares, *i.e.*, 8,333,333 Secondary Base Shares. If the Offer Price is set at the mid-point or at the high end of the Price Range, the number of Secondary Base Shares to be placed may be significantly lower than at the low end of the Price Range. To achieve total gross proceeds for the Selling Shareholder of approximately EUR 100 million at an Offer Price at the mid-point and at the high end of the Price Range, 7,142,857 and 6,250,000 Secondary Base Shares would need to be placed, respectively. See also "*3.4. Price Range, Offer Period, Offer Price, and Allotment*").

Assuming a placement of 21,428,571 Primary Base Shares and 7,142,857 Secondary Base Shares at the mid-point of the Price Range, full placement of the Additional Shares, full exercise of the Greenshoe Option, and payment in full of a discretionary fee, the total costs related to the Offering and listing of the Company's shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and, simultaneously, the sub-segment thereof with additional post-admission obligations (Prime Standard) are expected to amount to approximately EUR 39 million, including an expected commission payable to the Underwriters of EUR 17 million (including a discretionary fee in full of EUR 6 million). Of such total costs, EUR 4.2 million had been recorded as cash outflows of the Group up to and including June 30, 2020 and an additional EUR 4.5 million were accrued as provisions and EUR 0.8 million were recorded as liabilities as of June 30, 2020 and, thus, are reflected in the Unaudited Interim Consolidated Financial Statements.

The Company estimates that at the low end (assuming full placement of the Base Shares), mid-point (assuming a placement of 21,428,571 Primary Base Shares and 7,142,857 Secondary Base Shares), and high end (assuming a placement of 18,750,000 Primary Base Shares and 6,250,000 Secondary Base Shares) of the Price Range, in each case under the other assumptions stated above, net proceeds to the Company from the sale of the Primary Base Shares would amount to approximately EUR 276 million, EUR 276 million, and EUR 277 million, respectively.

The Company further estimates that at the low end, mid-point and high end of the Price Range, in each case under the assumptions stated above, net proceeds to the Selling Shareholder from the sale of the Secondary Base Shares, the Additional Base Shares, and the Over-Allotment Shares would amount to approximately EUR 235 million, EUR 250 million, and EUR 264 million, respectively.

The Selling Shareholder will reimburse the Company for certain costs that are incurred in connection with the preparation and the execution of the Offering on a *pro rata* basis, calculated according to the ratio of the number of Secondary Base Shares and Additional Base Shares to the aggregate number of

Offer Shares placed in the Offering (excluding Over-Allotment Shares) (see also "*16.2.1.9. Cost Sharing and Indemnity Agreement*"). Assuming a placement of 21,428,571 Primary Base Shares and 7,142,857 Secondary Base Shares at the mid-point of the Price Range, full placement of the Additional Shares, full exercise of the Greenshoe Option, and payment in full of a discretionary fee, the Company estimates that the overall costs for the Company will be approximately EUR 24 million, and that the overall costs for the Selling Shareholder will be approximately EUR 15 million.

Investors will not be charged expenses by the Company, the Selling Shareholder, or the Underwriters (in their capacity as underwriters). Investors may, however, have to bear customary transaction and handling fees charged by their brokers or other financial institutions through which they hold their securities.

4.2. Reasons for the Offering and the Listing and Use of Proceeds

The Company intends to use the estimated net proceeds from the offering of the Primary Base Shares in the amount of approximately EUR 276 million (assuming a placement of 21,428,571 Primary Base Shares and 7,142,857 Secondary Base Shares at the mid-point of the Price Range, full placement of the Additional Shares, full exercise of the Greenshoe Option, and payment in full of a discretionary fee) to (i) continue executing its corporate strategy, including, among other things, by expanding across the value chain of integrated sensor solutions and broadening its sensors portfolio, developing its sales network, and executing strategic acquisitions, for which the Group monitors and evaluates potential targets on an ongoing basis, (ii) to redeem, together with funds to be made available under the New Facilities Agreement (for details, see "*10.20.1.1. Post-IPO Financing Agreements*"), all financial indebtedness under the Senior Facilities Agreement (for details, see "*10.20.1.2. Existing Financing Agreements*"), thereby targeting a net leverage ratio (calculated as the ratio of (a) the sum of non-current financing liabilities, non-current lease liabilities, current financing liabilities, and current lease liabilities less cash and cash equivalents as of the respective balance sheet date, in relation to (b) Adjusted EBITDA for the twelve-month period ended on such balance sheet date) of approximately 3 times by year-end 2020 (assuming a stable Group structure), and (iii) for general corporate purposes. Moreover, the Company intends to achieve better access to the capital markets due to the intended listing of the shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) and, simultaneously, the sub-segment thereof with additional post-admission obligations (Prime Standard). Being a listed company is expected to increase its strategic and financial flexibility. Access to the capital markets may enable the Company to focus on profitable growth and further support the development of the Group.

The Selling Shareholder will offer the Offer Shares to partially divest its shareholding in the Company in connection with the Offering. As of the date of the Prospectus, the Selling Shareholder holds the entire share capital of the Company. In the context of the Offering, the Selling Shareholder intends to sell up to 26% of its interest in the share capital of the Company prior to the Offering.

The Company and the Selling Shareholder believe that the listing of the Company's shares will provide a number of benefits to the Group, including enhanced brand visibility and recognition and increased flexibility and ability to support and develop the Group's business through organic growth and selected acquisitions.

5. DIVIDEND POLICY

5.1. General Rules on Allocation of Profits and Dividend Payments

Shareholders have a share in the Company's profits determined in proportion to their interest in the Company's share capital. The participation of new shares in the profits may be determined in a different manner.

Distributions of dividends on shares for a given financial year are, under German law for a stock corporation (*Aktiengesellschaft*), such as the Company, generally resolved by the annual shareholders' meeting in the subsequent financial year. The Management Board and the Supervisory Board submit a proposal for the distribution of dividends to the annual shareholders' meeting held within the first eight months of the subsequent financial year. The shareholders' meeting then adopts a resolution on such distribution with simple majority of the votes cast without being bound by the proposal of the Board.

Under German law, dividends can only be resolved upon and distributed if the unconsolidated annual financial statements of the Company show distributable profit (*Bilanzgewinn*). Compared to the Company's consolidated financial statements, which are prepared in accordance with IFRS and the additional requirements of German commercial law pursuant to Section 315e of the German Commercial Code (*Handelsgesetzbuch*), the unconsolidated annual financial statements of the Company are prepared in accordance with the German Commercial Code (*Handelsgesetzbuch*). These accounting principles differ from IFRS in material respects. The unconsolidated annual financial statements of the Company are prepared by the Management Board and approved by the Supervisory Board, unless the Management Board and the Supervisory Board refer the approval to the shareholders' meeting.

When determining the distributable profit (*Bilanzgewinn*), the net profit or loss for the financial year (*Jahresüberschuss/-fehlbetrag*) is adjusted for profits or losses carried forward from the previous financial year (*Gewinn-/Verlustvorträge*), as well as for withdrawals from and transfers to reserves. Certain reserves are required to be set up by law and amounts mandatorily allocated to these reserves in the given financial year must be deducted when calculating the distributable profit (*Bilanzgewinn*). Subject to certain statutory restrictions, the shareholders' meeting is entitled to transfer additional amounts to the reserves or carry them forward. The Management Board must prepare unconsolidated annual financial statements (balance sheet, income statement and notes to the unconsolidated annual financial statements) and a management report for the previous financial year by the statutory deadline and present these to the Supervisory Board and the auditors immediately after preparation. At the same time, the Management Board must present to the Supervisory Board a proposal for the allocation of the Company's distributable profits (*Bilanzgewinn*) pursuant to Section 170(2) of the German Stock Corporation Act (*Aktiengesetz*). The Supervisory Board must review the unconsolidated annual financial statements, the Management Board's management report and the proposal for the allocation of the distributable profit (*Bilanzgewinn*) and report to the shareholders' meeting in writing on the results. If the Management Board and the Supervisory Board approve the unconsolidated financial statements, they may, pursuant to Section 58(2) of the German Stock Corporation Act (*Aktiengesetz*), transfer 50% of the profit for the financial year remaining after deducting any transfers to statutory reserves and any losses carried forward to non-statutory reserves. The portion transferred to non-statutory reserves may not exceed 50% of the net income to the extent the non-statutory reserves exceed, or would exceed following such transfer, 50% of the registered share capital of the Company. Pursuant to the Articles of Association and subject to applicable statutory law, the shareholders' meeting may resolve to pay dividends in kind (*Sachdividende*) in accordance with Section 58(5) of the German Stock Corporation Act (*Aktiengesetz*) in addition to or in lieu of a cash distribution.

Dividends resolved by the shareholders' meeting are due and payable on the third business day following the relevant shareholders' meeting, unless a later payment has been resolved in the dividend resolution or the articles of association, in compliance with the rules of the respective clearing system. The Articles of Association do not provide for a later payment. Under German law, the right to dividend payments is generally time-barred after three years for the benefit of the Company. If dividend payment claims expire, the Company becomes the beneficiary of the dividends.

The Offer Shares will be entitled to profit participation as from January 1, 2020, which means for the full financial year 2020 and for all subsequent financial years. The dividends will be paid out in

accordance with the rules of the clearing system of Clearstream Banking AG. Details on dividend payments and the respective payment agent will be published in the German Federal Gazette (*Bundesanzeiger*) after the shareholders' meeting. To the extent dividends can be distributed by the Company in accordance with the German Commercial Code (*Handelsgesetzbuch*) and corresponding decisions are taken, there are no restrictions on shareholders' rights to receive dividends. Neither German law nor the Articles of Association provide for a special procedure for the exercise of dividend rights by shareholders not resident in Germany.

Besides requirements of mandatory German law, the Company's ability to distribute dividends may be limited by the availability of distributable funds.

Generally, withholding tax (*Kapitalertragsteuer*) is withheld from dividends paid. For more information on the taxation of dividends see *"18. Taxation of Shareholders in Germany*".

5.2. Dividend Policy and Earnings per Share

The Company was formed as a German limited liability company (*Gesellschaft mit beschränkter Haftung*) under the laws of Germany by articles of association dated September 2019. It was acquired by Square Lux Holding II S.à r.l. on October 28, 2019. Prior to the contribution in kind of 18,724 shares of HENSOLDT Holding GmbH on November 29, 2019 (see "*14.2. Development of the Share Capital since Incorporation*"), the Company did not conduct any business activities. Therefore, the Company has not paid dividends or made any other distributions up to the date of the Prospectus.

The Company intends to pay dividends beginning in the financial year 2021, which means for the financial year 2020. Subject to the availability of distributable profit (*Bilanzgewinn*) and distributable funds, the Company aims to distribute up to approximately 20% of Adjusted Net Income in the short term; for the financial year ending December 31, 2020, given the expected timing of the Offering, a *pro rata* distribution of one quarter of such amount is expected (corresponding to three months of the financial year). In the medium term, the Company targets to distribute approximately 30% to 40% of its Adjusted Net Income per financial year.

The Company's ability to pay dividends in the future will depend on its financial position, results of operations, capital requirements, investment alternatives, and other factors that the Management Board and Supervisory Board may deem relevant, and any proposals by the Management Board and Supervisory Board regarding dividend payments will be subject to the approval at a shareholders' meeting. As the Company does not conduct any operating business itself, its ability to pay dividends depends substantially on its current and future operating subsidiaries and affiliates making profits and distributing these to the Company or transferring them to the Company.

We can make no predictions as to the size of future profits available for distribution, or whether distributable profit (*Bilanzgewinn*) will be available at all, and hence we cannot guarantee that dividends will be paid in the future. In addition, the Selling Shareholder may, on the basis of its remaining interest in the Company's share capital upon completion of the Offering, determine the Company's dividend policy.

The table below shows our net results for the period and our corresponding net results for the period per share for the financial years 2019, 2018, and 2017 (based on the Audited Consolidated Financial Statements). The net results per share are calculated on the basis of one share with a proportionate amount of EUR 1.00 in the Company's share capital (on the basis of a share capital in the amount of EUR 80,000,000.00, which represents the share capital of the Company as of the date of the Prospectus), unless otherwise stated. The table also shows the net profit/loss for the year of the Company in accordance with the German Commercial Code (*Handelsgesetzbuch*) for the financial year 2019 based on its Audited Unconsolidated Financial Statements (at that time still in the legal form of a German limited liability company):

	Financial Year		
	2019	**2018**	**2017**
	(audited, except as otherwise stated)		
Consolidated profit/loss for the period in accordance with IFRS in EUR million	8.2	(59.9)	(100.4)
Consolidated profit/loss for the period attributable to the owners of the parent company in accordance with IFRS in EUR million	5.9	(60.6)	(101.4)
per share, in EUR (unaudited)(1)	*0.07*	*(0.76)*	*(1.26)*
Net loss (Jahresfehlbetrag) of the Company for the year in accordance with the German Commercial Code (*Handelsgesetzbuch*) in EUR million	0.3	—	—
per share, in EUR (unaudited)(1)	*0.00*	—	—

(1) Figures based on 80,000,000 shares, each with a proportionate amount of EUR 1.00 in the Company's share capital, which corresponds to the number of shares of the Company as of the date of the Prospectus.

6. DILUTION

As of June 30, 2020, the net asset value attributable to the shareholders of the Company in its consolidated statement of financial position based on the Unaudited Interim Consolidated Financial Statements, calculated as total assets less total liabilities and non-controlling interests, amounted to EUR 56.7 million, and would amount to EUR 0.71 per share, based on 80,000,000 outstanding shares immediately prior to the Offering.

Assuming aggregate net proceeds to the Company from the sale of the Primary Base Shares of approximately EUR 276 million at the mid-point of the Price Range (assuming a placement of 21,428,571 Primary Base Shares and 7,142,857 Secondary Base Shares, full placement of the Additional Shares, full exercise of the Greenshoe Option, and payment in full of a discretionary fee; see "*4.1. Proceeds and Costs of the Offering and the Listing*"), the net asset value attributable to the shareholders – had the Company already received the aggregate net proceeds by June 30, 2020 – would have been approximately EUR 342 million (calculated as net asset value attributable to the shareholders of the Company as of June 30, 2020, plus aggregate net proceeds to the Company from the sale of the Primary Base Shares, plus costs of EUR 9.5 million related to the Offering incurred up to and reflected in the net asset value as of June 30, 2020). At the low end and at the high end of the Price Range, the net asset value attributable to the shareholders would be EUR 341 million and EUR 342 million, respectively.

The following table illustrates the amount by which the Offer Price per share would exceed the net asset value attributable to the shareholders per share after completion of the Offering and the resulting immediate dilution:

(in EUR, unless otherwise indicated)	**Low End**	**Mid-Point**	**High End**
		(unaudited)	
Offer price per share	12.00	14.00	16.00
Net asset value attributable to the shareholders per share as of June 30, 2020[(1)]	0.71	0.71	0.71
Net asset value attributable to the shareholders per share after completion of the Offering	3.25	3.37	3.46
Amount by which the Offer Price per share exceeds the net asset value attributable to the shareholders per share after completion of the Offering (*i.e.*, immediate dilution to the new shareholders of the Company per share)	8.75	10.63	12.54
Immediate dilution	73%	76%	78%

(1) Figures based on 80,000,000 shares, each with a proportionate amount of EUR 1.00 in the Company's share capital, which corresponds to the number of shares of the Company as of the date of the Prospectus.

7. CAPITALIZATION AND INDEBTEDNESS

The following tables set forth our capitalization and indebtedness derived from the Unaudited Interim Consolidated Financial Statements. Investors should read these tables in conjunction with "*8. Operating and Financial Review*" and the Unaudited Interim Consolidated Financial Statements, in each case, including the notes thereto, contained in the Prospectus.

7.1. Capitalization Table

(in EUR thousand)	As of June 30, 2020 (unaudited)
Total current debt (including current portion of non-current debt)[1]	**969,638**
of which is guaranteed[2]	10,000
of which is secured[3]	200,758
of which is unguaranteed/unsecured	758,880
Total non-current debt (excluding current portion of non-current debt)[4]	**1,516,319**
of which is guaranteed	0
of which is secured[3]	891,246
of which is unguaranteed/unsecured	625,073
Total shareholder's equity[5]	**56,670**
of which share capital[6]	10,000
of which is legal reserves[7]	396,748
of which other reserves[8]	(350,078)
Total[9]	**2,542,628**

(1) Reflects "current contract liabilities", "current financing liabilities", "current provisions", "trade payables", "other current liabilities", "other current financial liabilities", "current lease liabilities", and "tax liabilities", each as shown in the consolidated statement of financial position of the Unaudited Interim Consolidated Financial Statements.

(2) Includes two short-term loans that have been granted as "Covid-19 loans" to which BPI France (Banque publique d'investissement France) has granted a release from liability in favor of Nexeya France S.A.S.

(3) Reflects debt secured by pledged shares of the Group entities HENSOLDT Holding Germany GmbH, HENSOLDT Sensors GmbH, HENSOLDT Optronics GmbH, and Hensoldt Holding France S.A.S., and additionally guaranteed by HENSOLDT UK Limited, KH Finance No. 2, KH Finance Ltd., and Kelvin Hughes Limited, provided under the Senior Facilities Agreement in the nominal amount of EUR 920 million under the Term Loan Facility and EUR 200 million under the Revolving Credit Facility (each as defined below; see "*10.20.1.2. Existing Financing Agreements*").

(4) Reflects "non-current financing liabilities", "non-current provisions", "non-current lease liabilities", "deferred tax liabilities", "non-current contract liabilities", "other non-current liabilities", and "other non-current financial liabilities", each as shown in the consolidated statement of financial position of the Unaudited Interim Consolidated Financial Statements. Non-current financing liabilities include EUR 1.2 million of accrued interest that is payable within three months.

(5) Reflects "equity" (excluding "non-controlling interests" of EUR 10.5 million) as shown in the consolidated statement of financial position of the Unaudited Interim Consolidated Financial Statements.

(6) Reflects "share capital" as shown in the consolidated statement of financial position of the Unaudited Interim Consolidated Financial Statements. With effect as of August 6, 2020, the Company's share capital was increased by EUR 70,000,000 to EUR 80,000,000 from the Company's reserves, see also "*14.2. Development of the Share Capital since Incorporation*". Had this increase already been effected as of June 30, 2020, share capital would have amounted to EUR 80,000,000.

(7) Reflects "capital reserve" as shown in the consolidated statement of financial position of the Unaudited Interim Consolidated Financial Statements. With effect as of August 6, 2020, the Company's share capital was increased by EUR 70,000,000 to EUR 80,000,000 from the Company's reserves, see also "*14.2. Development of the Share Capital since Incorporation*". Had this increase already been effected as of June 30, 2020, capital reserve would have amounted to EUR 326,748,000.

(8) Reflects "retained earnings" and "other reserves", each as shown in the consolidated statement of financial position of the Unaudited Interim Consolidated Financial Statements.

(9) Comprises total current debt, total non-current debt and total shareholder's equity.

7.2. Indebtedness Table

(in EUR thousand)	As of June 30, 2020 (unaudited)
A. Cash[(1)]	321,594
B. Cash equivalents	—
C. Other current financial assets[(2)]	14,734
D. Liquidity (A + B + C)	**336,328**
E. Current financial debt (including debt instruments, but excluding current portion of non-current financial debt)[(3)]	245,598
F. Current portion of non-current financial debt[(4)]	1,246
G. Current financial indebtedness (E + F)	**246,844**
H. Net current financial indebtedness (G – D)	**(89,484)**
I. Non-current financial debt (excluding current portion and debt instruments)[(5)]	147,413
J. Debt instruments[(6)]	890,001
K. Non-current trade and other payables	—
L. Non-current financial indebtedness (I + J + K)	**1,037,414**
M. Total financial indebtedness (H + L)	**947,930**

(1) Represents cash at banks and on hand recorded under "cash and cash equivalents" as shown in the consolidated statement of financial position of the Unaudited Interim Consolidated Financial Statements.

(2) Reflects exchange rate derivatives in the amount of EUR 4.1 million as shown under "positive fair values of derivative financial instruments", "miscellaneous other current financial assets", and "receivables from employees", each recorded under "current other financial assets" as shown in Note 18 to the Unaudited Interim Consolidated Financial Statements, and "other non-current financial assets, due at short notice" as shown in Note 14 to the Unaudited Interim Consolidated Financial Statements.

(3) Reflects "current financing liabilities", "other current financial liabilities", and "current lease liabilities" in the amount of EUR 13.6 million, each as shown in the consolidated statement of financial position of the Unaudited Interim Consolidated Financial Statements.

(4) Reflects accrued interest payable within three months. The amount is included in non-current financing liabilities in the consolidated statement of financial position of the Unaudited Interim Consolidated Financial Statements.

(5) Reflects "non-current lease liabilities" in the amount of EUR 144.2 million and "other non-current financial liabilities" as shown in the consolidated statement of financial position of the Unaudited Interim Consolidated Financial Statements.

(6) Reflects "liabilities to banks (long-term)" as shown under "non-current financing liabilities" in the consolidated statement of financial position of the Unaudited Interim Consolidated Financial Statements, excluding accrued interest payable within three months as disclosed under "F. Current portion of non-current financial debt" above.

7.3. Indirect and Contingent Liabilities

As of June 30, 2020, the Company's indirect and contingent indebtedness amounted to EUR 1,402.6 million and comprised contingent liabilities amounting to EUR 466.5 million (mainly contractual guarantees and sureties), purchase commitments in the amount of EUR 246.5 million, as well as provisions in the amount of EUR 567.2 million, consisting of provisions for pensions amounting to EUR 356.4 million and other provisions amounting to EUR 210.8 million, as shown in Note 17 to the Unaudited Interim Consolidated Financial Statements.

For further information on our financing liabilities and other financial liabilities, see also "*8.9.1. Financing Liabilities and Other Financial Liabilities*".

7.4. Working Capital Statement

In our opinion, our working capital is sufficient to meet our present requirements over at least the next twelve months from the date of the Prospectus.

7.5. No Significant Change

Between June 30, 2020 and the date of the Prospectus, there has been no significant change in our financial position. For information on current trading and management's view on full-year trends, see "*20. Recent Developments and Outlook*".

8. OPERATING AND FINANCIAL REVIEW

Our historical results are not necessarily indicative of the results that should be expected in the future. Investors should read the following operating and financial review in conjunction with the additional financial information contained in the Prospectus, in particular in the sections "1.1. Risks Related to the Markets We Operate in", "1.2. Risks Related to Our Operations", "1.3. Legal, Regulatory, Tax, and IP-Related Risks", "1.4. Financial Risks", "2.7. Note Regarding the Presentation of Certain Financial Information", "7. Capitalization and Indebtedness", as well as the Unaudited Interim Consolidated Financial Statements, the Audited Consolidated Financial Statements, and the Audited Unconsolidated Financial Statements included in the section "19. Financial Information" of the Prospectus beginning on page F-1.

8.1. Overview of Our Business Activities

We are a provider of defense and security electronic sensor solutions. Our product portfolio ranges from radars, to electronic warfare and avionics (electronic systems used on aircraft, such as crash recorders), to optical and optronic (electro-optical systems, such as thermal imaging devices) equipment; in addition, we offer a range of customer support solutions and services. As such, we are exposed to some of the fastest growing sub-markets of the Global Defense Market (as defined below) (source: RSAdvisors Study), as well as select adjacent non-defense markets.

As a platform-independent provider, we supply our products to a variety of platforms (such as fighter jets, armored vehicles, and naval vessels) of different manufacturers, for example, radars and self-protection systems for the Eurofighter jet and optronics for the Leopard 2 main battle tank ("**MBT**"). In addition, we sell stand-alone solutions, for instance air traffic control ("**ATC**") systems. In 2019, we derived slightly more than two fifths of our revenue from our home market, Germany. Approximately one third of our revenue in 2019 was generated from other end-customers in the EU and NATO (excluding Germany) and NATO-equivalent countries (Australia, Japan, New Zealand, and Switzerland), for which we rely on well-established export control procedures and which we therefore generally consider unproblematic from an export control perspective. Export control procedures for other markets tend to be more complex and time-consuming; see also "*10.9.7. Export Control Approvals*".

As the largest European supplier with exclusive focus on the defense and security electronics market (source: RSAdvisors Study), together with our technological as well as research and development capabilities and a focus on investments in recent years into the development of new or upgrade of existing products, we believe we benefit from competitive advantages in terms of customer focus, capability, expertise, and investment, and that we have positioned ourselves as a key defense electronics provider.

Based in Taufkirchen near Munich, Germany, we had more than 5,400 employees (full-time equivalent) globally as of December 31, 2019 and generated EUR 1,114.2 million of revenue, EUR 160.8 million of Adjusted EBIT, and EUR 215.6 million of Adjusted EBITDA in 2019. In the first half 2020, we recorded an increase in our revenue, Adjusted EBIT, and Adjusted EBITDA to EUR 440.3 million, EUR 18.1 million, and EUR 41.3 million, respectively, compared to EUR 415.6 million, EUR 16.6 million, and EUR 40.9 million, respectively, in the first half 2019. Our Order Backlog as of December 31, 2019 and June 30, 2020 was EUR 2,202.3 million and EUR 3,426.9 million, respectively.

8.2. Presentation of Financial Information and Principal Factors Affecting Comparability

8.2.1. Introductory Note on Financial Information Used in the Prospectus

Independent operating activities of the Group began on February 28, 2017 with the acquisition and consolidation of Airbus' defense and security electronics business, which we refer to as the Orlando business (as defined below, see "*8.2.4. Carve-out and Acquisition of the Orlando Business*") by HENSOLDT Holding GmbH from Airbus Defence and Space GmbH ("**ADS**"). In 2017, we also acquired

100% of the shares in EuroAvionics GmbH (see also "*10.10.7. EuroAvionics (2017)*"; together with its direct and indirect subsidiaries, the "**EuroAvionics Group**" and the "**EuroAvionics business**") and 100% of the shares in KH Holdco Ltd. (today, HENSOLDT UK Limited, see also "*10.10.6. Kelvin Hughes (2017)*"; together with its direct and indirect subsidiaries, the "**Kelvin Hughes Group**" and the "**Kelvin Hughes business**"). EuroAvionics Group and Kelvin Hughes Group were consolidated with effect from August 16, 2017 and September 28, 2017, respectively.

As a consequence, although the Audited Consolidated Financial Statements 2017 *de jure* cover the entire calendar year, *de facto* the operating results of the Orlando business for the months January and February 2017 are not included in the consolidated income statement, the consolidated statement of comprehensive income, and the consolidated statement of cash flows (the "**Orlando effect**"). For an overview of our consolidated income statement and certain other APMs and operating metrics for 2017 and ∑2017 (adjusted to reflect our business for the full twelve months 2017), see "*2.7. Note Regarding the Presentation of Certain Financial Information*".

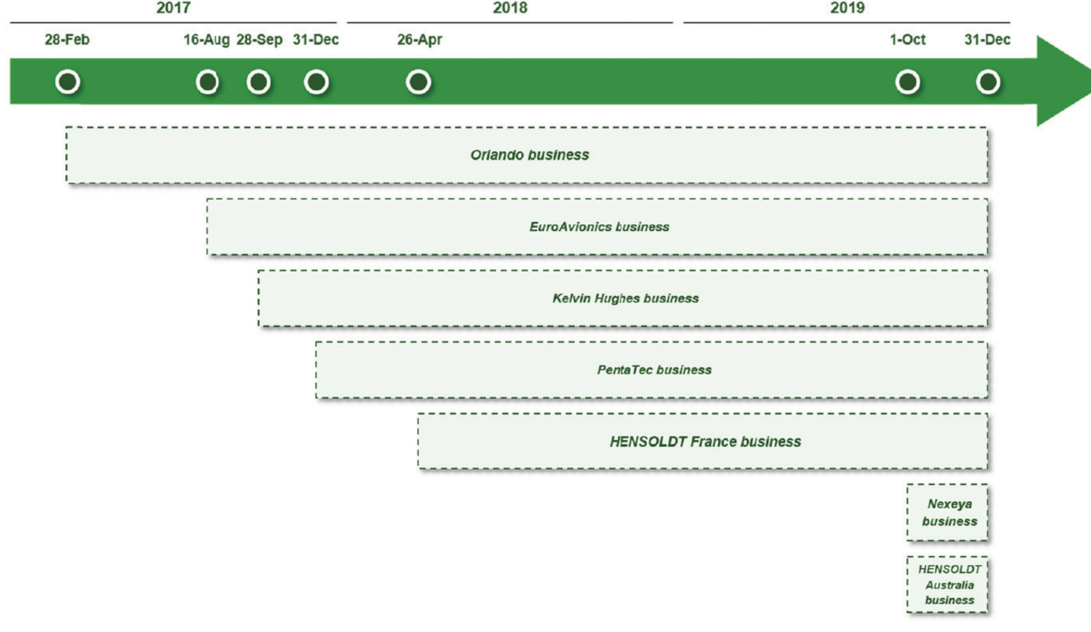
The same principle applies to the EuroAvionics business and Kelvin Hughes business, the results of which have been reflected in the Audited Consolidated Financial Statements 2017 with effect from August 16, 2017 and September 28, 2017, respectively.

In 2018, we acquired 100% of the shares in PentaTec Elektronische Systeme GmbH (see also "*10.10.5. PentaTec (2018)*"; the "**PentaTec business**"). The company was merged into the fully consolidated HENSOLDT Sensors GmbH with retroactive effect from January 1, 2018. In April 2018, we acquired 100% of the shares in Airbus DS Electronics and Border Security S.A.S. (today, HENSOLDT France S.A.S.; see also "*8.2.4. Carve-out and Acquisition of the Orlando Business*"; the "**HENSOLDT France business**"), the results of which have been reflected in the Audited Consolidated Financial Statements 2018 with effect from April 26, 2018.

With effect from October 1, 2019, we acquired and consolidated the entire share capital of Nexeya France S.A.S. ("**Nexeya**"), Toulouse, France, from Nexeya Invest S.A.S. (see also "*10.10.4. Nexeya (2019)*"; the "**Nexeya business**"), a provider of services and electronics solutions for defense and commercial customers. In addition, with effect from October 1, 2019, we acquired and consolidated 100% of the shares in IE Asia-Pacific Pty Ltd (today, HENSOLDT Australia Pty Ltd; see also "*10.10.3. Intersoft Electronics Asia-Pacific (2019)*"; the "**HENSOLDT Australia business**"), which complements the HENSOLDT business in Australia.

The effects from the acquisitions described above are hereinafter collectively referred to as the "**M&A effects**" and each as an "**M&A effect**".

The following graphic shows for which periods the financial information relating to the Orlando business, the EuroAvionics business, the Kelvin Hughes business, the PentaTec business, the HENSOLDT France business, the Nexeya business, and the HENSOLDT Australia business was reflected in the Audited Consolidated Financial Statements:



The Company was established in September 2019 and became the parent company of the Group with effect from the end of the day on November 29, 2019 (see also "*8.2.5. Corporate Reorganization of the Group prior to the Offering*"). Thus, the Audited Consolidated Financial Statements 2019 were prepared by the Company, whereas the Audited Consolidated Financial Statements 2018 and the Audited Consolidated Financial Statements 2017 were prepared by HENSOLDT Holding GmbH.

For additional information on the financial information presented in the Prospectus, see "*2.7. Note Regarding the Presentation of Certain Financial Information*".

8.2.2. Segments and Regions

8.2.2.1. Our Segments

Our segments correspond to our internal steering, controlling, and reporting structures. In accordance with IFRS 8, we have identified two reporting segments: (i) Sensors and (ii) Optronics.

Our Sensors segment comprises three divisions: (i) Radar, Identification Friend or Foe ("**IFF**") & Data Communications ("**COMMS**"), (ii) Spectrum Dominance & Airborne Solutions, and (iii) Customer Services, as well as Others/Elimination.

Within the Radar, IFF & COMMS division, we develop and manufacture mobile and stationary radar and IFF systems used for surveillance, reconnaissance, ATC, and air defense. These systems are deployed on various platforms, including the Eurofighter, the German Navy's Frigate 125 and the U.S. Navy's Freedom class littoral combat ships. The Radar, IFF & COMMS division's portfolio also includes systems for establishing secure data connections for air, land, and sea platforms.

The Spectrum Dominance & Airborne Solutions division develops and manufactures 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 electromagnetic spectrum solutions for air, land, and sea, we are extending our product range to include defensive cyber solutions. Furthermore, we offer electronic self-protection systems integrating our missile, laser, and radar warning sensors with countermeasures for air, land, and sea platforms and provide 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.

The Customer Services division encompasses a range of customer support and service activities, as well as maintenance over the entire lifecycle of the platforms and systems (see also "*10.7.2. Overview of our Customer Services Division*") developed in the other two divisions of the Sensors segment. In addition, our Customer Services division comprises simulation solutions, trainings, and special services. For reporting purposes, support and services for our Optronics products are consolidated in our Optronics segment.

The solutions of the Radar, IFF & COMMS and Spectrum Dominance & Airborne Solutions divisions are complementary in the value chain, resulting in interdependencies between the two such as shared engineering and operations. As an aftersales division, the Customer Services division is largely dependent on the primary business of the two other divisions of the Sensors segment.

The EuroAvionics business, the Kelvin Hughes business, the PentaTec business, the HENSOLDT France business, the Nexeya business, and the HENSOLDT Australia business are all reported within the Sensors segment.

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

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

periscopes, optronics mast systems, and other electro-optical systems are offered. In the air, the product portfolio includes stabilized sensor platforms for helicopters, manned fixed-wing aircraft, and drones, which support their surveillance and target acquisition. We also offer mobile and stationary surveillance solutions for security applications, as well as special equipment for industrial and space applications. Also, for reporting purposes, support and services for our Optronics products forms part of our Optronics segment.

8.2.2.2. Regions in Which We Operate

Across the geographic regions in which we operate, we differentiate between Europe, Middle East, APAC, Africa, North America, LATAM, and Others/Elimination, which are constituted as follows:

- Europe includes Armenia, Austria, Belgium, Bulgaria, Czech Republic, Denmark, Finland, France, Germany, Georgia, Greece, Hungary, Ireland, Israel, Italy, Kazakhstan, Lithuania, Luxembourg, Montenegro, the Netherlands, Norway, Poland, Portugal, Romania, Russia, Serbia, Sint Maarten, Slovenia, Spain, Sweden, Switzerland, Ukraine, and the United Kingdom;

- Middle East includes Iraq, Jordan, Kuwait, Lebanon Oman, Pakistan, Qatar, Saudi Arabia, Turkey, and the United Arab Emirates;

- APAC includes Australia, Bangladesh, China, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam;

- Africa includes Algeria, Botswana, Cameroon, Egypt, Kenya, Nigeria, Senegal, South Africa, Tanzania, Tunisia, and Uganda;

- North America includes Canada and the United States;

- LATAM includes Argentina, Brazil, Chile, Colombia, Dominican Republic, Ecuador, Mexico, Peru, and Uruguay; and

- Others/Elimination includes predominantly (i) elimination of intra-group revenue and, to an immaterial extent, (ii) projects that are not assigned to specific geographic regions.

When allocating revenue to a specific region, this geographical split is based on the location of the ultimate end-customer.

8.2.3. New Accounting Pronouncements

8.2.3.1. IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers

We applied IFRS 9 – Financial Instruments for the first time as of January 1, 2018. IFRS 9 includes revised rules on classification and measurement of financial instruments, including a new model of expected losses for the calculation of impairments of financial assets and new rules on hedge accounting treatment. The standard also carries forward the guidelines for the recognition and de-recognition of financial instruments from IAS 39. Comparative information for 2017 was not adjusted. It was presented as before pursuant to IAS 39 and the corresponding interpretations thereof. For further details, see Notes 2.9 and 4.3 to the Audited Consolidated Financial Statements 2018.

In addition, we applied IFRS 15 – Revenue from Contracts with Customers for the first time as of January 1, 2018. In accordance with IFRS 15, revenue is recognized when a customer obtains control over a promised good or service. At contract inception, it is determined for each identified performance obligation whether control is transferred at a point in time or – particularly for specific customers – over time. For transition to IFRS 15, we applied the modified retrospective method (without practical expedients), whereby the cumulative adjustment amounts are recognized under adjustments to retained earnings in the opening statement of financial position as of January 1, 2018. Comparative information for 2017 was not adjusted. It was presented as before pursuant to IAS 18, IAS 11, and the corresponding interpretations thereof. Furthermore, the disclosure requirements pursuant to IFRS 15 have generally not been applied to the comparative information. These effects are hereinafter also referred to as the "**IFRS 15 effects**". For further details, see Notes 2.3 and 4.2 to the Audited Consolidated Financial Statements 2018.

The following table presents a summary of the effects from the first-time application of IFRS 9 and IFRS 15 on our consolidated statement of financial position as of January 1, 2018:

(in EUR thousands)	Dec. 31, 2017 as reported	Adjustment to IFRS 9	Reclassification IFRS 15	Adjustment to IFRS 15	Jan. 1, 2018 as reported
			(audited)		
Assets					
Other non-current assets	3,145	0	0	15,319	18,464
Deferred tax assets	14,388	334	0	16,018	30,740
Inventories	386,656	0	0	26,634	413,290
Contract assets	0	0	17,589	35,778	53,367
Trade receivables	345,026	(1,180)	(17,589)	0	326,257
Others	1,365,039	0	0	0	1,365,039
Total assets	**2,114,254**	**(846)**	**0**	**93,749**	**2,207,157**
Equity					
Retained earnings	(130,702)	9,873	0	(40,583)	(161,412)
Other	38,284	0	0	0	38,284
Equity, total	**(92,418)**	**9,873**	**0**	**(40,583)**	**(123,128)**
Liabilities					
Non-current financing liabilities	677,084	(14,950)	0	0	662,134
Contract liabilities (non-current)	0	0	18,436	0	18,436
Other non-current liabilities	21,118	0	(18,436)	0	2,682
Deferred tax liabilities	45,344	4,231	0	0	49,575
Current provisions	310,201	0	(13,546)	(79,593)	217,062
Contract liabilities (current)	0	0	205,668	213,925	419,593
Trade payables	146,562	0	13,546	0	160,108
Other current liabilities	240,754	0	(205,668)	0	35,086
Other	765,609	0	0	0	765,609
Total liabilities	**2,206,672**	**(10,719)**	**0**	**134,332**	**2,330,285**
Total equity and liabilities	**2,114,254**	**(846)**	**0**	**93,749**	**2,207,157**

The following table presents a summary of the impact resulting from the first-time application of IFRS 15 (shown under "Adjustment to IFRS 15") on our consolidated income statement for 2018 and retained earnings as of December 31, 2018:

(in EUR thousands)	2018 as reported	Adjustment to IFRS 15	2018 without adjustment
		(audited)	
Revenue	1,110,117	(82,358)	1,027,759
Cost of sales	(900,422)	55,936	(844,486)
Selling and distribution expenses	(76,848)	0	(76,848)
Finance income/costs	(86,845)	0	(86,845)
Income taxes	5,205	7,477	12,682
Other	(111,086)	0	(111,086)
Consolidated profit/loss	**(59,879)**	**(18,945)**	**(78,824)**
thereof attributable to the owners of the Parent Company (consolidated profit/loss)	(60,565)	(18,945)	(79,510)
Adjustment effects of IFRS 15 as of Jan. 1, 2018		**40,583**	
Adjustment of retained earnings		**21,638**	

8.2.3.2. IFRS 16 – Leases

We applied IFRS 16 – Leases for the first time as of January 1, 2019. For the transition to IFRS 16, the Group applied the modified retrospective method, whereby the right-of-use assets equal the lease liabilities as of January 1, 2019. For further details, see Notes 4.2 and 26 to the Audited Consolidated Financial Statements 2019.

The cumulative effect of the application of IFRS 16 was thus stated as an adjustment to the opening balance as of January 1, 2019. Comparative information for 2018 was not restated. We largely made use of the exemptions in place according to IFRS 16.

IFRS 16 adjustments largely concern the properties leased by us. With the application of IFRS 16, straight-line expenses for operating leases were replaced by amortization/deprecation for right-of-use assets and interest expenses for lease liabilities. This resulted in a deterioration of cash flows from financing activities and an improvement of cash flows from operating activities. On transition to IFRS 16, we reported additional right-of-use assets of EUR 150.9 million, as well as lease liabilities in the equivalent amount, as of January 1, 2019. For the financial year 2019, we recorded interest expenses for lease liabilities (reported under cash flow from operating activities) of EUR 9.8 million and a further cash outflow (reported under cash flows from financing activities) in the amount of EUR 11.3 million (see "*8.8.2.1.2. Cash Flows from Operating Activities – Financial Year 2019 compared to Financial Year 2018*" and "*8.8.2.3.2. Cash Flows from Financing Activities –Financial Year 2019 compared to Financial Year 2018*"). We expect similar interest expenses and cash effects from lease payments in the short and medium term.

The following table presents a summary of the effects from such transition:

	As of January 1, 2019
(in EUR thousand)	**(audited)**
Right-of-use	
thereof land and buildings	142,621
thereof technical equipment and machinery	4,851
thereof other fixtures, furniture and equipment	3,428
Total right-of-use assets	**150,900**
Lease liabilities	
thereof lease liabilities current	10,556
thereof lease liabilities non-current	140,344
Total lease liabilities	**150,900**

The following table presents the reconciliation of the future minimum lease payments for non-cancellable operating leases as reported as of December 31, 2018 and the lease liabilities recognized as of January 1, 2019:

(in EUR thousand)	**(audited)**
Future minimum lease payments under non-cancellable operating leases at December 31, 2018	**206,436**
Practical expedients	
thereof short term leases	(701)
thereof low value assets	(3,452)
Other	(1,054)
Adjusted future minimum lease payments under non-cancellable operating leases at December 31, 2018	**201,229**
Effect from expected exercising extension options	23,230
Effect from discounting with the incremental borrowing rate	(66,422)
Leases with a lease term beginning after January 1, 2019	(7,137)
Lease liabilities recognized as a result of the first time adoption of IFRS 16 at January 1, 2019	**150,900**

The following table presents the affected reporting line items in our consolidated income statement in accordance with IFRS 16 for 2019 and in accordance with IAS 17 for 2018, respectively:

(in EUR thousand)	2019 (audited)
Depreciation charge of right-of-use assets	
Land and buildings	14,384
Technical equipment and machinery	835
Other fixtures, furniture and equipment	1,761
Total depreciation charge	**16,980**
Other lease related income/expenses under IFRS 16	
Interest on lease liabilities	9,769
Income from sub-leasing right-of-use assets presented in "other revenue"	(484)
Expense related to short-term leases	2,657
Expense relating to leases of low-value assets that are not short-term leases	1,266
Total amounts recognized in profit or loss	**13,208**
Total	**30,188**

(in EUR thousand)	2018 (audited)
Operating leases under IAS 17	
Leases expenses	25,018
Contingent rent expenses	0
Sub-lease income	(42)
Total	**24,976**

Until 2018, operating lease expenses were accounted for under the functional cost line items (predominantly cost of sales, but also selling and distribution expenses, general administrative expenses, as well as research and development costs). Since 2019, lease-related income/expenses have been accounted for under finance income/costs in accordance with IFRS 16. Consequently, the first-time application of IFRS 16 resulted in an uplift in gross profit and EBIT in an amount of EUR 4.1 million and EBITDA in an amount of EUR 21.3 million, in each case in 2019 compared to 2018.

8.2.4. Carve-out and Acquisition of the Orlando Business

In March 2016, a sale and purchase agreement among ADS, the Selling Shareholder, and HENSOLDT Holding Germany GmbH, among others, was signed for 100% of the shares of HENSOLDT Sensors GmbH (formerly Airbus DS Electronics and Border Security GmbH) and of HENSOLDT Optronics GmbH (formerly Airbus DS Optronics GmbH), including their respective subsidiaries. With legal and economic effect as of the end of February 2017, HENSOLDT Holding GmbH, via its subsidiary HENSOLDT Holding Germany GmbH, acquired 100% of the shares of HENSOLDT Sensors GmbH and HENSOLDT Optronics GmbH (the "**Orlando business**"). See also "*12.4. Group Structure and Information on Significant Subsidiaries*". Initially, ADS held a 25.1% stake in HENSOLDT Holding GmbH to ensure a smooth separation of the Orlando business from ADS and its affiliates. In June 2018, the shares held by ADS were acquired by HENSOLDT Holding GmbH and held as treasury shares until cancellation of these shares in November 2019. Furthermore, with effect from April 26, 2018, we acquired 100% of the shares of HENSOLDT France S.A.S. from Airbus Defence and Space S.A.S.

8.2.5. Corporate Reorganization of the Group prior to the Offering

In preparation of the Offering, as a first step, the Selling Shareholder acquired the Company as a shelf company in the legal form of a GmbH (today, upon conversion into a stock corporation, "HENSOLDT AG"). Subsequently, in a second step, all treasury shares of HENSOLDT Holding GmbH were cancelled in November 2019. Following the cancellation of the treasury shares, the Selling Shareholder held all outstanding shares of HENSOLDT Holding GmbH save for one share held by the Federal Republic of Germany. In a third step, shareholder loans (including accrued interest in relation to them) were contributed to the capital reserve of HENSOLDT Holding GmbH by the Selling Shareholder. As a

fourth step, in November 2019, the share capital of the Company (at that time still HENSOLDT GmbH) was increased by means of a capital increase against contribution in kind of 681 shares of HENSOLDT Holding GmbH then held by the Selling Shareholder. The remaining 18,043 shares of HENSOLDT Holding GmbH then held by the Selling Shareholder were transferred as a voluntary additional contribution of the Selling Shareholder to the equity of the Company. As a penultimate step, in August 2020, the Company's share capital was again increased by way of conversion of capital reserves into share capital (*Kapitalerhöhung aus Gesellschaftsmitteln*). Lastly, in August 2020, the Company's legal form was changed from a limited liability company (*Gesellschaft mit beschränkter Haftung*) to a stock corporation (*Aktiengesellschaft*). For further details, see also "*12.4. Group Structure and Information on Significant Subsidiaries*" and Note 2.1 to the Audited Consolidated Financial Statements 2019.

8.3. Key Factors Affecting Our Results of Operations and Financial Condition

We believe that the following factors have significantly affected our results of operations, financial position, and cash flows in the past periods for which financial information is presented in the Prospectus, and that these factors will continue to have a material influence on our results of operations, financial position, and cash flow in the future.

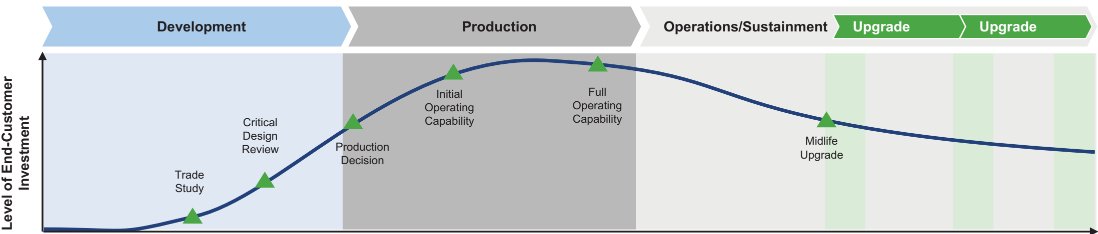
8.3.1. Characteristics of the Defense Industry

The vast majority of our business over the period from 2017 to the first half of 2020 directly or indirectly originated from governments' defense and security-related programs, whether through direct sales to governments and their armed and security forces, or indirectly through components supplied by us for other products and platforms ultimately purchased by governments. Thus, the development of defense budgets, and spending decisions and allocations made by governments, has affected, and we expect will continue to affect, our results of operations, financial position, and cash flows.

The defense industry is characterized by specific market dynamics driven by unique demand-side customer and supply-side industrial considerations. There is only a limited commercial market for defense equipment, as demand for defense equipment is focused on governments, their armed forces, and supra-national organizations such as NATO. Due to the unpredictability of the geopolitical environment and international relations, government customers choose not to rely solely on international or non-national providers of defense equipment, and consequently maintain often significant interests in preserving defense national capabilities, for example, through funding all or substantially all research and development ("**R&D**") efforts for the development of new, state-of-the-art defense equipment. Additionally, the global Covid-19 pandemic has caused some countries like Germany to announce stimulus packages of funds intended to acquire defense equipment and ensure the reliability and viability of their national defense supply chains (source: RSAdivsors Study). As a German-based provider of defense and security sensor solutions, our results of operations have been, and are expected to continue to be, affected by the policies of the German government in this regard. In this context, any significant changes in policy priorities, for example due to the particular challenges in dealing with the impact and effects of the Covid-19 pandemic and potential future defense budget decreases caused by it, or additional stimulus packages, could have a substantial impact on our business. For information on the development of German defense spending and the key trends and drivers, see also "*9. Markets and Competitive Environment*".

Further, based on the characteristics of our industry, most of our business is generated from medium- and long-term project contracts with performance over a period of multiple years and often up to decades, which provides planning visibility. Depending on their complexity, the technology and systems we develop can take multiple years to yield a product that qualifies for operational service, and as such we have particular capabilities to focus our efforts and resources to maximum effect. In line with the platforms in which many of our products are integrated, our products' lifecycles (meaning the time from operational readiness to decommissioning) are typically a decade or longer and in some cases up to 40 years or more, such as the MDPR air defense radar systems delivered to the Pakistan air force in 1975, or the Tornado nose radar and the Leopard 2 periscopes, which are both in use since the 1980s.

The following chart illustrates the typical progression over the lifecycle of a platform or project:



On the one hand, due to these characteristics of our typically long-term project business, we have a high visibility of our revenue and income streams. On the other hand, our dependence on governments' spending decisions and allocations subjects us to certain movements year-on-year with respect to Order Intake, revenue, as well as income generation. For example, certain delays with respect to the approval of large procurement projects of the German armed forces (*Bundeswehr*) had a substantial impact on our business performance in 2019 and in the first half of 2020.

The defense industry is also subject to certain trends and patterns. Notably, many budgetary decisions of our government customers are taken in the last quarter of the year and this period is therefore generally key for our overall performance. Accordingly, both our Order Intake and Order Backlog (for both see also "*8.4. Our Key Performance Indicators and Other Alternative Performance Measures*") are generally significantly impacted in the fourth quarter of our financial year. In addition, for both of our segments, we have typically recorded a significant volume of our annual revenue in the last months of a year, while the first quarter of any financial year generally tends to be the weakest in terms of revenue. In contrast, our cost base is typically significantly less affected by these trends and patterns throughout the year. The first quarter of our financial year is characterized by a reduction of trade receivables and corresponding cash inflow due to customer payments, a reduction of trade payables and corresponding cash outflow, as well as an increase in work in process accounted for under inventories, which generally continues through the second and third quarter of our financial year. We expect these principle trends to generally continue in the future.

8.3.2. Supercycle in the Defense Industry

Geopolitical uncertainty and political instability have led to an increase in defense spending around the globe, and strong demand for new technologies and new aircraft in particular is expected to drive future increases in the near and medium term despite the economic impacts of the Covid-19 pandemic. After governments decide to increase their budgets for defense spending, defense equipment suppliers, such as us, typically see a corresponding impact on their business with a certain time lag (often between 12 to 18 months) due to time-consuming procurement procedures involving the competent government agencies.

While the United States remained the largest defense spending nation in 2019 with a defense budget of approximately EUR 577 billion, several other governments have increased their defense budgets in the recent past, including for the development and subsequent procurement of next-generation military equipment. Equipment spending, which comprises procurement and R&D spending, currently makes up only a fraction of overall defense spending. Nevertheless, equipment spending is forecast to see strong growth until 2024E, driven primarily by increasing procurement spending. On a global level, procurement spending is expected to increase at a CAGR of approximately 3% from 2019 to 2024E, as major air and naval platforms near the end of their life in service and are being replaced. R&D spending on a global scale is expected to increase at a higher rate, with a CAGR of approximately 5% from 2019 to 2024E, as R&D is accelerated to support industry, and major programs continue developing over the forecast period (source for information in this paragraph: RSAdvisors Study).

In Europe, the defense and security industry has seen a re-awakening in recent years driven by the dramatic transformation of geopolitical dynamics and equations. There are a number of ongoing conflicts around the world that impact European security, ranging from intra-regional geopolitical rivalries and tensions, such as in the Middle East, to intra-state conflicts. In particular, the reduced certainty of the United States' political commitment to its traditional security guarantees in Europe and worldwide is expected to lead to a potential increase in German and European defense spending. In addition, increased fragility of nation states resulted in an increase in incidences of civil unrest and protest, with a propensity to escalate to low-level internal conflicts. To counter these new global

security threats, European military forces are increasingly employing means of non-conventional warfare, which increases the need for sensors and intelligence systems to distinguish targets and forces. Additionally, the growing use of unmanned aircraft systems and guided weapons among non-state actors has led to an increasing need for full-spectrum electronic warfare systems. These developments are also a key driver in Europe for fast-tracked modernization and upgrade of existing platforms, as well as the development and subsequent procurement of new highly sophisticated platforms.

Several global security threats (including, among other situations, the continued crisis in Ukraine, heightened tensions in the Baltic Sea, migration flows and shifts in long-standing security partnerships) are also resulting in increasing responsibilities for Germany within NATO. In the German Government's 2020 Strategy Paper, sensor technology, as well as electronic warfare and certain cyber technologies, among other topics, have been identified as key industrial technology fields for national defense purposes. Although the German government had repeatedly stated its intention to increase its defense budget to 1.5% of its gross domestic product ("**GDP**") by 2024, this target is already likely to be exceeded in 2020 due to the economic impacts of the Covid-19 pandemic. With the expectation that Germany will maintain this level of spending, German defense spending is forecast to reach approximately EUR 56 billion in 2024E. Additionally, Germany's recent announcement of a stimulus package in response to the economic impacts of the Covid-19 pandemic of up to EUR 10 billion is expected to accelerate several near-term projects and contribute to near-term growth in defense spending (source for information in this paragraph: RSAdvisors Study).

Defense spending decisions by governments and supranational organizations in response to geopolitical uncertainty and political instability are further reinforced by the low readiness of partly ageing platforms. According to the RSAdvisors Study, this factor is a major contributor to the forced modernization of the German armed forces (*Bundeswehr*). At the same time, the current generation of certain important platforms, such as the Leopard 2A7+, Typhoon Tranche 3, and F 125 class frigate, have a significantly larger share of defense electronics content (defined as value of built-in electronic or digital systems as a percentage of total platform value) compared to respective previous generation platforms (source: RSAdvisors Study). As a defense and security electronics provider, we expect to benefit from this technological evolution.

In general, emerging technological trends are expected to be shaping the defense electronics market going forward. For example, significantly increased data quantities are driving investments into machine intelligence applications, and platform capabilities are increasingly being defined by software rather than hardware. At the same time, platform architectures are becoming increasingly "open", which allows more competitors in the market to compete, especially non-original equipment manufacturers. Finally, new manufacturing material and processes are increasing system and platform durability and performance, while enabling new forms of electronics to be developed such as gallium nitride ("**GaN**") radar systems (source for information in this paragraph: RSAdvisors Study).

With respect to our long-term opportunities, we believe there is significant growth potential from the long-term trends in defense spending created by the supercycle in the defense industry (see "*9. Markets and Competitive Environment*"). Three prospective key European next-generation programs, the Future Combat Air System ("**FCAS**"), the Main Ground Combat System ("**MGCS**"), and the Maritime Airborne Warfare System ("**MAWS**") are specific examples of the opportunities presented by these long-term developments. While these programs are still in their early stages, we have already started to position ourselves for participation in these programs. We believe that, in total, the three key European next-generation programs FCAS, MGCS, and MAWS represent a potential opportunity for us of approximately EUR 14 billion (management estimate of our potential share in the potential total value of these three programs over their respective entire lifecycle, which may extend over multiple decades and beyond 2040).

We believe that we are well positioned to take advantage of the aforementioned dynamics in the defense and security industry, and anticipate the forecast growth in the global, European, and German defense equipment spending – and defense electronics markets in particular – to have a material influence on our results of operations, financial position, and cash flow in the future. For further information on the historic and expected future development of the markets in which we operate, see "*9. Markets and Competitive Environment*".

8.3.3. Strong Growth Platform with High Revenue Visibility

Our investments in R&D as well as our expansion of sales offices worldwide are core components of our strategy to grow our addressable markets and drive growth.

In the period since 2017, we have made an increased and sustained effort to capture future growth opportunities by investing significantly in our R&D efforts (see also "*8.3.6. Research and Development Efforts*"). The success of our development efforts is reflected in the profile of our technology and services portfolio. Based on management estimates, more than approximately 80% of our revenue in 2019 related to sales of and aftersales for products that were newly introduced or received upgrades in the last five years (*i.e.*, since 2014), with more than approximately 15% of our revenue related to products that were newly introduced in such period.

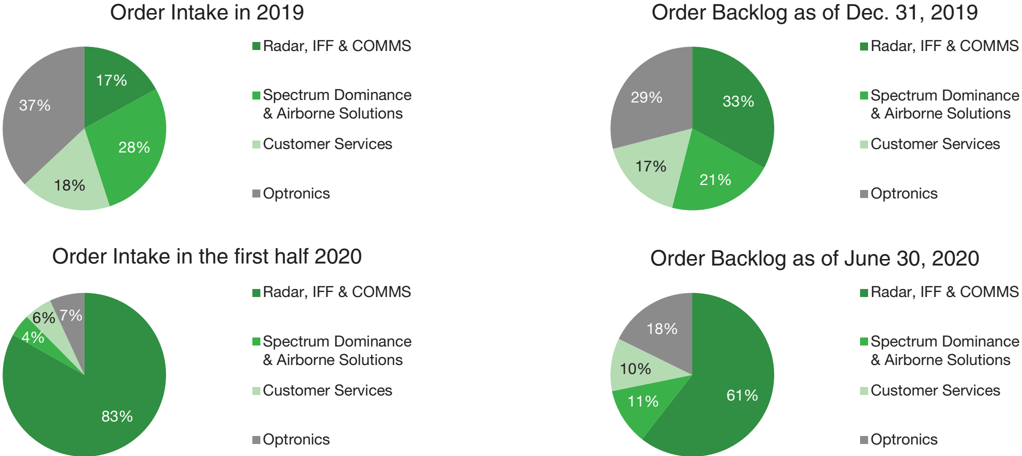
Furthermore, we have expanded our international presence and, since 2017, set up several additional sales offices worldwide. In particular, we established a key account structure to improve our relationships and grow our business with several platform manufacturers deemed critical to our success. As of December 31, 2019, we had more than 100 full-time employees working in sales and distribution. In addition, the acquisitions we have completed in the period under review have contributed to our continued growth over that period.

At an operational level, we received numerous incoming orders for periscopes and optronics mast systems from various navies across the world in 2019. Our Optronics division also received extensive orders for optronics for the Leopard 2 MBT. In the Spectrum Dominance & Airborne Solutions division, we were awarded an important international contract for spectrum monitoring in 2019, and were able to win contracts to further develop our products. An example is our contract with Airbus to develop new functionalities for the mission computer ETMC. In 2020, we have been able to secure a number of large volume orders, including a contract to equip approximately half of the German air force's Tornado aircraft with our Mode 5 IFF-capable LTR 400 transponders, as well as, most notably, a milestone order for us worth more than EUR 1.4 billion for the joint development of the new active electronically scanned array ("**AESA**") nose radar of the Eurofighter, the Eurofighter Common Radar System Mk1 ("**ECRS Mk1**"), for the German and Spanish Eurofighter fleets and the production of such radar for the German fleet. This ECRS Mk1 order, in particular, has led to a step change in our Order Backlog in the first half 2020 and a ratio of Order Intake to revenue ("**book-to-bill ratio**") for this period of 4.0 times, with a book-to-bill ratio of 4.8 times for our Sensors segment and 1.2 times for our Optronics segment. Additionally, such order contributed to a significant increase of our purchase commitments since June 30, 2020. Given recent budget approvals, partial budget approvals, government endorsements, or pricing incentives, we also believe we are well placed to receive additional orders for the ECRS Mk1 and the Eurofighter's self-protection system Praetorian DASS in an aggregate amount of approximately EUR 0.8 billion, an order for our TRS-4D radar for the class 180 ("**MKS 180**") warship worth approximately EUR 0.2 billion, and an order for the Pegasus program worth approximately EUR 1 billion until 2022.

We have profound experience in taking over lead positions in projects for the delivery of complex designs and sub-systems to our customers. In addition, under some of our recent and expected future contracts, we have taken on, or expect to take on, leadership roles within consortiums. As such, while we recognize the full amount of Order Intake and revenue from such projects, a certain share of the total contract volume is assigned to our partners and suppliers, reflecting the shared risk and contributions, with typically negligible margins for us, resulting in a dilution of our profitability (the "**pass-through business**"), which we did not incur from 2017 to 2019. For the Eurofighter's ECRS Mk1 radar contract, for example, such share is approximately one quarter of the total value. While our revenue did not include pass-through business with similarly low margins prior to 2020, as we aim to assume more leadership roles, the share of our pass-through business, both in individual projects and in our total revenue, may increase in future projects.

As a provider of defense and security electronics, our business has not been materially impacted by the effects of the Covid-19 pandemic so far, despite short-term closures of our facilities. Besides some delays and shifts in project timing, we have so far not experienced any formal cancellations of major orders from defense customers or other material effects on our Order Backlog or future opportunities in the defense sector due to the pandemic. Given our customer structure and long project lead cycles, we believe we operate in a relatively resilient industry. This is reinforced by the fact that we believe we have been relatively successful at keeping internal operational and production disruption to a minimum (see also "*10.17. Health and Safety, Corporate Social Responsibility*").

Order Intake of EUR 1,040.0 million in 2019 continued to be in line with or above revenue figures (with a book-to-bill ratio of 0.9 times), returning to 2017 levels (EUR 1,042.2 million, with a book-to-bill ratio of 1.1 times) after EUR 1,159.6 million in 2018 (with a book-to-bill ratio of 1.0 times), thereby supporting targeted future growth. In the first half 2020, there was a significant increase in Order Intake mainly due to the order for the ECRS Mk1, to EUR 1,775.6 million in the first half 2020, compared to EUR 420.7 million in the first half 2019. Our Order Backlog increased from EUR 2,052.3 million as of December 31, 2017 (corresponding to a ratio of Order Backlog to revenue in the last twelve months ("**coverage ratio**") of 2.0 times), to EUR 2,260.9 million as of December 31, 2018 (corresponding to a coverage ratio of 2.0 times), to EUR 2,202.3 million as of December 31, 2019 (corresponding to a coverage ratio of 2.0 times), to EUR 3,426.9 million as of June 30, 2020 (corresponding to a coverage ratio of 3.0 times, and compared to EUR 2,233.8 million as of June 30, 2019), reflecting the step change of Order Backlog in the first half 2020. As of June 30, 2020, the coverage ratio was 3.3 times in our Sensors segment and 2.2 times in our Optronics segment.



Beyond our existing Order Backlog, in the short to medium term, we believe we are well positioned to win on a number of promising "pipeline" contracts in Germany and internationally, in addition to the expected orders mentioned above. We believe that from 2021 to 2023, approximately EUR 10 billion in total opportunities will be open for us to tender (management estimate of value of contracts addressable by us; not taking into account the probability for us to win a contract) from key platforms such as the Eurofighter jet, the Pegasus program, the NH90 helicopter, the Puma armored vehicle, the Leopard 2 MBT, the Type 212/214 submarine, and the MKS 180. By geography, we estimate that approximately 30% of this short- to medium-term pipeline of opportunities for tender from 2021 to 2023 will come from end-customers in Germany and approximately 70% from end-customers in other countries. In addition, we have had short-cycle and aftersales business in the past, including for the sale of standard products and supply of services (which is reflected in our Order Backlog only to a limited extent due to the fast throughput), which we expect to continue in the future. In 2020 and 2021, we expect a book-to-bill ratio of approximately two times, and in 2022 and in the medium term, a book-to-bill ratio greater than one time.

8.3.4. Acquisitions

We have a track record of successfully executing acquisitions since our separation from Airbus. Each of our major transactions (such as the acquisitions of the Nexeya, Kelvin Hughes, and EuroAvionics businesses) have been focused on strategic opportunities including geographic expansion, portfolio enhancement and strengthening of technological capabilities, as well as access to a wider customer base through an enlarged sales network. In addition, we have pursued bolt-on acquisitions of smaller scale on an opportunistic basis. For a brief summary of our M&A activities, see also "*10.10. Our M&A Activities*". All our completed acquisitions have been allocated to the Sensors segment. Tellumat, for which closing is envisaged in the fourth quarter of 2020, is expected to be acquired by our South African Optronics subsidiary and therefore to be allocated to the Optronics segment (see "*10.10.2. Tellumat Business Units (2020)*").

These acquisitions have increased our overall revenue, cost, and asset base. As a result of acquiring businesses, our income-generating potential increased, which leads to higher revenue, as well as corresponding costs associated with the acquired businesses. Furthermore, in order to finance acquisitions, we generally take on additional debt, which increases our financing expenses, as well as

our non-current liabilities on our statement of financial position. In addition, this has corresponding effects on our statement of cash flow, causing a cash outflow for investing and financing purposes in order to fund the acquisition and service interest payments on the associated debt, and increasing cash inflow from operating activities as a result of the additional cash generation from the acquired businesses. Moreover, we incurred substantial transaction costs, as well as other M&A-related costs (shown under other non-recurring effects) in connection with these transactions, which impacted our earnings before interests and tax in the period under review and which we adjust for purposes of our Adjusted EBIT and Adjusted EBITDA to carve out the non-recurring effects on the operating income/ loss resulting from these acquisitions (see also "*8.4. Our Key Performance Indicators and Other Alternative Performance Measures*"). Changes in the consolidation scope due to the consummation of acquisitions and divestments also affect the comparability of our results of operations, financial position, and cash flows year-on-year (see also "*8.2. Presentation of Financial Information and Principal Factors Affecting Comparability*").

In addition, depreciation and amortization has been affected in the period under review and will be affected in future reporting periods due to the initial recognition of intangible assets and the revaluation of existing assets in connection with the aforementioned acquisitions and, most notably, the acquisition of the Orlando business in 2017, together with the corresponding respective purchase price allocations (other than the acquisitions of the PentaTec and HENSOLDT Australia businesses, where any purchase price exceeding total assets was allocated to goodwill and, thus, is not subject to depreciation and amortization).

For purposes of calculating the depreciation and amortization, the useful lives of technologies are between approximately four to ten years, in certain cases twelve years, and the useful lives of Order Backlog are between approximately three to nine years. Depreciation periods for customer relationships are set at eight years. The depreciation periods for step-ups of existing fixed assets in the technical equipment and machinery sector are set on a flat-rate basis at either five or ten years. The revaluation of work in process as part of the acquisition of the Orlando business only affected the 2017 financial year, as it was realized within 0.5 to 0.8 years. The HENSOLDT brand and our goodwill are not amortized as they are assumed to have an indefinite useful life.

The most significant share of depreciation and amortization in 2019, 2018, and 2017, which amounted to EUR 129.6 million, EUR 124.4 million, and EUR 91.7 million, respectively, related to the depreciation and amortization of step-ups of the respective asset book values in connection with purchase price allocations.

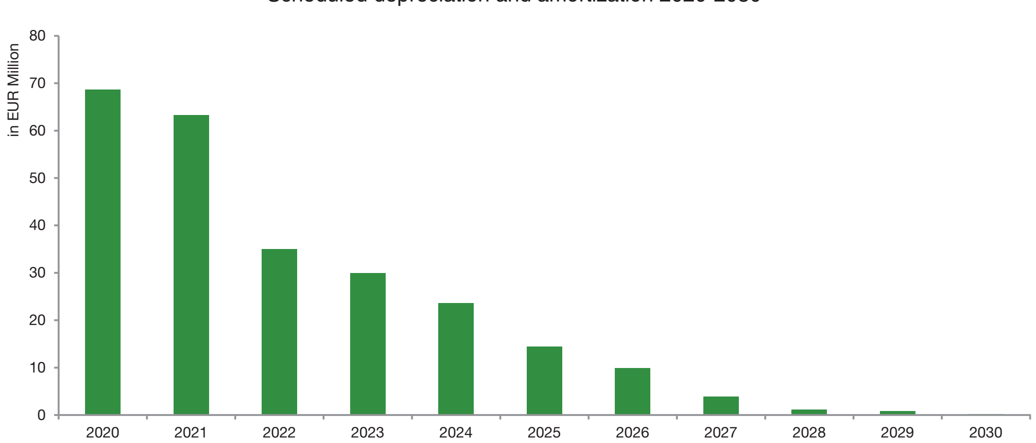
The following table presents the aggregated effects from these step-ups in connection with purchase price allocations on our consolidated income statement for 2019, 2018, and 2017:

	Financial Year		
	2019	**2018**	**2017**
(in EUR thousand)		**(unaudited)**	
Total	**(78,764)**	**(93,070)**	**(126,201)****
thereof attributable to Orlando business	(62,709)	(78,049)	(117,478)
thereof attributable to EuroAvionics business	(6,598)	(7,062)	(4,277)
thereof attributable to Kelvin Hughes business	(3,449)	(4,605)	(4,445)
thereof attributable to HENSOLDT France business	(1,379)	(3,355)	—
thereof attributable to Nexeya business	(4,628)*	—	—

* Preliminary for the duration of the measurement period which may not exceed one year.

** EUR 56.2 million thereof related to step-ups of inventories realized and expensed under cost of sales in 2017.

Going forward, subject to additional acquisitions and the purchase price allocations related thereto and/or any impairment charges, we expect the scheduled effects from the aforementioned step-ups in connection with purchase price allocations related to the aforementioned acquisitions on the depreciation and amortization in our consolidated income statement to reduce approximately as presented below:



* Includes acquisitions until December 31, 2019.

In the future, the respective carrying amount of the step-ups in relation to purchase price allocations from the aforementioned acquisitions may be subject to impairment tests according to IAS 36, which could result in changes to the scheduled depreciation and amortization. In addition, any additional acquisition we may execute in the future could also result in changes to the aforementioned scheduled depreciation and amortization. Excluding depreciation and amortization relating to step-ups in connection with purchase price allocations, we expect depreciation and amortization charges of approximately 4% of our revenue per year both in the short and in the medium term.

Going forward, we intend to participate selectively in the consolidation of our industry and to continue our international expansion across our segments. In line with our past strategy, we evaluate the market for potential acquisitions of competitors and other companies operating in adjacent markets on a regular basis.

8.3.5. Operational Excellence and Efficiency Program HENSOLDT GO!

In March 2017, we initiated our efficiency program HENSOLDT GO! in order to drive our business forward and improve execution in the near and medium term. The first phase of our HENSOLDT GO! program was completed in 2019 and primarily aimed at the optimization of functions after the carve-out from Airbus and included more than 300 individual measures. The first phase of our HENSOLDT GO! program was structured along four major value creation areas: strategic development, organic growth, operational excellence, and enablers. The main target of the program was to support our top-line growth (see also "*8.3.3. Strong Growth Platform with High Revenue Visibility*") while improving operational efficiency and capital productivity.

The value creation area "Strategic Development" was mainly focused on reviewing our existing product and service portfolio and on further portfolio expansion into adjacent markets, including the counter-drone market and the radar warner receiver market. In addition, we also reviewed the vertical integration level of our production facilities to increase the focus on complex products rather than products with low complexity, which can be procured on the market more cheaply. The value creation area "Organic Growth" had the aim of setting up new international sales offices and the establishment of a new key account structure. The value creation area "Operational Excellence" aimed at steering our organization and employees towards creating value for the customer. To this end, we implemented the so-called lean methodology in spring 2017 (a tool aimed at optimizing the inbound logistics within our facilities), and reduced our indirect-to-direct cost ratio through efficient people and resource utilization. Related procurement initiatives focused on both direct and indirect spend for our projects. On the engineering side, we also rolled out sixteen specific measures across the Group, which covered engineering and program management topics. As a consequence of this value creation area, we

succeeded in optimizing our cost of sales, in particular (through procedural improvements within our organization) the cost of non-quality, comprising warranty claims and scrap, and our general administrative expenses with respect to indirect procurement. Lastly, the value creation area "Enablers" covered our general administrative expenses structure. After the carve-out from Airbus, we performed a right-sizing exercise to optimize our general administrative headcount and expenses, including our IT infrastructure. Additionally, all post carve-out activities were bundled in the HENSOLDT GO! program, namely the IT- and site-separation from Airbus, which was finalized in June 2018 and entailed a significant build-up of central functions.

The second phase of the HENSOLDT GO! program started in 2019 and aims to improve collaboration between functions, such as the introduction of supply chain management to optimize the integration of our supply chain across different functions and the implementation of measures aimed at promoting (cross-divisional) development and engineering excellence and optimizing production and inventory coverage to improve our agility to respond to market demands. In order to allow precise tracking of the implementation process, we have defined six implementation levels. These extend from the identification and description of a specific measure, including a preliminary estimate of the respective upfront costs and gross cost savings potential upon implementation, to the completion of implementation and confirmation of an actual cost saving effect. Our management monitors the implementation and progress of each specific measure.

Through the first phase of the HENSOLDT GO! program and other efforts, we have succeeded in maintaining and improving our Adjusted EBIT margin and Adjusted EBITDA margin, each as a percentage of revenue, to 14.4% and 19.3%, respectively, in 2019 from 13.3% and 17.1%, respectively, in 2018 and 15.8% and 17.9%, respectively in 2017 (reflecting our business for 10 months only). These margins highlight our ability to maintain our profitability while simultaneously growing our business and managing the separation from Airbus.

These margin improvements were driven in roughly equal parts by a reduction of material costs and personnel efficiencies, both within the scope of our HENSOLDT GO! program. The material costs improvement was mainly achieved through procurement savings, logistical improvements, internal supply chain measures, and reduced buffering time, leading to higher production efficiency and reduced production cost. The personnel efficiencies were mainly attributable to increased customer intimacy, strengthened team collaboration and empowerment, and increased efficiency, and were achieved despite the built-up in headcount since 2017.

In addition, we were able to ensure a reliable project execution. As an example, we analyzed the five largest defense projects by Order Intake contribution in the period 2017 to 2019 for each of our divisions (excluding the Customer Services division due to its differing project business), taken from our internal project control process which we use to track and analyze our projects, among other things, by project costs, project achievements, and project milestones. According to management estimates based on project status as of December 31, 2019, we exceeded the project gross margin initially calculated for each of those projects at the time of our first project review (which was done immediately after contract award by the respective customer) by approximately 2.6% on average.

In connection with our operational efficiency measures, we have also adopted a disciplined working capital management since our separation from Airbus. For example, we have been focusing on the management of our cash conversion cycle and will continue to focus on further increasing efficiency in the future. In the last three financial years, net working capital (comprising provisions for subsequent expenses and outstanding production cost and other operating provisions, inventories, contract assets, contract liabilities and advance payments received, trade receivables, and operating trade payables) increased from EUR 133.0 million in 2017, to EUR 188.2 million in 2018, to EUR 270.1 million in 2019, representing 14%, 17%, and 24% of our respective revenue.

Historically, our net working capital increased due to business growth and completed acquisitions. In general, we have seen a balance between assets and liabilities. However, we have observed a changed customer behavior regarding advance payments, which, together with a tendency towards larger projects, resulted in a significant reduction of advance payments received. This was partly offset by a high focus on receivable management while trade liabilities have developed in accordance with the growth of the business. Furthermore, net working capital was impacted by the implementation of IFRS 15.

We aim to keep the year-end amount of our net working capital stable for 2020 and 2021, in each case compared to 2019, in particular due to a more efficient management of our cash conversion cycle. While we target to generate savings across the whole supply chain, we also strive to reduce days inventories outstanding (DIO; calculated as average inventories for the financial year divided by cost of sales for the financial year, multiplied by 365) from approximately 190 days in 2019 to approximately 125 days in 2022, as well as to reduce days sales outstanding (DSO; calculated as average receivables for the financial year divided by revenues for the financial year, multiplied by 365) from approximately 100 days in 2019 to approximately 75 days in 2022. With respect to customer advance payments, we expect our customer payment profile to further improve, with any prepayment reduction being targeted to be offset by expected increases in milestone payments. We also expect to maintain a limited cash outflow from provisions for warranties in line with the provisions we recorded in 2017 to 2019. In particular as a result of our measures relating to inventories and receivables, we target to reduce our net working capital to approximately 15% of revenue by 2022. In the medium term, we aim for our net working capital to continue decreasing slightly as a percentage of revenue.

Our operating working capital (comprising inventories, trade receivables, and operating trade payables) decreased from EUR 585.1 million as of December 31, 2017, to EUR 578.0 million as of December 31, 2018, to EUR 533.1 million as of December 31, 2019, representing 58% of ∑2017 revenue, 52% of 2018 revenue, and 48% of 2019 revenue, respectively. This improvement by approximately 10 percentage points improvement was mainly driven by a relative reduction in inventory levels (among other things, due to more just-in-time delivery, reduction of waste and a careful review of our required inventory levels), a reduction in trade receivables as part of the HENSOLDT GO! program, our ability to negotiate improved payment terms, a focus on customer invoicing, as well as reduction in advance payments due to our project mix.

8.3.6. Research and Development Efforts

We believe that successful technological innovation is key to the continuous positive development of our business. Since the acquisition of the Orlando business, we have made a sustained effort to invest and develop our range of products and services as well as to make targeted investments in promising platforms in order to help capture future growth opportunities. We invested significantly in our R&D efforts, as innovation and technological leadership allow for differentiation from our competitors. Based on management estimates, more than approximately 80% of our revenue in 2019 related to sales of and aftersales for products that were newly introduced or received upgrades in the last five years (*i.e.*, since 2014), with more than approximately 15% of our revenue related to products that were newly introduced in such period. In the last three financial years, our self-funded R&D spend (comprising research and development costs and additions to capitalized development costs) increased from 5% of our revenue in ∑2017 to 8% of our revenue in 2019. In the mid- to long term, we anticipate this percentage to normalize at approximately 5%, driven by the conclusion of the development of certain radar and sensor technologies, including ASR systems and the Airborne Missile Protection System (AMPS). In the short term, we expect our self-funded R&D spend to slightly decrease to approximately 7% of our revenue per year.

In accordance with IAS 38, development costs are capitalized (only) if such costs can be reliably estimated, the product or process is technically and commercially feasible, future benefit is probable, and we intend, and have sufficient resources to be able, to complete development and use or sell the asset. Development activities are generally carried out in a phased approach. In this phased approach we generally assume that the criteria for recognition under IAS 38 are satisfied if the preliminary design review (for established technologies) or critical design review was successfully completed. Other development expenditure is recognized in the consolidated income statement as soon as it is incurred. Capitalized development costs is measured at cost less accumulated amortization and accumulated impairment losses. An impairment test is carried out on an annual basis. Capitalized development costs are generally amortized over the estimated useful life of the internally generated intangible asset. Amortization and impairment losses concerning capitalized development costs are recognized under cost of sales. We expect R&D-related depreciation and amortization to remain at approximately 1% to 2% of our revenue per year (as part of total depreciation and amortization charges of approximately 4% of our revenue) through the short and medium term.

We intend to continue to devote substantial resources to our R&D efforts. As of December 31, 2019, approximately 1,700 employees (headcount) worked in engineering. We plan to continue to invest in R&D primarily focusing on radar solutions and spectrum dominance.

The following table presents our research and development costs, not including capitalized development costs, broken down by segment, for 2019, 2018, and 2017:

	For the Financial Year		
	2019	2018	2017
(in EUR thousand)	(unaudited)		
Sensors	24,325	24,974	22,446
Optronics	6,566	7,204	7,554
Other	101	0	(234)
Total	**30,993**	**32,178**	**29,767**
*Amortization of capitalized development costs**	*9,672*	*10,170***	*4,660*

* Accounted for under cost of sales.

** Including an impairment in the amount of EUR 3.4 million.

The following table shows additions to capitalized development costs (in addition to research and development costs), broken down by segment, for 2019, 2018, and 2017:

	For the Financial Year		
	2019	2018	2017
(in EUR thousand)	(unaudited)		
Sensors	48,347	31,273	15,622
Optronics	6,748	5,302	4,321
Total	**55,095**	**36,575**	**19,942**

The focus of our recent major R&D efforts included our TRS-4D and TRML-4D product family (see "*10.5.2.3. Naval and Coastal Radars and Solutions*"), our Kalaetron product family (see "*10.5.3.2. Spectrum Dominance (Electronic Support, Signals Intelligence, Electronic Attack, Self-Protection, and Cyber)*"), and the aerodrome surveillance radar ("**ASR**") system (see "*10.5.2.2.1. ATC Radars and Solutions*").

In addition to our own R&D efforts, we also perform R&D for our customers, which can include research programs or programs tailored towards agreed-upon product or technology developments. Customer-commissioned R&D accounted for a high single-digit percentage of the aggregated 2019 revenue of our three divisions that typically perform R&D, namely Radar, IFF & COMMS, Spectrum Dominance & Airborne Solutions, and Optronics (management estimate based on an analysis of the ten largest projects in each of these three divisions in 2019). In addition, many of the future key programs in Germany and Europe, which form part of our pipeline and long-term opportunities (see "*8.3.3. Strong Growth Platform* " and "*8.3.2. Supercycle in the Defense Industry*"), are predominantly customer-funded. Depending on the particular arrangements, if we are successful at developing the desired product or technology, our customers might own or possess certain rights with respect to resulting IP, or a right to procure developed products at a discounted price from us. If our R&D efforts do not yield results to our sponsoring customer's satisfaction, or if we do not use the funds we receive for the designated purposes, we might become subject to refund or penalty obligations with respect to our customers' funding.

8.3.7. Aftersales Business

Our aftersales business, which comprises business related to the sale of products and the rendering of services related to a prior purchase (for example, the sale of spare parts and the provision of maintenance services), as well as simulation solutions, trainings, and special services, provides a recurring source of revenue benefitting from a large installed platform base with generally long-lasting lifecycles.

Service contracts typically start after a warranty period of generally two years. They often cover multiple years; depending on the expected and actual lifecycle of the relevant platform, service contracts may also be renewed for periods of 25 years or longer. As part of our customer support and services business, we provide spare parts and other services. Further, we provide set-up and commissioning services to ensure that our products and systems are properly installed and operational. Our field service teams conduct on-site installations and manage complete site installation projects involving third parties. Furthermore, we execute scheduled or corrective maintenance, repairs, and overhauls in-house or on site. We conduct safety inspections and verify our systems' performance, including during flight tests, to improve security and quality, which involves technical updates of systems to extend their lifetime or to meet new operational requirements.

In many cases, we are the sole provider of mission-critical support services. We believe that this is beneficial for our aftersales business, particularly in relation to support and services for our own products, as it gives us further opportunities to embed our products in the operations of our customers and to explore cross-selling opportunities.

In 2019, aftersales accounted for 21.9% of our revenue. Revenue attributable to aftersales has grown from EUR 142.7 million in 2017 to EUR 244.4 million in 2019 (including Nexeya as from October 1, 2019).

Operationally, our Customer Services division manages the global support for the full range of our products along their entire lifecycle (for information on the reporting treatment of revenue related to customer support and services, see "*8.2.2.1. Our Segments*"). The support for the Eurofighter, with an installed base of more than 560 operational aircraft (source: RSAdvisors Study), accounted for a significant portion of our Customer Services revenue in 2019. We are part of a multi-industry support network that serves Eurofighter user countries according to their individual requirements. Our most important service contract covers the support for the German air force's Eurofighter fleet. Besides equipment repair, spare parts delivery, test equipment support, and sustainment engineering, we maintain local repair centers at two airfields and provide consulting services to the German air force's technical commanders.

In addition, the Nexeya acquisition further expanded our customer support and services offering. Through Nexeya, we provide third party services that allow the continuous operation and sustainability of our customer's critical installations, in particular legacy equipment, as the original equipment manufacturer's ("**OEM**") subcontractor, or in cases where the OEM is no longer willing or able to provide customer services. In 2019, Nexeya contributed EUR 21.0 million to our revenue since its first-time consolidation in October 2019. The vast majority of this revenue was generated through services and customer support.

8.4. Our Key Performance Indicators and Other Alternative Performance Measures

We use certain key performance indicators ("**KPIs**") to measure our performance, identify trends, and make strategic decisions. Besides revenue (see "*8.6.2. Revenue*"), which forms part of our IFRS reporting, our KPIs include Order Intake as a key operating metric, as well as the non-IFRS financial measure Adjusted EBIT. In the first half 2020, we introduced the non-IFRS financial measure Adjusted Pre-Tax Unlevered Free Cash Flow as a further KPI. In addition, we use another non-IFRS financial measure, Adjusted EBITDA, as well as one additional key operating metric, Order Backlog, to measure our performance. In addition, we show the non-IFRS measures Adjusted Net Income and Adjusted Gross Profit.

Adjusted EBIT, Adjusted EBITDA, Adjusted Net Income, Adjusted Gross Profit, and Adjusted Pre-Tax Unlevered Free Cash Flow are all APMs within the meaning of the Commission Delegated Regulation (EU) 2016/301 and the ESMA Guidelines introduced in July 2016. We present these APMs as supplemental information for the specific reasons outlined below with respect to each APM. These APMs are used by our management to measure operating performance or as an auxiliary parameter, including in presentations to the members of our Management Board and Supervisory Board, and as a basis for strategic planning and forecasting, and they represent measures that we believe are widely used by certain investors, securities analysts, and other parties as supplemental measures of operating and financial performance. These APMs may enhance management's and investors' understanding of our financial performance by excluding items that are not classified as part of our ongoing operations, such as interest payments and income, as well as non-cash expenses.

However, these APMs are not defined by IFRS or any other internationally accepted accounting standards, and such items should not be considered as an alternative to the historical financial results or other indicators of our performance, liabilities, or net assets based on IFRS measures. The APMs, as defined by us, may not be comparable to similarly titled measures as presented by other companies due to differences in the way the APMs are calculated. Even though the APMs are used by management to assess ongoing operating performance, and though these types of measures are commonly used by investors, they have important limitations as analytical tools, and should not be considered in isolation or as substitutes for the analysis of our results of operations, financial position, and cash flows as reported under IFRS.

The presentations of Order Intake and Order Backlog are based on certain evaluations made by us (as detailed below) that are inherently uncertain. While management considers such evaluations to be reasonable, they are subject to significant business, economic, and competitive uncertainties and contingencies, all of which are difficult to predict and may partly be beyond our control. As a result, there can be no assurance that we will be able to convert Order Intake and Order Backlog into revenue.

The following table presents certain KPIs that we use for 2019, 2018, and 2017 and for the six-month periods ended June 30, 2020 and 2019:

	For the Six-Month Period Ended June 30,		For the Financial Year		
	2020	**2019**	**2019**	**2018**	**2017**
(in EUR thousand)	**(unaudited, unless otherwise indicated)**				
Revenue	440,296	415,557	1,114,164*	1,110,117*	917,093*
Order Intake[(1)]	1,775,573	420,677	1,040,027	1,159,598	1,042,211
Adjusted EBIT[(2)]	18,096	16,550	160,784*	147,619*	144,673
Sensors	*16,153*	*9,225*	*122,448**	*112,357**	*115,312*
Optronics	*3,740*	*7,899*	*39,525**	*35,362**	*26,203*
Elimination/Transversal/Others	*(1,798)*	*(574)*	*(1,189)**	*(99)**	*3,159*
Adjusted EBITDA[(3)]	41,307	40,873	215,551	189,936	164,408
Adjusted Net Income[(4)]	16,164	25,169	40,260	46,556	54,850
Adjusted Gross Profit[(5)]	101,857	99,390	334,444	306,636	258,205
Adjusted Pre-Tax Unlevered Free Cash Flow[(6)]	26,155	(61,389)	74,896	91,997	132,515

* Audited.

(1) Order Intake is recorded at the date on which a corresponding customer contract becomes effective and enforceable in accordance with the terms and conditions of such contract. Depending on the terms and conditions of the contract, this may either be (i) upon signature of the contract or (ii) at a specific future date following fulfillment of certain specific conditions. In the latter case, such conditions may relate, for example, to the receipt of an advance payment, the receipt of a letter of credit, the receipt of evidence about parent company and/or bank guarantees and/or bonds, any export and import licenses and permits being in place, and/or any governmental or regulatory authorizations being obtained.

All requirements for the "existence of a contract" under the revenue recognition standard IFRS 15 must be fulfilled for an Order Intake to be recorded. Order Intake is generally measured at the amount of the consideration to which we expect to be entitled in exchange for transferring promised goods or services to a customer, being the transaction price according to IFRS 15. IFRS 15 regulations for specific contractual aspects (for example, frame contracts, modifications, or variable considerations) are followed.

(2) Adjusted EBIT is defined as EBIT adjusted for certain non-recurring effects relating to (i) effects on earnings from purchase price allocations, (ii) transaction costs, (iii) separation costs, and (iv) other non-recurring effects (including, for 2020 and 2019, mainly non-recurring effects related to efficiency programs, M&A projects, post-merger-integration, structural development of our business, and IPO costs, and, for 2018 and 2017, additionally certain non-recurring effects related to the establishment of international sales offices and separation activities not covered by the sale and purchase agreement relating to the acquisition of the Orlando business). Adjusted EBIT is used as a KPI, in particular to illustrate the Group's performance without taking into account the non-recurring effects on the operating income/loss resulting from acquisitions (in the past periods for which financial information is presented in the Prospectus), as well as from the separation activities from Airbus and other non-recurring costs.

The following table presents a reconciliation of Adjusted EBIT to EBIT for 2019, 2018, and 2017 and for the six-month periods ended June 30, 2020 and 2019:

	For the Six-Month Period Ended June 30,		For the Financial Year		
	2020	**2019**	**2019**	**2018**	**2017**
(in EUR thousand)	**(unaudited, unless otherwise indicated)**				
Earnings before finance result and income tax (EBIT)	**(29,287)**	**(26,279)**	**62,071***	**21,760***	**(69,059)***
+ Effect on earnings from purchase price allocations[(a)]	34,325	36,518	78,764	93,070	126,201
thereof intangible assets	*33,990*	*36,183*	*78,095*	*89,938*	*69,416*
thereof property, plant and equipment	*335*	*335*	*669*	*669*	*580*
thereof inventories	*—*	*—*	*0*	*2,463*	*56,205*
+ Transaction costs[(b)]	477	—	520	1,044	28,914
+ Separation costs[(b)]	—	(119)	(4,933)	7,081	45,607
+ Other non-recurring effects[(b)]	12,581	6,429	24,361	24,664	13,010
Adjusted EBIT	**18,096**	**16,550**	**160,784***	**147,619***	**144,673**

* Audited.

(a) Accounted for under cost of sales.

(b) Accounted for under general administrative expenses, except for (i) EUR 28.9 million separation costs in 2017, which were accounted for under cost of sales and (ii) a low single-digit EUR million amount per year of other non-recurring effects accounted for under cost of sales.

(3) Adjusted EBITDA is defined as EBIT adjusted for depreciation and amortization (including non-recurring effects on earnings from purchase price allocations and amortization of capitalized costs to fulfil contracts), as well as certain non-recurring effects relating to (i) transaction costs, (ii) separation costs, and (iii) other non-recurring effects (including, for 2020 and 2019, mainly non-recurring effects related to efficiency programs, M&A projects, post-merger-integration, structural development of our business, and IPO costs and, for 2018 and 2017, additionally certain non-recurring effects related to the establishment of international sales offices and separation activities not covered by the sale and purchase agreement relating to the acquisition of the Orlando business). Adjusted EBITDA is used as a key indicator of the economic performance of the Group, in particular to illustrate its performance without taking into account the non-recurring effects on the operating income/loss resulting from acquisitions (in the past periods for which financial information is presented in the Prospectus), the separation activities from Airbus and other non-recurring costs, as well as the effects from depreciation and amortization.

The following table presents a reconciliation of Adjusted EBITDA to EBIT for 2019, 2018, and 2017 and for the six-month periods ended June 30, 2020 and 2019:

	For the Six-Month Period Ended June 30,		For the Financial Year		
	2020	2019	2019	2018	2017
(in EUR thousand)	(unaudited, unless otherwise indicated)				
Earnings before finance result and income tax (EBIT)	**(29,287)**	**(26,279)**	**62,071***	**21,760***	**(69,059)***
+ depreciation	19,486	18,079	38,100	24,585	15,463
+ amortization	38,178	42,911	95,719	113,402	132,399
Earnings before interest, tax, depreciation and amortization (EBITDA)	28,377	34,712	195,890	159,747	78,803
+ Transaction costs[(a)]	477	—	520	1,044	28,914
+ Separation costs[(a)]	—	(269)	(4,950)	4,481	45,607
+ Other non-recurring effects[(a)]	12,453	6,429	24,091	24,664	11,085
Adjusted EBITDA	**41,307**	**40,873**	**215,551**	**189,936**	**164,408**

* Audited.

(a) Accounted for under general administrative expenses, except for (i) EUR 28.9 million separation costs in 2017, which were accounted for under cost of sales and (ii) a low single-digit EUR million amount per year of other non-recurring effects accounted for under cost of sales.

(4) Adjusted Net Income is defined as consolidated profit/loss adjusted for certain non-recurring effects relating to (i) effects on earnings from purchase price allocations, (ii) transaction costs, (iii) separation costs, (iv) other non-recurring effects (including, for 2020 and 2019, mainly non-recurring effects related to efficiency programs, M&A projects, post-merger-integration, structural development of our business, and IPO costs and, for 2018 and 2017, additionally certain non-recurring effects related to the establishment of international sales offices and separation activities not covered by the Orlando sale and purchase agreement relating to the acquisition of the Orlando business), and (v) valuation effects related to the changes in the fair value of the embedded derivative included in the Term Loan Facility and effects resulting from the execution of early termination options of the Term Loan Facility (see also "*10.20.1.2 Existing Financing Agreements*"), in each case also reflecting the respective tax adjustment effect for such non-recurring effect. For the purposes of this tax adjustment, we have assumed that (a) the non-recurring effects correspond to those adjusted for purposes of Adjusted EBIT (in type and volume), (b) a constant group tax rate of 28.3% applies to tax-deductible positions, and (c) all non-recurring effects are tax deductible but for transaction costs. Adjusted Net Income is used as a key indicator of the economic performance of the Group, in particular to illustrate its performance without taking into account the non-recurring effects on the operating income/loss resulting from acquisitions (in the past periods for which financial information is presented in the Prospectus), as well as from the separation activities from Airbus and other non-recurring costs.

The following table presents a reconciliation of Adjusted Net Income to consolidated profit/loss for 2019, 2018, and 2017 and for the six-month periods ended June 30, 2020 and 2019:

	For the Six-Month Period Ended June 30,		For the Financial Year		
	2020	2019	2019	2018	2017
(in EUR thousand)	(unaudited, unless otherwise indicated)				
Consolidated profit/loss	**(88,930)**	**(32,402)**	**8,171***	**(59,880)***	**(100,420)***
+ Effect on earnings from purchase price allocations[(a)]	24,611	26,183	56,474	66,731	90,486
+ Transaction costs[(b)]	477	—	520	1,044	28,914
+ Separation costs[(b)]	—	(85)	(3,537)	5,077	32,700
+ Other non-recurring effects[(b)]	9,021	4,610	17,467	17,684	9,328
+ Valuation effects related to our long-term financing arrangements[(c)]	38,657	(24,276)	(38,835)	15,899	(6,159)
Adjusted Net Income	**16,164**	**25,169**	**40,260**	**46,556**	**54,850**

* Audited.

(a) Accounted for under cost of sales.

(b) Accounted for under general administrative expenses, except for (i) EUR 28.9 million separation costs in 2017, which were accounted for under cost of sales and (ii) a low single-digit EUR million amount per year of other non-recurring effects accounted for under cost of sales.

(c) Accounted for under finance income and finance costs, respectively.

(5) Adjusted Gross Profit is defined as gross profit adjusted for certain non-recurring effects relating to (i) foreign exchange rate fluctuations, (ii) effects on earnings from purchase price allocations, (iii) separation cost, (iv) other non-recurring effects, and (v) effects from reclassification and other items. Adjusted Gross Profit is used as a key indicator of the economic performance of the Group, in particular to illustrate its performance without taking into account the non-recurring effects on the operating income/loss resulting from acquisitions (in the past periods for which financial information is presented in the Prospectus), as well as from the separation activities from Airbus and other non-recurring costs.

The following table presents a reconciliation of Adjusted Gross Profit to gross profit for 2019, 2018, and 2017 and for the six-month periods ended June 30, 2020 and 2019:

	For the Six-Month Period Ended June 30,		For the Financial Year		
	2020	2019	2019	2018	2017
(in EUR thousand)	(unaudited, unless otherwise indicated)				
Gross Profit	**65,547**	**61,408**	**254,864***	**203,797***	**85,794***
+ Foreign exchange rate effects	425	(918)	(2,014)	614	19
+ Effect on earnings from purchase price allocations[(a)]	34,325	36,518	78,764	93,070	126,201
+ Separation costs	—	—	—	—	28,875
+ Other non-recurring effects[(a)]	1,619	2,350	2,938	906	3,159
+ Reclassification / other[(b)]	(59)	32	(108)	8,248	14,157
Adjusted Gross Profit	**101,857**	**99,390**	**334,444**	**306,636**	**258,205**

* Audited

(a) Accounted for under cost of sales.

(b) Reflects other operational income from carve-out related services to Airbus. The income was re-allocated to show a consistent view. Since the carve-out activities were concluded during 2018, there was no significant effect in 2019.

(6) Adjusted Pre-Tax Unlevered Free Cash Flow is defined as the sum of (i) cash flows from operating activities, adjusted for (a) certain non-recurring effects relating to (α) transaction costs, (ß) separation costs, and (Y) other non-recurring effects, (b) interest paid (including, in 2019, interest on lease liabilities), (c) income taxes payments/refunds, (d) share of profit in entities recognized according to the equity method, as well as (e) disposals of associates, other investments and other non-current investments, and (ii) cash flows from investing activities, adjusted for (a) proceeds from sale of intangible assets and property, plant and equipment, (b) acquisition of associates, other investments and other non-current investments, (c) acquisition of subsidiaries net of cash acquired, (d) disposals of associates, other investments and other non-current investments, as well as (e) other. Adjusted Pre-Tax Unlevered Free Cash Flow is used as a KPI, in particular to illustrate the Group's performance without taking into account the non-recurring effects on the operating income/loss resulting from acquisitions (in the past periods for which financial information is presented in the Prospectus), as well as from the separation activities from Airbus and other non-recurring costs, and to identify trends and make strategic decisions.

The following table presents a reconciliation of Adjusted Pre-Tax Unlevered Free Cash Flow to cash flows from operating activities for 2019, 2018, and 2017 and for the six-month periods ended June 30, 2020 and 2019:

	For the Six-Month Period Ended June 30,		For the Financial Year		
	2020	2019	2019	2018	2017
(in EUR thousand)	(unaudited)		(audited, unless otherwise indicated)		
Cash flows from operating activities	**41,908**	**(57,440)**	**83,201**	**65,677**	**49,182**
+ Transaction costs (unaudited)	901	—	—	930	65,788
+ Separation costs (unaudited)	(62)	1,079	(265)	3,650	7,774
+ Other non-recurring effects (unaudited)	11,340	7,697	15,510	24,450	17,317
+ Interest paid	22,430	23,200	45,116	35,171	27,075
+ Income taxes payments/refunds	1,980	732	10,869	(1,336)	4,657
+ Share of profit in entities recognized according to the equity method	(1,794)	(591)	(1,202)	(643)	—
+ Disposals of associates, other investments and other non-current investments	—	—	2,147	24,182	—
Cash flows from investing activities	**(48,783)**	**(35,657)**	**(165,630)**	**(60,889)**	**(1,050,396)**
+ Proceeds from sale of intangible assets and property, plant and equipment	(30)	(44)	(515)	(426)	(902)
+ Acquisition of associates, other investments and other non-current investments	2,431	(394)	3,947	8,324	281
+ Acquisition of subsidiaries net of cash acquired	(4,000)	—	83,817	17,329	1,012,440
+ Disposals of associates, other investments and other non-current investments	—	—	(2,147)	(24,182)	—
+ Other	(166)	30	48	(240)	(701)
Adjusted Pre-Tax Unlevered Free Cash Flow (unaudited)	**26,155**	**(61,389)**	**74,896**	**91,997**	**132,515**

The following table presents Order Backlog as of the relevant balance sheet date for which financial information is presented in the Prospectus:

	As of June 30, 2020	As of December 31,		
		2019	2018	2017
(in EUR thousand)	(unaudited)			
Order Backlog[(a)]	3,426,944	2,202,338	2,260,872	2,052,295

(a) Order Backlog is defined as the value of our order book at a respective reporting date, keeping record of customer orders starting from the opening stock and taking into account revenue and adjustments for the respective reporting period, and ending with the final stock. In detail, Order Backlog is composed of:

Order Backlog at the beginning of the respective reporting period

\+ Order Intake for the respective reporting period

\- reported revenue for the respective reporting period

+/- changes in consolidation scope

\- backlog adjustments for the respective reporting period

+/- foreign exchange rate adjustments

= closing Order Backlog at the respective reporting date.

Backlog adjustments are recorded in the event a customer (fully or partly) terminates a customer contract or if the transaction price (being the consideration under a customer contract) is reduced for other reasons (for example, due to a modification of the order or a reassessment of variable components of the consideration). If such a customer contract was recorded within the respective reporting period, the corresponding amount of reduction is booked as a negative Order Intake. If such a customer contract was already booked within a preceding reporting period and, thus, formed part of the beginning Order Backlog of the respective reporting period, the corresponding amount of reduction is booked as a backlog adjustment, as the case may be, with no impact on Order Intake for the respective reporting period.

8.5. Description of Selected Items of Our Consolidated Income Statement

8.5.1. Revenue

Revenue is recognized if and to the extent control over distinct goods and services transfers to the customer, *i.e.*, when the customer has the capacity to determine the use of the transferred goods or services and to primarily obtain the remaining benefits therefrom. Precondition in this respect is that a

contract with enforceable rights and obligations is in place and, among other things, recovery of the consideration – taking into account the credit rating of the customer – is probable. Revenue corresponds to the transaction price to which we expect to be entitled under such contract. Variable considerations (such as price escalations, contractual penalties, revisions following price audits) are reflected in the transaction price if and to the extent it is highly probable that such variable consideration may be collected or when the uncertainty associated with such variable consideration no longer exists.

If a contract comprises several distinct goods or services, the transaction price is allocated to performance obligations based on the relative stand-alone selling price. If stand-alone selling prices are not directly observable, we estimate these in an appropriate amount. If no observable prices exist, particularly as the goods and services offered by us are highly complex and individual, we estimate the stand-alone selling price of each separate performance obligation based on the expected costs plus margin approach.

Revenue is recognized for each performance obligation either at a point in time or over time. For each performance obligation to be satisfied over time pursuant to IFRS 15, we recognize revenue over time by determining the progress towards complete satisfaction of that performance. For additional information, see also Note 2.3 to the Audited Consolidated Financial Statements 2019.

For reporting purposes, we discern two revenue categories: sales and aftersales. The category aftersales consists of revenue related to the sale of products and the rendering of services related to a prior purchase (for example, the sale of spare parts and the provision of maintenance services), as well as training and simulation services. Revenue from the sale of products and rendering of services other than the aforementioned are included in the category sales. Aftersales comprises all revenue attributable to our Customer Services division, as well as aftersales-related revenue accounted for in one of our other two divisions of our Sensors segment (Radar, IFF & COMMS and Spectrum Dominance & Airborne Solutions), as well as our Optronics segment.

8.5.2. Cost of Sales

Cost of sales (manufacturing costs of goods or services from which revenue is earned) covers the total purchase and production costs of products, merchandise, and services sold during the year. These costs are reported in relation to the actual sales and can thus also include production costs capitalized in the preceding year to the extent the respective inventories were sold in the current reporting period. Cost of sales also includes expenses for R&D carried out under contracts to third parties and amortization of capitalized development costs.

Cost of sales includes the costs of inefficient production such as the costs of idle capacity, production and price variances, and impairment charges in respect of inventory and of property, plant, and equipment used in the production of goods or delivery of services. Our gross margin therefore also reflects costs of production that cannot be recovered from sales (IAS 2.38).

8.5.3. Selling and Distribution Expenses

Selling expenses include all direct selling and distribution expenses and related overhead costs incurred in the current year. The sales and distribution sector includes the following cost centers: sales/ distribution, marketing, advertising, sales staff training, order processing, administration of sales distribution, and regional distribution depots.

8.5.4. General Administrative Expenses

General administrative expenses include all amounts charged to the administrative cost centers. These specifically involve the cost of executive management, legal and compliance, strategy, auditing and tax sectors, accounting, and controlling.

8.5.5. Research and Development Costs

The expenses for research and development (self-financed) include the expenses for our own basic research and development of future products (unless capitalized in accordance with IAS 38). Expenses for contracted research and development projects are not self-financed and are consequently accounted under cost of sales.

8.5.6. Earnings Before Finance result and Income Tax (EBIT)

Earnings before finance result and income tax (EBIT) as shown in our consolidated statement of income is defined as consolidated profit/loss before finance income/costs and income tax (hereinafter also referred to as "**EBIT**").

8.6. Results of Operations – Review of Selected Items of Our Consolidated Income Statement

8.6.1. Overview

The following table presents our consolidated income statement for 2019, 2018, and 2017 and for the six-month periods ended June 30, 2020 and 2019:

	For the Six-Month Period Ended June 30,		For the Financial Year		
	2020	**2019**	**2019**	**2018**	**2017**
(in EUR thousand)	**(unaudited)**			**(audited)**	
Revenue	440,296	415,557	1,114,164	1,110,117	917,093
Cost of sales	(376,649)	(354,572)	(855,208)	(900,422)	(831,496)
Impairment gains/(losses) on trade receivables and contract assets	1,900	422	(4,092)	(5,898)	197
Gross profit	**65,547**	**61,408**	**254,864**	**203,797**	**85,794**
Selling and distribution expenses	(42,239)	(40,319)	(84,828)	(76,848)	(49,000)
General administrative expenses	(37,720)	(31,374)	(76,321)	(68,849)	(80,372)
Research and development costs	(13,894)	(15,949)	(30,993)	(32,178)	(29,767)
Other operating income	9,712	12,687	25,343	32,724	23,390
Other operating expenses	(8,900)	(12,141)	(24,792)	(36,243)	(19,104)
Share of profit from investments accounted for using the equity method	(1,794)	(591)	(1,202)	(643)	0
Earnings before finance result and income tax (EBIT)	**(29,287)**	**(26,279)**	**62,071**	**21,760**	**(69,059)**
Interest income	1,979	36,566	58,938	14,855	12,369
Interest expense	(85,389)	(42,852)	(83,501)	(96,425)	(55,528)
Other finance income/costs	(4,514)	(743)	(1,930)	(5,275)	(10,212)
Finance result	**(87,924)**	**(7,029)**	**(26,493)**	**(86,845)**	**(53,371)**
Earnings before income taxes	**(117,211)**	**(33,308)**	**35,578**	**(65,085)**	**(122,430)**
Income taxes	28,281	906	(27,407)	5,205	22,010
Consolidated profit/loss	**(88,930)**	**(32,402)**	**8,171**	**(59,880)**	**(100,420)**
thereof attributable to the owners of the parent company	*(88,456)*	*(32,491)*	*5,918*	*(60,565)*	*(101,374)*
thereof attributable to non-controlling interests	*(475)*	*90*	*2,253*	*685*	*954*

8.6.2. Revenue

The following table presents our revenue, including a breakdown per segment and division, for 2019, 2018, and 2017 and for the six-month periods ended June 30, 2020 and 2019:

	For the Six-Month Period Ended June 30,		For the Financial Year		
	2020	**2019**	**2019**	**2018**	**2017**
(in EUR thousand)	**(unaudited, unless otherwise indicated)**				
Revenue	**440,296**	**415,557**	**1,114,164***	**1,110,117***	**917,093***
Sensors	343,464	317,254	837,071*	861,958*	704,277
thereof Radar, IFF & COMMS	*125,790*	*135,378*	*361,661*	*381,931*	*269,352*
thereof Spectrum Dominance & Airborne Solutions	*95,777*	*110,399*	*276,650*	*318,662*	*288,669*
thereof Customer Services	*116,676*	*65,871*	*192,226*	*144,485*	*129,856*
Others/Elimination	*5,221*	*5,606*	*6,534*	*16,879*	*16,400*
Optronics	97,731	98,480	277,439*	249,449*	215,196
Elimination/Transversal/Others	(899)	(177)	(345)*	(1,290)*	(2,381)

* Audited.

The following table presents our revenue, including a breakdown per region (based on end-customer location), for 2019, 2018, and 2017 and for the six-month periods ended June 30, 2020 and 2019:

	For the Six-Month Period Ended June 30,		For the Financial Year		
	2020	2019	2019	2018	2017
(in EUR thousand)	(unaudited)		(audited, unless otherwise indicated)		
Revenue	**440,296**	**415,557**	**1,114,164**	**1,110,117**	**917,093**
Europe	341,928	272,913	742,843	762,450	681,748*
therein Germany	*209,772*	*169,823*	*483,282*	*497,353*	*422,248**
Middle East	37,615	41,109	164,775	125,225	75,739*
APAC	15,509	26,656	82,373	112,930	69,956*
North America	24,055	10,903	40,927	35,767	48,749*
Africa	19,647	53,002	86,312	71,915	49,815*
LATAM	7,330	13,585	19,194	14,895	6,035*
Other regions/consolidation**	(5,788)	(2,611)	(22,260)	(13,065)	(14,949)*

* Unaudited.
** Predominantly related to elimination of intra-group revenue.

8.6.2.1. Six-Month Period Ended June 30, 2020 compared to Six-Month Period Ended June 30, 2019

In the first half 2020, our revenue increased by EUR 24.7 million, or 6.0%, to EUR 440.3 million, compared to EUR 415.6 million in the first half 2019.

On a Group level, technologies and products incorporated in the Eurofighter platform, as well as customer support and services related thereto accounted for the most significant part of our revenue in the first half 2020 and the first half 2019, whereby the revenue from the development of the Eurofighter's Captor-E nose radar for Germany increased substantially in the first half 2020 compared to the first half 2019. M&A effects related to the acquisition of the Nexeya and HENSOLDT Australia businesses as of October 1, 2019 were reflected in the Unaudited Interim Consolidated Financial Statements for the first half 2020 (see also "*8.2.1. Introductory Note on Financial Information Used in the Prospectus*") and had a beneficial effect on revenue in the EUR mid-thirties million range in the first half 2020 compared to the first half 2019.

On a segment level, the increase in our revenue in the first half 2020 compared to the first half 2019 was mainly attributable to our Sensors segment, the revenue of which increased by EUR 26.2 million, or 8.3%, to EUR 343.5 million in the first half 2020 compared to EUR 317.3 million in the first half 2019. This increase was primarily attributable to our Customer Services division within the Sensors segment, where revenue increased by EUR 50.8 million, or 77.1%, to EUR 116.7 million in the first half 2020, compared to EUR 65.9 million in the first half 2019, primarily driven by the acquisition of the Nexeya business in October 2019. In addition, services related to self-protection programs in Europe and a spare parts program for the TRS-3D radar in North America contributed to the increase in revenue attributable to the Customer Services division. Overall, customer services performed under a contract covering repairs (including spare parts) and support services for the Eurofighter accounted for the most significant part of our revenue in the Customer Services division in the first half 2020 and the first half 2019. These positive effects on revenue in our Sensors segment from the Customer Services division were partially offset by our other two divisions in this segment.

Revenue of the Radar, IFF & COMMS division in our Sensors segment decreased by EUR 9.6 million, or 7.1%, to EUR 125.8 million in the first half 2020, compared to EUR 135.4 million in the first half 2019. This decrease was particularly related to a decrease in revenue associated with the ramp-down of a surveillance radar project in Northern Africa. In addition, the ramp-down of a Eurofighter study contract as well as the finalization of a naval radars delivery contributed to the decrease in revenue, while this decrease was partially offset by revenue attributable to a contract for the development of the Eurofighter's radar system.

Revenue of the Spectrum Dominance & Airborne Solutions division in our Sensors segment also decreased in the first half 2020 compared to the first half 2019, by EUR 14.6 million, or 13.2%, from EUR 110.4 million to EUR 95.8 million. This decrease was mainly due to decreased revenue attributable to the multifunctional self-protection system ("**MUSS**") for the German armed forces'

(*Bundeswehr*) Puma armored vehicle, in line with the scheduled completion of projects, as well as a decline in export of sensors solutions for the Eurofighter, in particular, to the Middle East, and decreased revenue attributable to our subsidiary EuroAvionics due to fewer successor projects. These effects were partially offset by increased revenue attributable to the Eurofighter's self-protection system Praetorian DASS.

In our Optronics segment, revenue decreased slightly by EUR 0.7 million, or 0.8%, to EUR 97.7 million in the first half 2020, compared to EUR 98.5 million in the first half 2019. This decrease was primarily related to a decline in revenue from optronics for the Puma armored vehicle in Germany, as well as the delivery of optronics equipment to several international customers, in line with ramp-downs and anticipated finalization of projects. These effects were partially offset by an increase in revenue from the Final Focus Metrology toolset (see "*10.5.4.5. Industrial Commercial Solutions*") and increased revenue attributable to the ramp-up of delivery of sensor packages for the Leopard 2 MBT in Germany.

On a regional basis, in the first half 2020 and the first half 2019, Europe accounted for the largest proportion of our revenue. Revenue in this region increased by EUR 69.0 million, or 25.3%, to EUR 341.9 million in the first half 2020, compared to EUR 272.9 million in the first half 2019, in particular due to the aforementioned increase in revenue attributable to the development of the Eurofighter's Captor-E nose radar for Germany, the addition of the Nexeya business, and increased revenue from our Final Focus Metrology toolset in this region. Revenue in Germany increased by EUR 39.9 million, or 23.5%, to EUR 209.8 million in the first half 2020, compared to EUR 169.8 million in the first half 2019, also primarily due to the development of the Eurofighter's Captor-E nose radar. In addition, we recorded higher revenue in North America, to EUR 24.1 million in the first half 2020 compared to EUR 10.9 million in the first half 2019, in particular attributable to naval radar systems and related customer support.

In contrast, revenue attributable to Africa decreased by EUR 33.4 million, or 62.9%, to EUR 19.6 million in the first half 2020 compared to EUR 53.0 million in the first half 2019, due to the aforementioned ramp-down of a large border protection project in Northern Africa. Our Middle Eastern region recorded a revenue decline of EUR 3.5 million, or 8.5%, to EUR 37.6 million in the first half 2020, compared to EUR 41.1 million in the first half 2019. This decline resulted primarily from the completion of the delivery of a batch of SPEXER radars, partially offset by the ramp-up of certain Eurofighter projects in that region. Furthermore, revenue in the APAC region decreased by EUR 11.1 million, or 41.8%, to EUR 15.5 million in the first half 2020, compared to EUR 26.7 million in the first half 2019, due to a decrease in revenue associated with the delivery of our TRS-3D naval radars.

8.6.2.2. Financial Year 2019 compared to Financial Year 2018

In 2019, our revenue increased by EUR 4.0 million, or 0.4%, to EUR 1,114.2 million, from EUR 1,110.1 million in 2018.

On a Group level, technologies and products incorporated in the Eurofighter platform, as well as customer support and services related thereto accounted for the most significant part of our revenue in 2019 and 2018, with the Eurofighter's servicing, its nose radar retrofit to an AESA radar and the aircraft's self-protection system Praetorian DASS being the most important projects in both years. M&A effects, which in the financial years 2019 and 2018 related to the acquisition of the HENSOLDT France business, which was reflected in the Audited Consolidated Financial Statements only as from April 26, 2018, and the acquisition of the Nexeya and HENSOLDT Australia businesses, which were reflected in the Audited Consolidated Financial Statements only as from October 1, 2019 (see also "*8.2.1. Introductory Note on Financial Information Used in the Prospectus*"), had a beneficial effect on revenue in the EUR twenties million range in 2019 as compared to 2018.

On a segment level, the increase in our revenue in 2019 was mainly attributable to our Optronics segment, the revenue of which increased by EUR 28.0 million, or 11.2%, from EUR 249.4 million in 2018 to EUR 277.4 million in 2019. The largest share of this increase was attributable to the ramp-up of delivery of sensor packages for the Leopard 2 MBT in Eastern Europe and Germany, as well as revenue from submarine optronics delivered to the Middle East. In addition, revenue from the Final Focus Metrology toolset (see "*10.5.4.5. Industrial Commercial Solutions*") contributed a significant part to the revenue of our Optronics segment in both years. In contrast, revenue related to optronics for the Puma armored vehicle in Germany declined in line with the ramp-down and anticipated finalization of projects, while certain large German procurement projects were delayed.

In our Sensors segment, revenue decreased by EUR 24.9 million, or 2.9%, from EUR 862.0 million in 2018 to EUR 837.1 million in 2019. The majority of this decrease was attributable to our Spectrum Dominance & Airborne Solutions division, where revenue decreased by EUR 42.0 million, or 13.2%, to EUR 276.7 million in 2019, from EUR 318.7 million in 2018. This was due to a decline in export of sensors solutions for the Eurofighter, in particular, to the Middle East, decreased revenue attributable to our Airborne Missile Protection System (AMPS) and our South African subsidiary GEW Technologies (Pty) Ltd. due to fewer successor projects, and most notably, decreased revenue attributable to the Eurofighter's self-protection system Praetorian DASS in Germany and Western Europe, in line with the scheduled completion of projects.

Revenue of the Radar, IFF & COMMS division in our Sensors segment decreased by EUR 20.3 million, or 5.3%, to EUR 361.7 million in 2019 from EUR 381.9 million in 2018. This decrease in revenue of our Radar, IFF & COMMS division was particularly related to a decrease in revenue associated with delivery of our COBRA weapon-location radars in connection with Middle-Eastern procurement projects. In addition, the scheduled ramp-down and, in certain cases, finalization of large ATC projects in APAC and Western Europe contributed to the decrease in revenue.

Partially offsetting the negative effects from the other two divisions within our Sensors segment, the revenue of the Customer Services division within the Sensors segment increased by EUR 47.7 million, or 33.0%, to EUR 192.2 million in 2019 from EUR 144.5 million in 2018. This increase was driven by a large radar upgrade and retrofit program in the Middle East. In addition, the acquisition of the Nexeya business in October 2019 also contributed to the increase in revenue attributable to the Customer Services division. Overall, customer services performed under a contract covering repairs (including spare parts) and support services for Eurofighters still accounted for the most significant part of our revenue in the Customer Services division in 2018 and 2019.

On a regional basis, in both 2018 and 2019, Europe accounted for the largest proportion of our revenue. Revenue in this region decreased by EUR 19.6 million, or 2.6%, from EUR 762.5 million in 2018 to EUR 742.8 million in 2019, in particular due to the aforementioned decrease in revenue from the Eurofighter's self-protection system Praetorian DASS in Germany and Western Europe and the finalization of large ATC projects in Western Europe. Revenue in Germany decreased from EUR 497.4 million in 2018 by EUR 14.1 million, or 2.8%, to EUR 483.3 million in 2019, primarily due to the aforementioned delay in certain German procurement projects.

Our Middle East region recorded strong revenue growth of EUR 39.6 million, or 31.6%, from EUR 125.2 million in 2018 to EUR 164.8 million in 2019. This growth resulted primarily from the ramp-up of Eurofighter projects in that region. Furthermore, revenue attributable to Africa increased from EUR 71.9 million in 2018 by EUR 14.4 million, or 20.0%, to EUR 86.3 million in 2019 due to the continued ramp-up of a large border protection project in Northern Africa.

In contrast, revenue in the APAC region decreased by EUR 30.6 million, or 27.1%, from EUR 112.9 million in 2018 to EUR 82.4 million in 2019, due to the scheduled ramp-down of a large ASR project in Australia.

8.6.2.3. Financial Year 2018 compared to Financial Year 2017

In 2018, our revenue increased by EUR 193.0 million, or 21.0%, to EUR 1,110.1 million, from EUR 917.1 million in 2017.

The increase in our revenue mainly resulted from (i) the Orlando effect (*i.e.*, revenue in 2017 reflected the Orlando business only for the ten-month period beginning February 28, 2017, whereas revenue in 2018 reflected the Orlando business for the whole twelve-month period, see also "*8.2.1. Introductory Note on Financial Information Used in the Prospectus*"), (ii) the M&A effects (*i.e.*, revenue in 2017 reflected the EuroAvionics business and the Kelvin Hughes business only partially and the PentaTec business not at all, whereas revenue in 2018 reflected these businesses in full, see also "*8.2.1. Introductory Note on Financial Information Used in the Prospectus*"), and (iii) the IFRS 15 effects (which positively affected our revenue in 2018 whereas comparative data for 2017 was not retroactively adjusted, see also "*8.2.3.1. IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers*").

Had the Orlando business been reflected in our Audited Consolidated Financial Statements with effect from January 1, 2017, according to management's estimates, our revenue in 2017 would have been

higher by EUR 102 million. Similarly, had the EuroAvionics business and the Kelvin Hughes business been included in the scope of consolidation with effect from January 1, 2017, our revenue for 2017 would have been higher by EUR 11 million and EUR 30 million, respectively. Moreover, since April 26, 2018, the HENSOLDT France business contributed EUR 15 million to our revenue in 2018, with no such contributions in 2017 (the PentaTec business contributed no material revenue in 2018). The IFRS 15 effects in 2018 amounted to EUR 82.4 million with no such effect in 2017.

On a Group level, technologies and products incorporated in the Eurofighter platform (see "*10.6.2.1. Eurofighter*"), as well as customer support and services related thereto accounted for the most significant part of our revenue in 2018 and 2017, with the Eurofighter's existing nose radar retrofit to an AESA radar and the aircraft's self-protection system Praetorian DASS being the most important projects in each year. In 2018, our revenue attributable to projects related to the Eurofighter increased by a low double-digit Euro million amount compared to revenue attributable to projects related to the Eurofighter in 2017, primarily driven by export projects in the Middle East.

On a segment level, the increase in our revenue in 2018 was mainly attributable to our Sensors segment, revenue of which increased by EUR 157.7 million, or 22.4%, from EUR 704.3 million in 2017 to EUR 862.0 million in 2018. The majority of this increase was attributable to the Radar, IFF & COMMS division, where revenue increased by EUR 112.6 million, or 41.8%, to EUR 381.9 million in 2018 from EUR 269.4 million in 2017. Besides the aforementioned Orlando effect, M&A effects (relating, in particular, to the Kelvin Hughes business), and IFRS 15 effects, this increase in revenue of our Radar, IFF & COMMS division was, at an operational level, particularly driven by the ramp-up of an aerodrome surveillance radar project in Australia with deliveries commencing in 2018 and the start of delivery of our COBRA weapon-location radars in connection with a Middle-Eastern procurement project in 2018. The ramp-up of a ground radar project for border protection in Northern Africa also contributed to the increase in our Radar, IFF & COMMS division. In contrast, the near completion of two significant aerodrome surveillance radar projects in Canada and Switzerland in 2017 resulted in a corresponding decrease in revenue attributable to our Radar, IFF & COMMS division in 2018. In addition, the ramp-down of a project for the German armed forces (*Bundeswehr*) to create a satellite-based radar reconnaissance system also had a negative effect on our revenue attributable to the Radar, IFF & COMMS division in 2018.

Revenue of the second largest division in our Sensors segment, Spectrum Dominance & Airborne Solutions, increased by EUR 30.0 million, or 10.4%, to EUR 318.7 million in 2018 from EUR 288.7 million. At an operational level (*i.e.*, other than the aforementioned Orlando effect, M&A effects relating, in particular, to the EuroAvionics business, and IFRS 15 effects), revenue remained essentially flat, whereby the MUSS for Puma accounted for the most significant part of revenue in both years. Revenue from a procurement project concerning the Eurofighter's self-protection system Praetorian DASS for the German armed forces (*Bundeswehr*) increased in 2018 in line with project ramp-up. In contrast, conclusion of a procurement project concerning the Eurofighter's self-protection system Praetorian DASS for the air forces of the United Kingdom, Italy, Germany and Spain had an opposite effect.

Revenue of the division Customer Services also increased by EUR 14.6 million, or 11.3%, to EUR 144.5 million in 2018 from EUR 129.9 million essentially due to the aforementioned Orlando effect. At an operational level, revenue remained almost constant. Overall, customer services performed under a contract covering repairs (including spare parts) and support services for Eurofighters accounted for the most significant part of our revenue in the division Customer Services in 2017 and 2018.

Revenue attributable to our Optronics segment increased from EUR 215.2 million in 2017 by EUR 34.3 million, or 15.9%, to EUR 249.4 million in 2018 essentially due to the aforementioned effects from the Orlando effect and IFRS 15 effects. At an operational level, revenue attributable to our Optronics segment increased slightly, mainly due to ramp-up of a border protection project in Northern Africa and the "Soldier of the Future" (*Infanterist der Zukunft*) program, a modernization project for the German armed forces' (*Bundeswehr*) infantry equipment, and ramp-up of delivery of sensor packages for the Puma armored vehicle, whereas revenue attributable to a border protection project in the Middle-East and the near set-up of a maintenance facility for submarine optronics in Turkey declined. In addition, revenue from the Final Focus Metrology toolset contributed a significant part to the revenue of our Optronics segment in both years.

On a regional basis, both in 2017 and 2018, Europe accounted for the largest proportion of our revenue. Revenue in this region increased by EUR 80.7 million, or 11.8%, from EUR 681.7 million in 2017 to EUR 762.5 million in 2018, in particular due to a significant increase of EUR 75.1 million in revenue in Germany, as well as the Orlando effect, M&A effects (primarily from the acquisition of the Kelvin Hughes business), and IFRS 15 effects. Revenue in Germany increased from EUR 422.2 million in 2017 by EUR 75.1 million, or 17.8%, to EUR 497.4 million in part due to the aforementioned Orlando effect, M&A effects, and IFRS 15 effects, as well as, at an operational level, primarily due to increased revenue from major projects for the German armed forces (*Bundeswehr*) relating to, among other things, the Eurofighter's self-protection system Praetorian DASS and the aforementioned "Soldier of the Future" (*Infanterist der Zukunft*) program.

Our Middle East region recorded strong growth of EUR 49.5 million, or 65.3%, from EUR 75.7 million in 2017 to EUR 125.2 million in 2018. The increase resulted from the aforementioned Orlando effect and IFRS 15 effects and, at an operational level, primarily from the ramp-up of projects related to the COBRA and Eurofighter platform for export to the region. Furthermore, revenue in the APAC region increased by EUR 43.0 million, or 61.4%, from EUR 70.0 million in 2017 to EUR 112.9 million in 2018. This development was driven by the Orlando effect and IFRS 15 effects and, operationally, by the ramp-up of projects in Australia, especially with respect to an aerodrome surveillance radar project as detailed above.

In addition, our revenue attributable to Africa for 2018 compared to 2017 increased by EUR 22.1 million, or 44.4%, from EUR 49.8 million to EUR 71.9 million in 2018, mainly driven by the Orlando effect and IFRS 15 effects, as well as, at an operational level, a large border protection project in Northern Africa ramping up.

8.6.3. Cost of Sales

8.6.3.1. Six-Month Period Ended June 30, 2020 compared to Six-Month Period Ended June 30, 2019

Our cost of sales increased by EUR 22.1 million, or 6.2%, to EUR 376.6 million in the first half 2020, compared to EUR 354.6 million in the first half 2019. As a percentage of revenue, cost of sales increased to 85.5% in the first half 2020, compared to 85.3% in the first half 2019.

The increase in cost of sales in total figures was primarily driven by M&A effects, mainly related to the acquisition of the Nexeya business, which resulted in an increase in cost of sales on a consolidated basis in the EUR twenties million range. In addition, we recorded higher expenses from inventory valuation, in particular in the Optronics segment.

This effect was partially offset by the scheduled decrease in depreciation and amortization of step-ups of asset book values in connection with purchase price allocations which decreased to EUR 34.3 million in the first half 2020 compared to EUR 36.5 million in the first half 2019. In addition, efficiency measures in connection with the implementation of our HENSOLDT GO! program (see also "*8.3.5. Operational Excellence and Efficiency Program HENSOLDT GO!*"), changes in our product mix (which resulted in better project gross margins), reduced cost of non-quality, and an increased rate of capitalized work in process (accounted for under inventories) had a positive effect on our cost of sales in the first half 2020 compared to the first half 2019. Within the HENSOLDT GO! program, efficiency improvements were mainly driven by measures relating to "Operational Excellence", which were focused on optimizing our production facilities, engineering workforce, as well as procurement spend, which resulted in improved project executions.

8.6.3.2. Financial Year 2019 compared to Financial Year 2018

In 2019, our cost of sales decreased by EUR 45.2 million, or 5.0%, to EUR 855.2 million, from EUR 900.4 million in 2018. As a percentage of revenue, our cost of sales declined from 81.1% in 2018 to 76.8% in 2019.

Excluding the M&A effects, mainly related to the acquisition of the Nexeya business, which resulted in an increase in cost of sales in the low double-digit EUR million range, this decrease would have been even more pronounced.

The largest share of the decrease in our cost of sales in 2019 resulted from the scheduled decrease in depreciation and amortization of step-ups of asset book values in connection with purchase price

allocations, which decreased from EUR 93.1 million in 2018 to EUR 78.8 million in 2019. Moreover, cost of sales in 2019 were significantly affected by the first-time application of IFRS 16, which resulted in a shift of expenses from cost of sales to finance costs (see also "*8.2.3.2 IFRS 16 – Leases*").

In addition, efficiency measures in connection with the implementation of our HENSOLDT GO! program (see also "*8.3.5. Operational Excellence and Efficiency Program HENSOLDT GO!*"), changes in our product mix, which resulted in better project gross margins, reduced cost of non-quality, and the increased rate of capitalized work in process (accounted for under inventories) had a positive effect on our cost of sales in 2019 compared to 2018. Within the HENSOLDT GO! program, the efficiency improvements were mainly driven by measures relating to "Operational Excellence", which were focused on optimizing our production facilities, engineering workforce, as well as procurement spend, which resulted in an improved project execution.

8.6.3.3. Financial Year 2018 compared to Financial Year 2017

In 2018, our cost of sales increased by EUR 68.9 million, or 8.3%, to EUR 900.4 million, from EUR 831.5 million in 2017. However, as a percentage of revenue, our cost of sales declined from 90.7% in 2017 to 81.1% in 2018.

The increase in our cost of sales in 2018 primarily resulted from the Orlando effect. Considering the additional cost of sales of the Orlando business incurred in the first two months of 2017 of approximately EUR 100.6 million (based on management estimate), cost of sales for twelve months in 2017 would have amounted to approximately EUR 931.9 million (based on management estimate), implying a decrease in cost of sales on a twelve-month basis. Moreover, cost of sales in 2018 were significantly affected by the first-time application of IFRS 15 (see "*8.2.3.1. IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers*"), which caused adjustments to cost of sales resulting in an increase of EUR 55.9 million. In addition, the M&A effects in the low double-digit EUR million range contributed to the increase in cost of sales. But for these effects, cost of sales would have decreased substantially in 2018 compared to 2017.

In particular, our cost of sales were significantly less affected by non-recurring effects related to depreciation and amortization from adjustments to the fair values of assets as part of the purchase price allocations (related to the acquisitions of the Orlando business, the EuroAvionics business, the Kelvin Hughes business, and the HENSOLDT France business in 2018), which decreased from EUR 126.2 million in 2017 to EUR 93.1 million in 2018. In addition, efficiency measures in connection with the implementation of our HENSOLDT GO! program, changes in our product mix and the increased rate of capitalized work in process (accounted for under inventories) all had a positive effect on our cost of sales in 2018 compared to 2017. Within the HENSOLDT GO! program, the efficiency improvements were mainly driven by initial effects from measures relating to "Operational Excellence", which were focused on optimizing our production facilities, engineering workforce, as well as procurement spend.

8.6.4. Gross Profit

8.6.4.1. Six-Month Period Ended June 30, 2020 compared to Six-Month Period Ended June 30, 2019

Our gross profit increased by EUR 4.1 million, or 6.7%, to EUR 65.5 million in the first half 2020, compared to EUR 61.4 million in the first half 2019, mainly as a result of the aforementioned development of our revenue and cost of sales in the first half 2020 compared to the first half 2019. In addition, we recorded an increase in impairment gains on trade receivables and contract assets, which increased to EUR 1.9 million in the first half 2020, compared to EUR 0.4 million in the first half 2019. Irrespective of this increase in impairment gains on trade receivables and contract assets, our gross profit margin (calculated as a percentage of revenue) increased to 14.9% in the first half 2020, compared to 14.8% in the first half 2019, reflecting the aforementioned improvement of our cost of sales to revenue ratio.

8.6.4.2. Financial Year 2019 compared to Financial Year 2018

Our gross profit increased by EUR 51.1 million, or 25.1%, from EUR 203.8 million in 2018 to EUR 254.9 million in 2019, mainly as a result of the aforementioned development of our revenue and

cost of sales in 2019 compared to 2018. In addition, impairment losses on trade receivables and contract assets decreased from EUR 5.9 million in 2018 to EUR 4.1 million in 2019 and, thus, contributed to the improvement of gross profit in 2019. Our gross profit margin (calculated as a percentage of revenue) increased from 18.4% in 2018 to 22.9% in 2019, reflecting the aforementioned improvement of our cost of sales to revenue ratio.

8.6.4.3. Financial Year 2018 compared to Financial Year 2017

Our gross profit increased by EUR 118.0 million, or 137.5%, from EUR 85.8 million in 2017 to EUR 203.8 million in 2018, mainly as a result of the aforementioned development of our revenue and cost of sales in 2018 compared to 2017 (including the Orlando effect, M&A effects, and IFRS 15 effects). Impairment gains/losses on trade receivables and contract assets changed from a gain of EUR 0.2 million in 2017 to a loss of EUR 5.9 million in 2018, mainly because of adjustments of provisions based on more detailed historical and forward-looking information which negatively affected gross profit in 2018 compared to 2017. Our gross profit margin (calculated as a percentage of revenue) increased from 9.4% in 2017 to 18.4% in 2018.

8.6.5. Selling and Distribution Expenses

8.6.5.1. Six-Month Period Ended June 30, 2020 compared to Six-Month Period Ended June 30, 2019

Our selling and distribution expenses increased by EUR 1.9 million, or 4.8%, to EUR 42.2 million in the first half 2020, compared to EUR 40.3 million in the first half 2019. As a percentage of revenue, our selling and distribution expenses decreased to 9.6% in the first half 2020, compared to 9.7% in the first half 2019.

The increase in selling and distribution expenses resulted mainly from the acquisition of the Nexeya business. In addition, headcount cost of our central functions reported under selling and distribution expenses increased in the first half 2020 due to the continued ramp-up of sales activities in North America and the APAC region, as well as the expansion of public affairs and marketing activities. We also increased our bid activity, most significantly for certain German key campaigns, including the Eurofighter ECRS Mk1 radar system.

8.6.5.2. Financial Year 2019 compared to Financial Year 2018

Our selling and distribution expenses increased by EUR 8.0 million, or 10.4%, from EUR 76.8 million in 2018 to EUR 84.8 million in 2019. As a percentage of revenue, our selling and distribution expenses increased from 6.9% in 2018 to 7.6% in 2019.

The increase in selling and distribution expenses resulted mainly from the continued global ramp-up of sales activities. In addition, headcount cost of our central functions reported in selling and distribution expenses increased in 2019 due to the continued ramp-up of sales activities in North America and the APAC region, as well as the expansion of public affairs and marketing activities. We also increased our bid activity, most significantly for certain German key campaigns including the future Eurofighter common radar system. M&A effects had a negligible impact on our selling and distribution expenses in 2019 compared to 2018.

8.6.5.3. Financial Year 2018 compared to Financial Year 2017

Our selling and distribution expenses increased by EUR 27.8 million, or 56.8%, from EUR 49.0 million in 2017 to EUR 76.8 million in 2018. As a percentage of revenue, our selling and distribution expenses increased from 5.3% in 2017 to 6.9% in 2018.

This increase was in part caused by the Orlando effect. Considering the additional selling and distribution expenses of the Orlando business incurred in the first two months of 2017 of approximately EUR 9.3 million (based on management estimate), selling and distribution expenses for twelve months in 2017 would have amounted to approximately EUR 58.3 million (based on management estimate). In addition, the M&A effects also contributed to the increase in selling and distribution expenses in 2018 compared to 2017.

At an operational level, the increase in selling and distribution expenses resulted mainly from the further internationalization of our business activities in line with our HENSOLDT GO! program (see also

"*8.3.5. Operational Excellence and Efficiency Program HENSOLDT GO!*"). To promote organic growth, in one of the value creation areas of this program we focused on further enlarging our world-wide presence by ramping up our international sales force and setting up international offices. In particular, we enlarged our sales force in Singapore for our APAC sales hub and Abu Dhabi for our Middle East sales hub. We also gained further sales force in particular in our Other Regions, as well as in Washington, D.C. for our North America sales hub and in Ottawa, Brussels, and Germany. In addition, headcount cost of our central functions reported in selling and distribution expenses increased in 2018, again due to the internationalization of our business and the build-up of stand-alone central functions. We also increased our bid activity, most significantly for our Sensors segment, which led to higher selling and distribution expenses in 2018 compared to 2017.

8.6.6. General Administrative Expenses

8.6.6.1. Six-Month Period Ended June 30, 2020 compared to Six-Month Period Ended June 30, 2019

Our general administrative expenses increased by EUR 6.3 million, or 20.2%, to EUR 37.7 million in the first half 2020, compared to EUR 31.4 million in the first half 2019. As a percentage of revenue, the increase was from 7.5% in the first half 2019 to 8.6% in the first half 2020.

The increase in general administrative expenses resulted, in particular, from an increase in non-recurring effects accounted for under general administrative expenses, which increased to EUR 11.4 million in the first half 2020, compared to EUR 4.0 million in the first half 2019. Such increase was primarily caused by other non-recurring effects, which increased to EUR 11.0 million in the first half 2020 compared to EUR 4.1 million in the first half 2019, resulting, in particular, from the preparation of the Offering and the listing. In addition, the acquisition of the Nexeya business in October 2019, as well as a decrease in income resulting from separation costs contributed to the increase in general administrative expenses. Such decrease in income from separation costs was primarily due to the release of certain provisions in the first half 2019 upon completion of IT- and site-separation measures implemented as part of the separation from Airbus. These increases of general administrative expenses were partially offset by efficiency measures in connection with our HENSOLDT GO! program.

8.6.6.2. Financial Year 2019 compared to Financial Year 2018

Our general administrative expenses increased by EUR 7.5 million, or 10.9%, from EUR 68.8 million in 2018 to EUR 76.3 million in 2019. As a percentage of revenue, the increase was from 6.2% in 2018 to 6.9% in 2019.

The increase in general administrative expenses resulted, in particular, from the acquisition of the Nexeya business in October 2019 and the continued build-up of our stand-alone central functions in the context of the separation from Airbus. The decrease in non-recurring effects in general, and separation costs classified as non-recurring effects in particular, had a balancing effect on general administrative expenses in 2019 compared to 2018, with separation costs resulting in income of EUR 4.9 million in 2019 after expenses of EUR 7.1 million in 2018. The income in 2019 was primarily caused by the aforementioned release of certain provisions upon completion of IT- and site-separation measures implemented as part of the separation from Airbus, while expenses in 2018 related to expansion of international sales offices and certain separation activities.

8.6.6.3. Financial Year 2018 compared to Financial Year 2017

Our general administrative expenses decreased by EUR 11.5 million, or 14.3%, from EUR 80.4 million in 2017 to EUR 68.8 million in 2018. As a percentage of revenue, the decrease was from 8.8% in 2017 to 6.2% in 2018.

This decrease occurred despite the Orlando effect. Considering the additional general administrative expenses of the Orlando business incurred in the first two months of 2017 of approximately EUR 6.7 million (based on management estimate), general administrative expenses for twelve months in 2017 would have amounted to approximately EUR 87.1 million (based on management estimate). The M&A effects had an increasing effect on our general administrative expenses in 2018 compared to 2017. But for these effects, the decrease in our general administrative expenses would have been even more pronounced from 2017 to 2018.

The decrease in general administrative expenses resulted, in particular, from a substantial reduction of costs classified as non-recurring effects in 2018 compared to 2017, from EUR 55.3 million in 2017 to EUR 31.9 million in 2018. In particular, separation costs classified as non-recurring effects decreased from EUR 16.6 million in 2017 to EUR 7.1 million in line with progress made concerning IT- and site-separation measures implemented as part of the separation from Airbus. In addition, transaction costs classified as non-recurring effects decreased in aggregate from EUR 28.9 million in 2017 to EUR 1.0 million in 2018 due to the elimination of the significant costs incurred in connection with the acquisition of the Orlando business. The build-up of our stand-alone central functions in the context of the separation from Airbus resulted in an increase in general administrative expenses in 2018 compared to 2017, partially accounted for under other non-recurring effects, from EUR 9.9 million in 2017 to EUR 23.8 million in 2018.

8.6.7. Research and Development Costs

8.6.7.1. Six-Month Period Ended June 30, 2020 compared to Six-Month Period Ended June 30, 2019

Our research and development costs decreased by EUR 2.1 million, or 12.9%, to EUR 13.9 million in the first half 2020, compared to EUR 15.9 million in the first half 2019. As a percentage of revenue, our research and development costs decreased to 3.2% in the first half 2020 compared to 3.8% in the first half 2019.

This decrease mainly resulted from a higher share of capitalized development costs in the first half 2020 compared to the first half 2019. The focus of our R&D efforts in the first half 2020 and the first half 2019 related to ATC and naval & ground radar programs, as well as projects in spectrum dominance, aerospace, and protection programs.

8.6.7.2. Financial Year 2019 compared to Financial Year 2018

Our research and development costs decreased slightly by EUR 1.2 million, or 3.7%, from EUR 32.2 million in 2018 to EUR 31.0 million in 2019. As a percentage of revenue, our research and development costs decreased from 2.9% in 2018 to 2.8% in 2019.

This decrease mainly resulted from a higher share of capitalized development costs in 2019. The focus of our R&D efforts in 2019 and 2018 related to ATC and naval & ground radar programs, as well as projects in spectrum dominance, aerospace, and protection programs.

8.6.7.3. Financial Year 2018 compared to Financial Year 2017

Our research and development costs increased by EUR 2.4 million, or 8.1%, from EUR 29.8 million in 2017 to EUR 32.2 million in 2018. As a percentage of revenue, our research and development costs decreased slightly from 3.2% in 2017 to 2.9% in 2018.

This increase in absolute figures resulted essentially from the Orlando effect and the M&A effects. Considering the additional research and development costs of the Orlando business incurred in the first two months of 2017 of approximately EUR 5.8 million (based on management estimate), research and development costs for twelve months in 2017 would have amounted to approximately EUR 35.6 million (based on management estimate). This implies that at an operational level, research and development costs actually declined in 2018 compared to 2017, mainly due to a higher share of capitalized development costs in 2018.

8.6.8. Earnings Before Finance Result and Income Tax (EBIT)

The following table presents our EBIT, including a breakdown per segment, for 2019, 2018, and 2017 and for the six-month periods ended June 30, 2020 and 2019:

	For the Six-Month Period Ended June 30,		For the Financial Year		
	2020	2019	2019	2018	2017
(in EUR thousand)	(unaudited)		(audited)		
Earnings before finance result and income tax (EBIT)	**(29,287)**	**(26,279)**	**62,071**	**21,760**	**(69,059)**
Sensors	(11,383)	(18,839)	60,591	37,940	19,405
Optronics	(4,039)	(554)	21,634	16,109	(6,863)
Others/Elimination	(13,866)	(6,885)	(20,153)	(32,289)	(81,601)

8.6.8.1. Six-Month Period Ended June 30, 2020 compared to Six-Month Period Ended June 30, 2019

Our EBIT decreased by EUR 3.0 million, or 11.4%, to EUR (29.3) million in the first half 2020, compared to EUR (26.3) million in the first half 2019. As a percentage of revenue, our EBIT margin declined to (6.7)% in the first half 2020, compared to (6.3)% in the first half 2019.

The decrease in EBIT in the first half 2020 compared to the first half 2019 was primarily related to the increase in selling and distribution expenses and general administrative expenses, which was only partially offset by the increase in our gross profit due to improved product mix. In addition, non-recurring effects had a stronger impact on our EBIT in the first half 2020 compared to the first half 2019. While negative effects on earnings from purchase price allocations decreased to EUR 34.3 million in the first half 2020, compared to EUR 36.5 million in the first half 2019, other non-recurring effects increased to EUR 12.6 million in the first half 2020, compared to EUR 6.4 million in the first half 2019. See also "*8.6.6.1. General Administrative Expenses – Six-Month Period Ended June 30, 2020 compared to Six-Month Period Ended June 30, 2019*".

On a segment level, EBIT for our Sensors segment increased by EUR 7.5 million, or 39.6%, to EUR (11.4) million in the first half 2020, compared to EUR (18.8) million in the first half 2019. In our Optronics segment, EBIT decreased by EUR 3.5 million to EUR (4.0) million in the first half 2020, compared to EUR (0.6) million in the first half 2019. Negative effects on our EBIT from Others/Elimination (*i.e.*, effects not allocated to a specific segment) increased by EUR 7.0 million to EUR 13.9 million in the first half 2020, compared to EUR 6.9 million in the first half 2019, and related in both years primarily to non-recurring effects from separation costs, transaction costs, and other non-recurring effects (see also the description of Adjusted EBIT and the corresponding breakdown of such non-recurring effects under "*8.4. Our Key Performance Indicators and Other Alternative Performance Measures*").

8.6.8.2. Financial Year 2019 compared to Financial Year 2018

Our EBIT increased by EUR 40.3 million from EUR 21.8 million in 2018 to EUR 62.1 million in 2019, which resulted in an EBIT margin (calculated as a percentage of revenue) improvement from 2.0% in 2018 to 5.6% in 2019.

The increase in EBIT and EBIT margin in 2019 compared to 2018 was driven by the strong increase in our gross profit, whereas the increase in selling and distribution expenses and general administrative expenses partially offset these gains. In addition, our EBIT was less affected by non-recurring effects in 2019 compared to 2018 as, most notably, negative effects on earnings from purchase price allocations decreased from EUR 93.1 million in 2018 to EUR 78.8 million in 2019, as detailed above under "*8.6.3.2. Cost of Sales – Financial Year 2019 compared to Financial Year 2018*".

On a segment level, EBIT for our Sensors segment increased by EUR 22.7 million, or 59.7%, from EUR 37.9 million in 2018 to EUR 60.6 million in 2019. In our Optronics segment, EBIT increased by EUR 5.5 million, or 34.2%, from EUR 16.1 million in 2018 to EUR 21.6 million in 2019. Negative effects on our EBIT from Others/Elimination (*i.e.*, effects not allocated to a specific segment) decreased by

EUR 12.1 million, or 37.5%, from EUR 32.3 million in 2018 to EUR 20.2 million in 2019 and related in both years essentially to non-recurring effects from separation costs, transaction costs, and other non-recurring effects (see also the description of Adjusted EBIT and the corresponding breakdown of such non-recurring effects under "*8.4. Our Key Performance Indicators and Other Alternative Performance Measures*").

8.6.8.3. Financial Year 2018 compared to Financial Year 2017

Our EBIT increased by EUR 90.8 million from EUR (69.1) million in 2017 to EUR 21.8 million in 2018, which resulted in an EBIT margin (calculated as a percentage of revenue) improvement from (7.5)% in 2017 to 2.0% in 2018.

In the first two months of 2017, the Orlando business generated an EBIT of approximately EUR (13.5) million (based on management estimate) which implies an EBIT of approximately EUR (82.6) million for twelve months in 2017 (based on management estimate). Furthermore, the M&A effects had a negative impact on EBIT in 2018 compared to 2017, mainly due to the additional depreciation and amortization attributable to the step-ups from purchase price allocations for each of the relevant acquisitions. But for the Orlando effect and the M&A effects, the increase in EBIT in 2018 compared to 2017 would have been even more pronounced.

In particular, our EBIT was significantly affected by non-recurring effects in 2017 and 2018. In 2017, non-recurring expenses amounted to EUR 213.7 million and decreased by EUR 87.9 million to EUR 125.9 million in 2018, as detailed above under "*8.6.3.3. Cost of Sales – Financial Year 2018 compared to Financial Year 2017*" and "*8.6.6.3. General Administrative Expenses – Financial Year 2018 compared to Financial Year 2017*". The increase in EBIT and EBIT margin in 2018 compared to 2017 was driven by the strong increase in our gross profit (due to lower effects from purchase price allocation) and the decrease in general administrative expenses, whereas the increase in selling and distribution expenses partially offset these gains.

On a segment level, EBIT for our Sensors segment increased by EUR 18.5 million from EUR 19.4 million in 2017 to EUR 37.9 million in 2018. In our Optronics segment, EBIT increased by EUR 23.0 million from EUR (6.9) million in 2017 to EUR 16.1 million in 2018. Negative effects on EBIT from Others/Elimination (*i.e.*, effects not allocated to a specific segment) decreased by EUR 49.3 million from EUR (81.6) million in 2017 to EUR (32.3) million and related in both years essentially to non-recurring effects from separation costs, transaction costs, and other non-recurring effects (see also the description of Adjusted EBIT and the corresponding breakdown of such non-recurring effects under "*8.4. Our Key Performance Indicators and Other Alternative Performance Measures*").

8.6.9. Finance Result

8.6.9.1. Six-Month Period Ended June 30, 2020 compared to Six-Month Period Ended June 30, 2019

Our finance result decreased by EUR 80.9 million to EUR (87.9) million in the first half 2020, compared to EUR (7.0) million in the first half 2019.

This decrease resulted primarily from an increase in interest expenses by EUR 42.5 million, or 99.3%, to EUR 85.4 million in the first half 2020, compared to EUR 42.9 million in the first half 2019, further accelerated by a decrease in interest income by EUR 34.6 million, or 94.6%, to EUR 2.0 million in the first half 2020, compared to EUR 36.6 million in the first half 2019. This was primarily caused by the effects from the recurring remeasurement through profit and loss pursuant to IFRS 9 related to a change in the fair value of the embedded derivative included in the Term Loan Facility, which resulted in expenses in the amount of EUR 53.9 million in the first half 2020, compared to income of EUR 34.1 million in the first half 2019. In addition, interest expenses increased as a result of our drawing of the Revolving Credit Facility in full.

These effects were partially offset by a reduction in interest expenses for shareholder loans as a result of these shareholder loans falling away due to consolidation (see "*16.2.1.2. Loans*"), and consequently no such expenses incurred in the first half 2020, compared to EUR 11.6 million in the first half 2019. Total interest expense for loans increased to EUR 21.2 million in the first half 2020, compared to EUR 31.7 million in the first half 2019.

8.6.9.2. Financial Year 2019 compared to Financial Year 2018

Our finance result increased by EUR 60.4 million, or 69.5%, from EUR (86.8) million in 2018 to EUR (26.5) million in 2019. This increase resulted primarily from an increase in interest income, which increased from EUR 14.9 million in 2018 by EUR 44.1 million, or 296.8%, to EUR 58.9 million in 2019. Such increase was predominantly due to effects from the recurring remeasurement through profit and loss pursuant to IFRS 9 in the amount of EUR 54.2 million in 2019 related to a change in the fair value of the embedded derivative included in the Term Loan Facility. In 2018, this remeasurement resulted in interest expenses of EUR 22.2 million, whereas, as an opposite effect, interest income was positively affected by one-time valuation effects in connection with amendments to the term of the Term Loan Facility of EUR 10.3 million in 2018, with no such effect in 2019 (see also "*10.20.1.2. Existing Financing Agreements*"). Furthermore, the increase in finance income was supported by a decrease in interest expenses by EUR 12.9 million, or 13.4%, from EUR 96.4 million in 2018 to EUR 83.5 million in 2019, as a result of various partly offsetting effects. Interest expenses for shareholder loans decreased from EUR 25.6 million in 2018 to EUR 21.4 million in 2019 (due to the termination of the shareholder loans), while interest expenses for other existing bank loans increased to EUR 37.0 million in 2019 from EUR 34.2 million in 2018. Due to the first-time application of IFRS 16, interest expenses of EUR 9.8 million relating to lease liabilities were recognized in 2019 with no such expenses in 2018.

8.6.9.3. Financial Year 2018 compared to Financial Year 2017

Our finance result decreased by EUR 33.5 million, or 62.7%, from EUR (53.4) million in 2017 to EUR (86.8) million in 2018. This decrease resulted primarily from an increase in interest expenses from EUR 55.5 million in 2017 by EUR 40.9 million, or 73.7%, to EUR 96.4 million in 2018, and was partly due to the nominal increase in our Term Loan Facility to EUR 920 million in 2018 from EUR 695 million as of December 31, 2017. In addition, the change in the fair value of the embedded derivative included in the Term Loan Facility resulted in higher interest expenses in 2018, compared to 2017. In total, interest expenses for such Term Loan Facility increased by EUR 33.8 million from EUR 20.3 million in 2017 to EUR 54.1 million in 2018, including interest expenses of EUR 22.2 million from the aforementioned remeasurement related to a change in the fair value of the embedded derivative included in the Term Loan Facility.

The increase in interest expenses was partly offset by an increase in interest income, which increased by EUR 2.5 million, or 20.1%, from EUR 12.4 million in 2017 to EUR 14.9 million in 2018 mainly due to the aforementioned valuation effects in connection with amendments to the terms of our Term Loan Facility of EUR 10.3 million in 2018 (see also "*10.20.1.2. Existing Financing Agreements*").

8.6.10. Income Taxes

8.6.10.1. Six-Month Period Ended June 30, 2020 compared to Six-Month Period Ended June 30, 2019

Income taxes resulted in income of EUR 28.3 million in the first half 2020, which means an increase of EUR 27.4 million compared to income of EUR 0.9 million in the first half 2019. This change was attributable to, among other things, deferred tax income of EUR 30.1 million in the first half 2020, compared to EUR 0.7 million in the first half 2019, primarily due to a change in the fair value of the embedded derivative included in the Term Loan Facility and the effects on earnings from purchase price allocations, as well as decreased current income tax expenses of EUR 1.8 million in the first half 2020, compared to current income tax income EUR 0.2 million in the first half 2019.

8.6.10.2. Financial Year 2019 compared to Financial Year 2018

Income taxes resulted in expenses of EUR 27.4 million in 2019, after having contributed income of EUR 5.2 million in 2018. This change reflects, among other things, increased current income tax expenses of EUR 8.8 million in 2019, compared to EUR 8.0 million in 2018 and, most notably, deferred tax expenses of EUR 18.6 million in 2019 compared to a deferred tax income of EUR 13.2 million in 2018. The deferred tax expenses in 2019 related to expenses from the change of temporary differences in the amount of EUR 13.0 million and the utilization of deferred tax assets for tax losses carried forward in the amount of EUR 5.7 million.

8.6.10.3. Financial Year 2018 compared to Financial Year 2017

Income taxes income decreased by EUR 16.8 million, or 76.4%, from EUR 22.0 million in 2017 to EUR 5.2 million in 2018, of which EUR 7.5 million related to effects from the first-time application of IFRS 15. Other than that, the decrease was primarily driven both by a decrease in income from deferred taxes, from EUR 24.3 million in 2017 to EUR 13.2 million in 2018, predominantly resulting from the development of the deferred tax liabilities related to the purchase price allocation (related, in particular, to the acquisition of the Orlando business), as well as by an increase in current tax expenses from EUR 2.3 million in 2017 to EUR 8.0 million in 2018, primarily caused by a significant increase in taxable income in comparison to 2017.

8.6.11. Consolidated Profit/Loss

8.6.11.1. Six-Month Period Ended June 30, 2020 compared to Six-Month Period Ended June 30, 2019

Mainly due to the aforementioned effects, our consolidated loss increased by EUR 56.5 million, to EUR 88.9 million in the first half 2020, compared to a consolidated loss of EUR 32.4 million in the first half 2019.

In the first half 2020, EUR (88.5) million was attributable to the shareholders of the parent company, compared to EUR (32.5) million in the first half 2019. EUR (0.5) million was attributable to non-controlling interests in the first half 2020, compared to EUR 0.1 million in the first half 2019.

8.6.11.2. Financial Year 2019 compared to Financial Year 2018

Mainly due to the aforementioned effects, our consolidated profit increased by EUR 68.1 million to EUR 8.2 million in 2019, after recording a consolidated loss of EUR 59.9 million in 2018.

In 2018, EUR (60.6) million was attributable to the shareholders of the parent company, compared to EUR 5.9 million in 2019. EUR 0.7 million was attributable to non-controlling interests in 2018, compared to EUR 2.3 million in 2019.

8.6.11.3. Financial Year 2018 compared to Financial Year 2017

Mainly due to the aforementioned effects, our consolidated loss decreased by EUR 40.5 million, or 40.4%, from EUR 100.4 million in 2017 to EUR 59.9 million in 2018.

In 2017, EUR (101.4) million was attributable to the shareholders of the parent company, compared to EUR (60.6) million in 2018. EUR 1.0 million was attributable to non-controlling interests in 2017, compared to EUR 0.7 million in 2018.

8.7. Financial Condition – Review of Selected Items of Our Consolidated Financial Position

8.7.1. Overview

The following table presents our consolidated statement of financial position as of December 31, 2019, 2018, and 2017 and as of June 30, 2020:

	As of June 30,	As of December 31,		
	2020	2019	2018	2017
(in EUR thousand)	(unaudited)	(audited)		
Non-current assets	**1,352,228**	**1,402,220**	**1,129,633**	**1,170,065**
Goodwill	642,823	646,823	593,860	584,050
Intangible assets	396,524	403,300	398,781	452,970
Property, plant and equipment	98,310	92,893	89,180	91,402
RoU-Asset	149,534	154,862	—	—
Investments accounted for using the equity method	0	1,169	1,570	63
Other investments and other non-current financial assets	13,817	14,682	11,347	5,143
Non-current other financial assets	1,682	53,241	735	18,904
Other non-current assets	4,881	4,881	9,125	3,145
Deferred tax assets	44,658	30,369	25,035	14,388
Current assets	**1,200,879**	**1,051,389**	**1,082,689**	**944,189**
Other non-current financial assets, due to short-notice	2,955	2,952	5,269	41,314
Inventories	437,796	411,082	407,002	386,656
Contract assets	167,781	165,883	80,688	—
Trade receivables	209,488	290,809	338,072	345,026
Current other financial assets	11,779	5,752	1,460	11,310
Other current assets	48,371	34,324	21,422	16,464
Income tax receivables	1,115	3,198	1,226	5,445
Cash and cash equivalents	321,594	137,389	227,550	137,974
Total assets	**2,553,107**	**2,453,609**	**2,212,322**	**2,114,254**
Share capital	10,000	10,000	25	25
Capital reserve	396,748	396,748	46,275	46,275
Other reserves	(45,865)	(49,770)	(12,246)	(21,178)
Retained earnings	(304,212)	(215,757)	(220,655)	(130,702)
Treasury shares	—	—	(10,563)	—
Equity held by shareholders of HENSOLDT Holding	**56,670**	**141,221**	**(197,164)**	**(105,580)**
Non-controlling interests	10,479	13,574	10,870	13,162
Equity, total	**67,149**	**154,795**	**(186,294)**	**(92,418)**
Non-current liabilities	**1,516,319**	**1,517,924**	**1,609,935**	**1,476,072**
Shareholder loans	—	—	349,567	437,474
Non-current provisions	413,102	413,641	310,272	294,069
Non-current financing liabilities	891,246	887,696	880,364	677,084
Non-current contract liabilities	23,963	16,319	24,767	—
Non-current lease liabilities	144,153	147,521	—	—
Other non-current financial liabilities	3,260	225	4,561	983
Other non-current liabilities	6,416	7,677	3,399	21,118
Deferred tax liabilities	34,179	44,845	37,005	45,344
Current liabilities	**969,638**	**780,890**	**788,681**	**730,600**

(in EUR thousand)	As of June 30, 2020 (unaudited)	As of December 31, 2019 (audited)	2018	2017
Current provisions	154,100	185,083	210,900	310,201
Current financing liabilities	217,264	11,338	3,367	15,024
Current contract liabilities	338,404	317,134	332,800	—
Current lease liabilities	13,608	12,999	—	—
Trade payables	150,221	168,750	167,073	146,562
Other current financial liabilities	14,726	18,388	13,299	18,049
Other current liabilities	80,870	67,118	56,294	240,754
Tax liabilities	444	80	4,948	10
Total equity and liabilities	**2,553,107**	**2,453,609**	**2,212,322**	**2,114,254**

8.7.2. Comparison of Selected Items of our Consolidated Statement of Financial Position

8.7.2.1. As of June 30, 2020 compared to December 31, 2019

As of June 30, 2020, our assets increased by EUR 99.5 million, or 4.1%, to EUR 2,553.1 million, from EUR 2,453.6 million as of December 31, 2019.

This increase was mainly due to an increase in our current assets by EUR 149.5 million, from EUR 1,051.4 million as of December 31, 2019 to EUR 1,200.9 million as of June 30, 2020, primarily as a result of an increase in cash and cash equivalents by EUR 184.2 million, from EUR 137.4 million as of December 31, 2019 to EUR 321.6 million as of June 30, 2020, predominantly due to the drawdown of the Revolving Credit Facility, as well as additional financing obtained in the first half 2020. In addition, as a result of inventory build-ups predominantly in the first quarter in line with typical trends and patterns of our business, inventories increased in the first half 2020, from EUR 411.1 million as of December 31, 2019 by EUR 26.7 million to EUR 437.8 million as of June 30, 2020. In contrast, trade receivables decreased by EUR 81.3 million, from EUR 290.8 million as of December 31, 2019 to EUR 209.5 million as of June 30, 2020, constituting the largest offsetting effect. This decrease mainly resulted from customer payments in both segments, in line with typical trends and patterns of our business.

In contrast to current assets, our non-current assets decreased by EUR 50.0 million, from EUR 1,402.2 million as of December 31, 2019 to EUR 1,352.2 million as of June 30, 2020, which resulted primarily from a decrease in non-current other financial assets from EUR 53.2 million as of December 31, 2019 to EUR 1.7 million as of June 30, 2020, mainly reflecting the decreased fair value of derivate financial instruments. This decrease was partially offset by an increase in deferred tax assets to EUR 44.7 million as of June 30, 2020, from EUR 30.4 million as of December 31, 2019.

As of June 30, 2020, equity and liabilities increased by EUR 99.5 million, or 4.1%, to EUR 2,553.1 million, from EUR 2,453.6 million as of December 31, 2019.

This increase was primarily due to an increase in our current liabilities by EUR 188.7 million, from EUR 780.9 million as of December 31, 2019 to EUR 969.6 million as of June 30, 2020. This was mainly the result of an increase in current financing liabilities by EUR 205.9 million, from EUR 11.3 million as of December 31, 2019 to EUR 217.3 million as of June 30, 2020, as a result of our drawing of the Revolving Credit Facility in full. In addition, current contract liabilities increased from EUR 317.1 million as of December 31, 2019 to EUR 338.4 million as of June 30, 2020, primarily due to cash received for contractual performance obligations that have not yet been fulfilled. The main balancing effects resulted from decreases in current provisions by EUR 31.0 million, from EUR 185.1 million as of December 31, 2019 to EUR 154.1 million as of June 30, 2020, as well as in trade payables by EUR 18.5 million, from EUR 168.8 million as of December 31, 2019 to EUR 150.2 million as of June 30, 2020. The decrease in current provisions was mainly related to the consumption of personnel-related provisions, while trade payables decreased in line with typical trends and patterns of our business.

In contrast to current liabilities, our non-current liabilities slightly decreased by EUR 1.6 million, from EUR 1,517.9 million as of December 31, 2019 to EUR 1,516.3 million as of June 30, 2020. This

decrease was predominantly due to a decrease in deferred tax liabilities by EUR 10.7 million, from EUR 44.8 million as of December 31, 2019 to EUR 34.2 million as of June 30, 2020. As a partially offsetting factor, non-current contract liabilities increased by EUR 7.6 million in the first half 2020, from EUR 16.3 million as of December 31, 2019 to EUR 24.0 million as of June 30, 2020, which was primarily due to cash received for contractual performance obligations that have not yet been fulfilled.

Our equity decreased by EUR 87.6 million in the first half 2020, from EUR 154.8 million as of December 31, 2019 to EUR 67.1 million as of June 30, 2020. The main reason for this decrease was a decrease in retained earnings by EUR 88.5 million, from EUR (215.8) million as of December 31, 2019 to EUR (304.2) million as of June 30, 2020, reflecting the consolidated loss attributable to the owners of the parent company. As a partially balancing effect, primarily due to a remeasurement of pension plans, other reserves increased by EUR 3.9 million in the first half 2020, from EUR (49.8) million as of December 31, 2019 to EUR (45.9) million as of June 30, 2020.

8.7.2.2. December 31, 2019 compared to December 31, 2018

As of December 31, 2019, our assets increased by EUR 241.3 million, or 10.9%, to EUR 2,453.6 million, from EUR 2,212.3 million as of December 31, 2018.

This increase was due to an increase in our non-current assets by EUR 272.6 million, from EUR 1,129.6 million as of December 31, 2018 to EUR 1,402.2 million as of December 31, 2019, which resulted primarily from the initial recognition of a right-of-use asset in an amount of EUR 154.9 million as of December 31, 2019 due to the first-time application of IFRS 16 (see "*8.2.3.2. IFRS 16 – Leases*"), with no such asset as of December 31, 2018. In addition, goodwill increased by EUR 53.0 million from EUR 593.9 million as of December 31, 2018 to EUR 646.8 million as of December 31, 2019, mainly due to the acquisition of the Nexeya business, and non-current other financial assets increased from EUR 0.7 million as of December 31, 2018 by EUR 52.5 million to EUR 53.2 million as of December 31, 2019, mainly reflecting the increased fair value of derivate financial instruments.

In contrast to our non-current assets, our current assets decreased by EUR 31.3 million in 2019, from EUR 1,082.7 million as of December 31, 2018 to EUR 1,051.4 million as of December 31, 2019. This decrease mainly resulted from a decrease in cash and cash equivalents by EUR 90.2 million from EUR 227.6 million as of December 31, 2018 to EUR 137.4 million as of December 31, 2019. Cash and cash equivalents increased at the end of 2018 when we utilized our long-term Term Loan Facility in anticipation of the Nexeya acquisition, and decreased accordingly upon payment of the purchase price for the Nexeya acquisition in 2019. In addition, trade receivables also decreased by EUR 47.3 million from EUR 338.1 million as of December 31, 2018 to EUR 290.8 million as of December 31, 2019, primarily due to factoring arrangements assumed as part of the businesses acquired in 2019. In contrast, contract assets (recognized when we have satisfied a contractual performance obligation – and revenue is recognized – but customer payment remains subject not only to passage of time but also other conditions) increased from EUR 80.7 million as of December 31, 2018 by EUR 85.2 million to EUR 165.9 million as of December 31, 2019, constituting the largest offsetting effect. This increase resulted mainly from progress in completion of the respective corresponding projects, which were only partially offset by reclassifications from advance payments received. In addition, contract assets were impacted by the initial consolidation of the Nexeya business in 2019.

As of December 31, 2019, equity and liabilities increased by EUR 241.3 million, or 10.9%, to EUR 2,453.6 million, from EUR 2,212.3 million as of December 31, 2018.

This increase was primarily due to an increase in our equity by EUR 341.1 million from EUR (186.3) million as of December 31, 2018 to EUR 154.8 million as of December 31, 2019. The main reason for this increase was a higher capital reserve, which increased by EUR 350.5 million to EUR 396.7 million as of December 31, 2019, from EUR 46.3 million as of December 31, 2018, as a result of the corporate reorganization as more fully explained under "*8.2.5. Corporate Reorganization of the Group prior to the Offering*". In addition, the Company's share capital increased by EUR 9.975 million from EUR 0.025 million as of December 31, 2018, to EUR 10.0 million as of December 31, 2019, due to the aforementioned corporate reorganization in 2019. As a balancing effect, other reserves decreased by EUR 37.5 million in 2019, from EUR (12.2) million as of December 31, 2018 to EUR (49.8) million as of December 31, 2019, primarily due to a remeasurement of pension plans.

In contrast, our non-current liabilities decreased by EUR 92.0 million, from EUR 1,609.9 million as of December 31, 2018 to EUR 1,517.9 million as of December 31, 2019. This decrease resulted

predominantly from the complete derecognition of our shareholder loans, which amounted to EUR 349.6 million as of December 31, 2018, in connection with the aforementioned corporate reorganization. This decrease more than offset, among other things, the first-time recognition of non-current lease liabilities of EUR 147.5 million as of December 31, 2019 in the course of the implementation of IFRS 16, with no such liabilities recognized as of December 31, 2018. In addition, non-current provisions increased by EUR 103.4 million, from EUR 310.3 million as of December 31, 2018 to EUR 413.6 million as of December 31, 2019, which primarily resulted from the remeasurement of pension plans mainly recognized in other reserves.

Our current liabilities decreased by EUR 7.8 million to EUR 780.9 million as of December 31, 2019, compared to EUR 788.7 million as of December 31, 2018. This was the result of a decrease in current contract liabilities by EUR 15.7 million, from EUR 332.8 million as of December 31, 2018 to EUR 317.1 million as of December 31, 2019, as well as a decrease in current provisions by EUR 25.8 million to EUR 185.1 million as of December 31, 2019, from EUR 210.9 million as of December 31, 2018. The decrease in current contract liabilities resulted primarily from revenue recognized that was still included in the contract liability balance at the beginning of the period, which was only partially offset by additional cash received due to advance payments. The decrease in current provisions was mainly related to the decreased current operational provisions for warranties and outstanding costs. The main balancing effect resulted from the initial recognition of current lease liabilities of EUR 13.0 million in the course of the implementation of IFRS 16, with no such liabilities recognized as of December 31, 2018. Other current liabilities also increased by EUR 10.8 million from EUR 56.3 million as of December 31, 2018, to EUR 67.1 million as of December 31, 2019 due to an increase in advance payments.

8.7.2.3. December 31, 2018 compared to December 31, 2017

As of December 31, 2018, our assets increased by EUR 98.1 million, or 4.6%, to EUR 2,212.3 million, from EUR 2,114.3 million as of December 31, 2017.

This increase was due to an increase in our current assets by EUR 138.5 million from EUR 944.2 million as of December 31, 2017 to EUR 1,082.7 million as of December 31, 2018, which primarily resulted from an increase in cash and cash equivalents from EUR 138.0 million as of December 31, 2017 by EUR 89.6 million to EUR 227.6 million as of December 31, 2018, resulting, among other things, from a higher utilization of our Term Loan Facility in anticipation of the Nexeya acquisition and improved cash flows in 2018. In addition, contract assets increased to EUR 80.7 million as of December 31, 2018, with no such contract assets as of December 31, 2017, due to IFRS 15 effects, see also "*8.2.3.1. IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers*". In case of a hypothetical retroactive application of IFRS 15 as of December 31, 2017, we would have reported EUR 53.4 million in contract assets. Other than that, contract assets increased in 2018 for long term contracts due to progress-related increases (using the percentage of completion method). In contrast, other non-current financial assets, due at short notice decreased from EUR 41.3 million in 2017 by EUR 36.0 million, or 87.2%, to EUR 5.3 million, constituting the largest offsetting effect due to the settlement of certain liabilities in connection with the successful separation from Airbus.

In contrast to our current assets, our non-current assets decreased by EUR 40.4 million in 2018, from EUR 1,170.1 million as of December 31, 2017 to EUR 1,129.6 million as of December 31, 2018. This decrease mainly resulted from a decrease in intangible assets by EUR 54.2 million to EUR 398.8 million as of December 31, 2018 (of which EUR 327.4 million related to intangible assets from purchase price allocations, which are attributable to technology, existing customer relationships and to the HENSOLDT brand, see also "*8.3.4. Acquisitions*"), from EUR 453.0 million as of December 31, 2017 (of which EUR 408.2 million related to intangible assets from purchase price allocations, which are attributable to technology, existing customer relationships, and the HENSOLDT brand, see also "*8.3.4. Acquisitions*"), due to increased accumulated amortizations, depreciation, and write-offs relating to, in particular, customer relationship, technology, work in process, capitalized development costs, licensed patents, and other rights. In addition, non-current other financial assets also decreased by EUR 18.2 million from EUR 18.9 million as of December 31, 2017 to EUR 0.7 million as of December 31, 2018, mainly reflecting the reduced fair value of derivate financial instruments as of the respective balance sheet dates. The main balancing effect was an increase in our deferred tax assets from EUR 14.4 million as of December 31, 2017 by EUR 10.6 million to

EUR 25.0 million as of December 31, 2018, due to adjustments in connection with IFRS 15 effects; see also "*8.2.3.1. IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers*".

As of December 31, 2018, equity and liabilities increased by EUR 98.1 million, or 4.6%, to EUR 2,212.3 million, from EUR 2,114.3 million as of December 31, 2017.

This increase was primarily due to an increase in non-current liabilities, which increased by EUR 133.9 million, from EUR 1,476.1 million as of December 31, 2017, to EUR 1,609.9 million as of December 31, 2018. The main reason for this increase was higher non-current financing liabilities, which increased by EUR 203.3 million to EUR 880.4 million as of December 31, 2018, from EUR 677.1 million as of December 31, 2017, as a result of increased liabilities to banks in order to account for the additional operating and strategic growth of our business. In contrast, our shareholder loans decreased from EUR 437.5 million in 2017 by EUR 87.9 million to EUR 349.6 million in 2018 due to repayments in connection with the buy-back of the 25.1% minority interest in HENSOLDT Holding GmbH initially retained by ADS.

In addition, our current liabilities increased by EUR 58.1 million to EUR 788.7 million as of December 31, 2018, compared to EUR 730.6 million as of December 31, 2017. This increase resulted predominantly from the first-time recognition of current contract liabilities due to IFRS 15 effects (see also "*8.2.3.1. IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers*"), which amounted to EUR 332.8 million as of December 31, 2018, with no such liabilities as of December 31, 2017. Trade payables also increased from EUR 146.6 million by EUR 20.5 million, or 14.0%, to EUR 167.1 million, primarily due to IFRS 15 effects (see also "*8.2.3.1. IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers*") and, secondly, due to an overall increase in business volume. The main balancing effect resulted from the decrease in other current liabilities from EUR 240.8 million as of December 31, 2017, to EUR 56.3 million as of December 31, 2018, due to the reclassification of advances received as contracts with customers because of the aforementioned introduction of IFRS 15. In addition, current provisions also decreased from EUR 310.2 million by EUR 99.3 million to EUR 210.9 million, primarily due to reclassifications in accordance with the aforementioned introduction of IFRS 15 and, to a lesser degree, the utilization of such provisions.

In contrast, our equity decreased by EUR 93.9 million from EUR (92.4) million as of December 31, 2017 to EUR (186.3) million as of December 31, 2018. This was primarily the result of a decrease in retained earnings by EUR 90.0 million to EUR (220.7) million as of December 31, 2018, from EUR (130.7) million as of December 31, 2017, due to the consolidated loss in 2018, which was retained, and certain adjustments to retained earnings in accordance with the aforementioned introduction of IFRS 15.

8.8. Liquidity and Capital Resources

8.8.1. Overview

In the first half 2020 and 2019, 2018, and 2017, our principal sources of funds were cash flow from operating activities and borrowings. Our principal uses of cash were to fund investment (including acquisitions), working capital, and debt service obligations (including payment of interest and repayment of principal).

Limitations pursuant to local laws sometimes restrict the amount of cash that a subsidiary may make available to the rest of the Group, or the manner or timing of such actions, as is the case for example in South Africa. These laws include laws restricting the making of dividend payments without sufficient capital resources, restrictions on intergroup loans or cash pooling, and regulatory restrictions on repatriating funds. As of June 30, 2020, our South African entities held cash and cash equivalents to fund their operations in the low tens million range.

8.8.2. Review of our Consolidated Statement of Cash Flows

The following table presents our consolidated statement of cash flows for 2019, 2018, and 2017 and for the six-month periods ended June 30, 2020 and 2019:

	For the Six-Month Period Ended June 30,		For the Financial Year		
	2020	2019	2019	2018	2017
(in EUR thousand)	(unaudited)		(audited)		
Consolidated profit/loss for the period (including minority interests)	**(88,930)**	**(32,402)**	**8,171**	**(59,880)**	**(100,420)**
Depreciation and amortization	57,664	60,991	129,610	124,414	91,686
Allowances on inventories, trade receivables and contract assets	(2,418)	636	13,221	6,984	3,390
Profit/loss from disposal of non-current assets	1	120	418	143	(57)
Share of profit in entities recognized according to the equity method	1,794	591	1,202	643	0
Financial expenses (net)	83,413	6,315	24,563	81,570	43,159
Other non-cash expenses/income	(210)	(2,476)	(5,376)	4,853	1,072
Change in					
Provisions	(8,842)	(3,858)	(404)	31,501	48,645
Inventories	(33,208)	(74,336)	(17,849)	15,447	137,850
Contract balances	28,236	(23,328)	(89,404)	(112,406)	0
Trade receivables	75,421	75,493	56,441	(14,533)	(94,981)
Trade payables	(16,588)	(28,729)	(13,430)	913	34,491
Other assets and liabilities	(1,733)	(11,619)	4,615	25,068	(56,876)
Interest paid	(22,430)	(23,200)	(45,116)	(35,171)	(27,075)
Income tax expense	(28,281)	(906)	27,408	(5,205)	(22,010)
Payments or refunds on income taxes	(1,980)	(732)	(10,869)	1,336	(4,657)
Changes in tax receivables/payables, tax provisions including deferred taxes	—	—	—	—	(5,036)
Cash flows from operating activities	**41,908**	**(57,440)**	**83,201**	**65,677**	**49,182**
Acquisition/addition of intangible assets and property, plant and equipment	(50,548)	(36,066)	(80,480)	(60,084)	(39,277)
Proceeds from sale of intangible assets, property, plant and equipment	30	44	515	426	902
Acquisition of associates, other investments and other non-current investments	(2,431)	394	(3,947)	(8,324)	(281)
Disposal of associates, other investments and other non-current investments	—	—	2,147	24,182	0
Acquisition of subsidiaries net of cash acquired	4,000	—	(83,817)	(17,329)	(1,012,440)
Other	166	(30)	(48)	240	701
Cash flows from investing activities	**(48,783)**	**(35,657)**	**(165,630)**	**(60,889)**	**(1,050,396)**
Assumption of financial liabilities	203,523	949	2,387	222,900	1,116,827
Repayment of financial liabilities	—	—	0	(123,995)	0
Changes in capital and changes in non-controlling interests	—	—	0	0	22,314
Payment from owners of the HENSOLDT GmbH	—	—	25	0	0
Payment of lease liabilities	(6,723)	(5,550)	(11,327)	0	0
Purchase of treasury shares	—	—	0	(10,563)	0
Dividend payments to non-controlling interests	0	(181)	(181)	(304)	0
Other	—	—	0	149	0
Cash flows from financing activities	**196,800**	**(4,782)**	**(9,096)**	**88,187**	**1,139,141**
Effects of movements in exchange rates on cash and cash equivalents	(3,594)	687	1,365	(3,399)	0
Other adjustments	(2,127)	0	—	—	—
Net changes in cash and cash equivalents	**184,205**	**(97,193)**	**(90,160)**	**89,576**	**137,927**

(in EUR thousand)	For the Six-Month Period Ended June 30, 2020	2019	For the Financial Year 2019	2018	2017
	(unaudited)		(audited)		
Cash and cash equivalents					
Cash and cash equivalents at beginning of period	137,389	227,550	227,550	137,974	46
Cash and cash equivalents at end of period	321,594	130,357	137,389	227,550	137,974

8.8.2.1. Cash Flows from Operating Activities

8.8.2.1.1. Six-Month Period Ended June 30, 2020 compared to Six-Month Period Ended June 30, 2019

Cash inflow from operating activities increased by EUR 99.3 million to EUR 41.9 million in the first half 2020, compared to EUR (57.4) million in the first half 2019. Cash flows from operating activities were positively affected by our working capital management, as reflected in particular in a lower buildup of inventories and contract assets and an increase in contract liabilities (reflected in contract balances) in the first half 2020 compared to the first half 2019. In addition, the significant decrease in consolidated profit/loss in the first half 2020 compared to the first half 2019 was particularly affected by non-cash effective financial expenses (net).

8.8.2.1.2. Financial Year 2019 compared to Financial Year 2018

Cash inflow from operating activities in 2019 increased by EUR 17.5 million, or 26.7%, from EUR 65.7 million in 2018 to EUR 83.2 million in 2019, which primarily resulted from the increase in consolidated profit/loss. In addition, cash inflow from the sale of receivables contributed to the increase. Moreover, payments for lease liabilities resulting in cash outflow in the amount of EUR 11.3 million were reported under the cash flows from financing activities in 2019 in accordance with IFRS 16, whereas in 2018, payments for leasing expenses were fully reported under cash flows from operating activities. The improvements were partly offset by higher payments for interest and tax.

8.8.2.1.3. Financial Year 2018 compared to Financial Year 2017

Cash inflow from operating activities in 2018 increased by EUR 16.5 million, or 33.5%, from EUR 49.2 million in 2017 to EUR 65.7 million in 2018, which primarily resulted from the increase in consolidated profit/loss. In addition, improvements of our working capital management, which resulted in increased cash inflow from the reduction of inventories and changes in other assets, other liabilities, and provisions, contributed to the increase in our cash flow from operating activities. The change in contract balances had an opposing effect.

8.8.2.2. Cash Flows from Investing Activities

8.8.2.2.1. Six-Month Period Ended June 30, 2020 compared to Six-Month Period Ended June 30, 2019

Cash outflow from investing activities increased by EUR 13.1 million, or 36.8%, to EUR 48.8 million in the first half 2020, compared to EUR 35.7 million in the first half 2019. This increase was primarily due to higher investments in property, plant and equipment, mainly due to investments in test equipment, streamlining workflows, IT licenses and necessary building measures, as well as an increase in capitalized development costs. These effects were partly offset by cash inflow from a purchase price adjustment related to the Nexeya acquisition that is reflected under acquisition of subsidiaries net of cash acquired.

8.8.2.2.2. Financial Year 2019 compared to Financial Year 2018

Cash outflow from investing activities in 2019 increased by EUR 104.7 million, or 172.0%, from EUR 60.9 million in 2018 to EUR 165.6 million in 2019. This increase was due to cash outflow in 2019 in connection with the acquisition of the Nexeya and the HENSOLDT Australia businesses, which exceeded cash outflow from similar investing activities in 2018. Additionally, capitalized development costs increased in 2019 compared to 2018. Furthermore, proceeds from the disposal of associates, other investments, and other non-current investments decreased in 2019 compared to 2018 mainly due to relief from the charge related to the repayment of a loan from ADS in 2018.

8.8.2.2.3. Financial Year 2018 compared to Financial Year 2017

Cash outflow from investing activities in 2018 decreased significantly by EUR 989.5 million, or 94.2%, from EUR 1,050.4 million in 2017 to EUR 60.9 million in 2018. This decrease was due to the extraordinarily high cash outflow in 2017 in connection with the acquisition of the EuroAvionics business, the Kelvin Hughes business and, most notably, the Orlando business, which almost entirely ceased to occur in 2018.

8.8.2.3. Cash Flows from Financing Activities

8.8.2.3.1. Six-Month Period Ended June 30, 2020 compared to Six-Month Period Ended June 30, 2019

Cash inflow from financing activities increased by EUR 201.6 million to EUR 196.8 million in the first half 2020, compared to EUR (4.8) million in the first half 2019. This increase was predominantly a result of our drawing the Revolving Credit Facility in full in the first half 2020, as well as a EUR 10 million governmental support loan in France, as precautionary measures of our Covid-19 risk management, which led to an increase in the assumption of financial liabilities. As a partially balancing effect, payments of lease liabilities slightly increased in the first half 2020 compared to the first half 2019 due to the acquisition of the Nexeya business.

8.8.2.3.2. Financial Year 2019 compared to Financial Year 2018

Cash flows from financing activities in 2019 decreased by EUR 97.3 million, or 110.3%, from a cash inflow of EUR 88.2 million in 2018 to a cash outflow of EUR 9.1 million in 2019. The decrease in 2019 compared to 2018 was mainly driven by the assumption of financial liabilities, which resulted in a reduced cash inflow of EUR 2.4 million in 2019 compared to EUR 222.9 million in 2018, whereby the cash inflow in 2018 related to the utilization of our long-term Term Loan Facility in anticipation of the Nexeya acquisition. As a balancing effect, there was no cash outflow from the repayment of financial liabilities in 2019, compared to EUR 124.0 million in 2018 in connection with the partial repayment of shareholder loans and the buyback of treasury shares. The cash flows from financing activities in 2019 were additionally affected by the implementation of IFRS 16, as payments of lease liabilities were, for the first time, recorded under cash flows from financing activities. In 2018, payments from operating lease contracts were still reported under cash flows from operating activities in accordance with IAS 17.

8.8.2.3.3. Financial Year 2018 compared to Financial Year 2017

Cash inflow from financing activities in 2018 decreased by EUR 1,051.0 million, or 92.3%, from EUR 1,139.1 million in 2017 to EUR 88.2 million in 2018. The decrease in 2018 compared to 2017 was due to the assumption of financial liabilities in connection with the acquisition of the EuroAvionics business, the Kelvin Hughes business and, most notably, the Orlando business, which were significantly reduced in 2018.

8.8.3. Capital Expenditures and Investments

8.8.3.1. Overview

Our investments include capital expenditures used to acquire, upgrade, and maintain physical assets such as property, plant, and equipment, as well as intangible assets such as software or licenses; see also the tables setting out, among other things, additions to our asset base in Notes 16 and 17 to the Audited Consolidated Financial Statements 2019. In addition, capital expenditures include capitalized development costs as internally generated intangible assets. Our investments also relate to additions to the consolidation group (*i.e.*, additions related to acquisitions of businesses).

The main source of funding for our historic and ongoing investments has been, and continues to be, borrowings and cash flow from operating activities.

Investments shown in this section are not identical with cash flow from investing activities as described above under "*8.8.2.2. Cash Flows from Investing Activities*", mainly as the latter excludes non-cash elements.

The following table shows our capital expenditures including a break down by category for 2019, 2018, and 2017 and for the six-month periods ended June 30, 2020 and 2019:

	For the Six-Month Period Ended June 30,		For the Financial Year		
	2020	2019	2019	2018	2017
(in EUR thousand)	(unaudited)		(audited)		
Capital expenditures	**50,548**	**36,066**	**80,480**	**60,085**	**39,277**
thereof property, plant and equipment	17,479	9,205	21,389	20,855	16,071
thereof capitalized development cost	31,379	24,198	55,095	36,575	19,942
thereof other intangible assets	1,690	2,663	3,996	2,655	3,264

In addition to capital expenditures, our investments also relate to additions to the consolidation group (*i.e.*, acquisitions of businesses), which represented EUR (4.0) million (due to a purchase price adjustment resulting in a repayment), EUR 94.7 million, EUR 16.5 million, and EUR 958.5 million in the six-month period ended June 30, 2020 and the financial years 2019, 2018, and 2017, respectively.

8.8.3.2. Ongoing and Future Investments

We have budgeted annual investments in the range of approximately EUR 85 million to approximately EUR 90 million for the short term, including capitalized development costs in the range of approximately EUR 50 million to EUR 55 million per year. In the medium term, we target annual capital expenditures in the range of approximately 2% to 2.5% of our revenue and capitalized development costs in the range of approximately 2% to 3% of our revenue. In addition, we plan to make investments related to the acquisition of businesses (see also "*10.3.4. M&A: Pursue Strategic M*&A").

An important part of our planned investments relates to the continued expansion of our ATC radar business and self-protection systems. The regional focus of our investments is expected to be the Europe region, in particular Germany, the United Kingdom, and France, as well as South Africa.

8.8.3.3. Investments in the Six-Month Period Ended June 30, 2020

In the six-month period ended June 30, 2020, we recorded investments of EUR 50.5 million, of which EUR 17.5 million related to property, plant and equipment (mainly due to higher investments for assets under construction) and EUR 33.1 million related to intangible assets. EUR 31.4 million of the intangible assets were capitalized development costs as internally generated intangible assets, primarily relating to ATC, naval and ground radar programs, and aerospace and protection programs. Besides replacements necessary to maintain current production levels, capital expenditures in the first half 2020 related mainly to investments in test equipment, streamlining workflows, IT licenses acquired as a result of the carve-out from Airbus, and necessary building measures, as well as product-specific models for demonstration purposes. The regional focus of our investments was Germany, which accounted for the overwhelming majority of our investments in the first half 2020.

8.8.3.4. Investments in the Financial Year 2019

In 2019, we recorded investments of EUR 80.5 million, of which EUR 21.4 million related to property, plant, and equipment and EUR 59.1 million to intangible assets. EUR 55.1 million of the intangible assets were capitalized development costs as internally generated intangible assets, primarily relating to ATC and naval & ground radar programs, as well as in spectrum dominance and aerospace and protection programs. Besides replacements necessary to maintain current production levels, capital expenditures in 2019 related mainly to investments to streamline workflows, IT licenses acquired as a result of the carve-out from Airbus, and necessary building measures, as well as product-specific models for demonstration purposes. In addition, in 2019, EUR 94.7 million of our investments related to acquisitions of other businesses, namely the Nexeya and HENSOLDT Australia businesses. The regional focus of our investments were France and Germany, which accounted for the overwhelming majority of our investments in 2019.

8.8.3.5. Investments in the Financial Year 2018

In 2018, we recorded investments of EUR 60.1 million, of which EUR 20.9 million related to property, plant, and equipment and EUR 39.2 million to intangible assets. Of the latter, EUR 36.6 million were

capitalized development costs as internally generated intangible assets, primarily for the development of various radar and sensor technologies such as our ASR system, our latest naval radar (TRS-4D), our Airborne Missile Protection System (AMPS), and our passive radar. Besides replacements necessary to maintain current production levels, capital expenditures in 2018 related mainly to investments to streamline workflows, IT licenses acquired as a result of the carve-out from Airbus, and necessary building measures, as well as product-specific models for demonstration purposes. In addition, in 2018, EUR 16.5 million of our investments related to acquisitions of other businesses, namely the HENSOLDT France and PentaTec businesses. The regional focus of our investments was Germany, which accounted for the overwhelming majority of our investments in 2018.

8.8.3.6. Investments in the Financial Year 2017

In 2017, we recorded investments of EUR 39.3 million, of which EUR 16.1 million related to property, plant, and equipment and EUR 23.2 million to intangible assets. Of the latter, EUR 19.9 million were capitalized development costs as internally generated intangible assets, primarily for the development of various radar and sensor technologies such as our ASR system, our latest naval radar (TRS-4D), and our passive radar. Besides replacements, capital expenditures related mainly to investments to streamline workflows, IT licenses acquired as a result of the carve-out from Airbus, and necessary building measures, as well as product-specific models for demonstration purposes. In 2017, investments in the amount of EUR 958.5 million related to acquisitions of the EuroAvionics and Kelvin Hughes businesses and, most importantly, the Orlando business. Intangible assets acquired in the course of business acquisitions mainly related to customer relationships, technology, Order Backlog, and brands. The regional focus of our investments was Germany, which accounted for the overwhelming majority of our investments.

8.9. Financial and Contingent Liabilities

8.9.1. Financing Liabilities and Other Financial Liabilities

8.9.1.1. Financing Liabilities

Financing liabilities were accounted for under current and non-current financing liabilities as well as partly under other financial liabilities in our consolidated statement of financial position, amounting to EUR 903.7 million as of December 31, 2019, and comprised our variable interest-bearing loan Term Loan Facility. As of December 31, 2018 and 2017, financing liabilities also included shareholder loans, which since then have been fully settled (see also "*8.2.5. Corporate Reorganization of the Group prior to the Offering*"). For additional information on our Group financing agreements, see "*10.20.1. Financing Agreements*".

The following table shows our financing liabilities as of December 31, 2019, 2018, and 2017 and as of June 30, 2020:

	As of June 30,	As of December 31,		
	2020	**2019**	**2018**	**2017**
(in EUR thousand)	**(unaudited)**	**(audited)**		
Liabilities to banks	1,108,511	899,034	883,731	692,109
Shareholder loans	—	—	349,567	437,474
Total	**1,108,511**	**899,034***	**1,233,298**	**1,129,582**

* Certain financing liabilities related to recourse factoring agreements are shown below as part of "other" under "*8.9.1.2. Other Financial Liabilities*".

The following table shows our liabilities to banks as of December 31, 2019, including a breakdown of these liabilities according to maturity:

	As of December 31, 2019			
	Maturity of 0-1 year	**Maturity of 1-5 years**	**Maturity of >5 years**	**Total**
(in EUR thousand)	**(audited)**			
Liabilities to banks	11,338	887,696	0	899,034

8.9.1.2. Other Financial Liabilities

Our other financial liabilities include liabilities from derivative financial instruments (non-current and current), liabilities from put options, miscellaneous other non-current financial liabilities, liabilities to related parties, and other.

The following table shows our other financial liabilities as of December 31, 2019, 2018, and 2017 and as of June 30, 2020 (see Note 24 to the Audited Consolidated Financial Statements 2019 and Note 18 to the Unaudited Interim Consolidated Financial Statements):

	As of June 30,	As of December 31,		
	2020	2019	2018	2017
(in EUR thousand)	**(unaudited)**	**(audited)**		
Negative fair values of derivative financial instruments	3,035	0	3,355	0
Liabilities from put options	0	0	1,206	972
Miscellaneous other non-current financial liabilities	225	225	0	11
Total other non-current financial liabilities	**3,260**	**225**	**4,561**	**983**
Negative fair values of derivative financial instruments	10,994	10,933	13,299	5,251
Liabilities to related parties	—	—	0	12,380
Miscellaneous other current financial liabilities[1]	3,732	7,455	0	419
Total other current financial liabilities	**14,726**	**18,388**	**13,299**	**18,050**
Total	**17,986**	**18,613**	**17,860**	**19,033**

(1) Miscellaneous other current financial liabilities of EUR 3.7 million as of June 30, 2020 and EUR 4.7 million as of December 31, 2019 related to liabilities from recourse factoring agreements.

8.9.2. Contingent Liabilities and Similar Commitments

Contingent liabilities of the Group include loan guarantees and sureties, contractual guarantees and sureties, as well as other guarantees and sureties.

The following table shows our contingent liabilities as of December 31, 2019, 2018, and 2017 and as of June 30, 2020:

	As of June 30,	For the Financial Year		
	2020	2019	2018	2017
(in EUR thousand)	**(unaudited)**	**(audited)**		
Loan guarantees/sureties	15,795	38,422	28,373	36,955
Contractual guarantees/sureties	411,266	410,144	269,470	146,855
Other guarantees/sureties	39,441	37,076	35,912	32,399
Total	**466,503**	**485,641**	**333,755**	**216,209**

The item loan guarantees/sureties shows to what extent the Group is liable for financial obligations of third parties. Under loan guarantees/sureties, we generally guarantee the financial obligations of a principal debtor. The maximum liability coverage corresponds to utilization of the outstanding liability of the credit or – in the event of credit facilities that can be utilized in variable amounts – the maximum amount that can be claimed. The table includes the maximum liability coverage. While the terms of these guarantees/sureties generally extend up to one year, in some cases, they have an indefinite term.

In addition, we guarantee the fulfillment of our own contractual obligations, mainly due to advance payments and performance guarantees/sureties. If we do not meet our contractual obligations, we can be held liable up to an agreed maximum amount. Generally the terms of these contingent liabilities run to eight years or, in some cases, indefinitely.

The other guarantees and sureties relate to bid bonds, performance guarantees, customs guarantees, and rental guarantees.

In addition, purchase commitments, representing the sum of payment obligations from order commitments for the procurement of goods or services that are still to be settled, amounted to EUR 246.5 million as of June 30, 2020 (December 31, 2019: EUR 253.5 million; December 31, 2018: EUR 302.5 million; December 31, 2017: EUR 246.4 million). Since June 30, 2020, purchase commitments have increased to a high mid-triple digit EUR million range.

8.10. Off-Balance Sheet Arrangements

As of June 30, 2020, we had no material off-balance sheet arrangements.

8.11. Quantitative and Qualitative Disclosure about Financial Risk Management

Due to our global activities, we are naturally exposed to a range of risks that are inextricably linked to our business activities.

One of the main objectives of management is to ensure an effective risk management and internal control environment. We have a Group-wide enterprise risk management (ERM) system for integrating the risk management and internal control systems (ICS). This is established within HENSOLDT Holding Germany GmbH for the Group.

The business is exposed to a range of financial risks, including, among other things, foreign exchange risk, interest rate risk, liquidity risk, and credit risk.

Overall, our financial risk management system aims to minimize unforeseeable market risks and their potential negative effects on the operating and financial performance of the business.

We engage with financial derivatives solely to mitigate risk (hedging).

Our corporate finance department's risk-related activities include in particular: financial management, liquidity management, guarantee management, currency management, and insurance management.

See also Note 35.1 to the Audited Consolidated Financial Statements 2019.

8.12. Significant Accounting Policies Concerning Judgments, Estimates, and Assumptions

The preparation of financial statements requires the use of assumptions and estimates. In preparing financial statements, management uses its best judgment based on its experience and the prevailing circumstances at that time. The estimates and assumptions are based on available information and conditions at the end of the accounting period and are regularly reviewed. The increased uncertainties in light of the Covid-19 pandemic posed particular challenges when making appropriate judgements, estimates and assumptions.

The following key estimates and assessments have a significant influence on the amounts reported in the Audited Consolidated Financial Statements and the Unaudited Interim Consolidated Financial Statements:

- Revenue recognition for construction contracts (rendering of performance obligations over time);
- Capitalization of development cost;
- Assets acquired and liabilities assumed, as well as goodwill;
- Impairment testing;
- Provisions;
- Employee benefits;
- Contingent legal liabilities;

- Income taxes;
- Lease terms; and
- Fair value determination.

See also Note 3 to the Audited Consolidated Financial Statements 2019.

8.13. Additional Information relating to the Audited Unconsolidated Financial Statements

In 2019, the Company accumulated a net loss for the year (*Jahresfehlbetrag*) of EUR 0.3 million. As of December 31, 2019, the balance sheet total of the Company amounted to EUR 1,650 million. As parent company of the Group, the Company performs its business operations through its affiliates.

9. MARKETS AND COMPETITIVE ENVIRONMENT

The statements on markets and competition provided below are based on the RSAdvisors Study, a commissioned study prepared by RSA on trends in the Global Defense Market, Global Defense Electronics Market, German Defense Market, and German Defense Electronics Market (each as defined below) entitled "Global Defense Electronics Market: Trends, Drivers and Outlook for 2020 and Beyond" and dated September 2020, unless otherwise indicated. For more information on the sources used in the Prospectus, see "2.4. Information from Third Parties". These sources, including the RSAdvisors Study, may not fully reflect the potential impact of the ongoing Covid-19 pandemic due to, among other things, uncertainties surrounding its further development. In view of the potential effects of this pandemic on the economy, society and markets in which we operate, all current forecasts can be made only with a considerably higher degree of uncertainty. This applies particularly in the context of links and interrelations between the global financial markets, economies, and political decisions, which each individually may have an influence on the economic and political development, and when combined, are currently impossible to assess with any certainty ex ante.

In particular, the RSAdvisors Study assumed that, following IMF guidance from June 2020 for 2020 and 2021, global GDP would return to growth by 2022 and continue to grow at similar rates to previously published IMF guidance, as well as various third-party information such as announced economic stimulus intentions from individual countries, including Germany, France, and the United States. Moreover, the RSAdvisors Study assumed that the defense industry (including defense electronics) would see a positive impact as countries either retired legacy equipment or upgraded them earlier than originally planned, and brought forward spending on new programs as stimulus packages.

While we did not verify or modify any of the market or other data provided by RSA, we have delivered, upon RSA's request, certain factual information to RSA and have discussed the underlying assumptions with RSA. The figures contained in the RSAdvisors Study and related to RSA's analysis and market modeling are based on a multitude of sources, as well as RSA's own analysis.

The forward-looking statements in this section are subject to risks and uncertainties as they relate to future events and are based on certain estimates and assessments that may be inaccurate. Additional factors that should be considered in assessing the market and competitive data and, in particular, the projected growth rates, are described elsewhere in the Prospectus, including in sections "1. Risk Factors" and "2.3. Forward-Looking Statements". Certain forward-looking statements relating to forecasts or expectations of market developments in the years 2020 and future years are indicated by an "E" after the year, for example, "2020E", "2021E", etc.

9.1. Market Overview and Drivers

We are a platform-independent provider of defense and security sensor solutions and primarily active in the Global Defense Electronics Market, a sub-segment of the Global Defense Market (each as defined below), which includes businesses that design, develop, manufacture, market, sell and service electronics systems and solutions such as, among other things, radars, electronic warfare systems and aircraft avionics, as well as optical and optronics equipment.

The following description of our main markets focuses on the Global Defense Electronics Market and the Global Defense Market (each, as defined below). In addition, we are active in certain non-defense markets, in particular, the global markets for aircraft avionics systems, civil ATC, border security and counter unmanned aerial vehicles ("**UAVs**") systems.

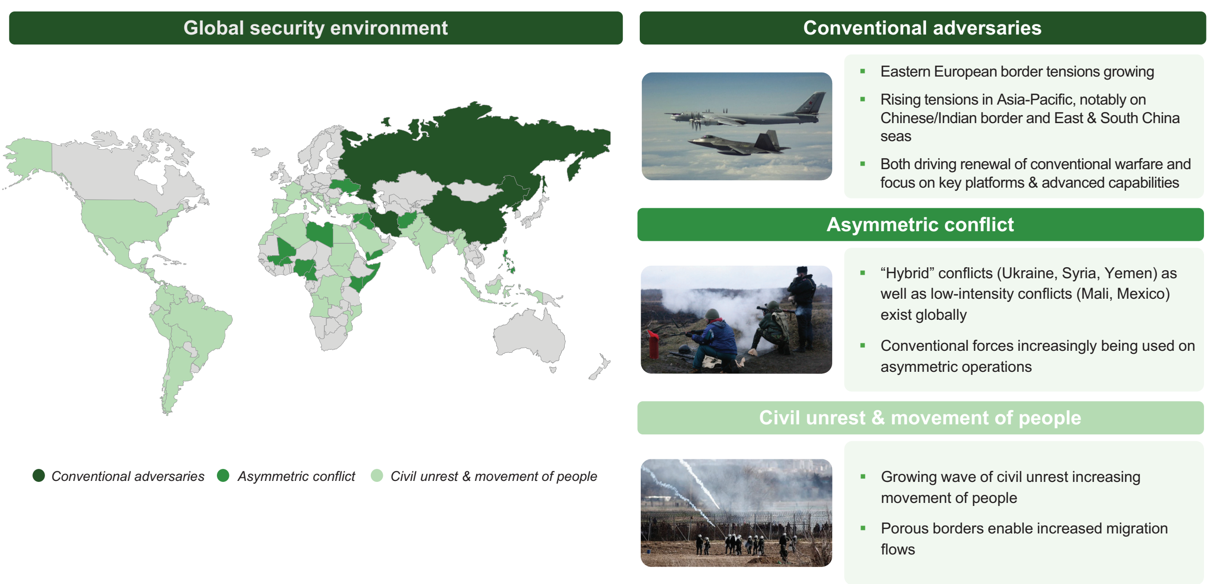
9.2. Key Trends and Drivers

The Global Defense Electronics Market is one of the fastest growing segments in the Global Defense Market (each as defined below) due to its critical role in responding to the current and projected threat environment, via both upgrades to the large installed base of legacy platforms and embedded critical enablers in new start programs and systems.

We believe that the following factors continue to drive growth and shape the Global Defense Market and Global Defense Electronics Market in the near and medium term:

9.2.1. Global Threat Levels

Global security threats are expected to expand and diversify in the near future, driven in part by China and Russia, who appear to compete more intensely with the United States and its traditional allies and partners. China and Russia appear to seek to shape the international system and regional security dynamics and to exert influence over the politics and economies of states in all regions of the world. As China and Russia appear to expand their global influence, once well-established security norms are changing, which increases the risk of regional conflicts, particularly in the Middle East and East Asia. The Democratic People's Republic of Korea retains its weapons of mass destruction ("**WMD**") capabilities, and it appears unlikely that it is willing to give up all of its WMD stockpiles, delivery systems, and production capabilities (source: Worldwide Threat Assessment 2019). Iran is said to maintain a proxy presence in several conflicts throughout the region, namely in Yemen, Iraq, Israel, Syria and Lebanon. Further, Turkey, Iraq, Iran, South Africa, and Bangladesh all have experienced heightened levels of unrest. Source: Cambridge Global Risk Index 2019.



Technological proliferation also results in additional global threats. For example, China, Russia, Iran, and the Democratic People's Republic of Korea increasingly appear to be using cyber operations to misappropriate information or to disrupt critical infrastructure. The Democratic People's Republic of Korea, Russia, Syria, and ISIS have all allegedly used chemical weapons on the battlefield or in assassination operations during the past two years. The threat from biological weapons has also become more diverse and prevalent, as biological agents can be employed in a variety of ways and their development is made easier by dual-use technologies.

In addition, terrorism is expected to continue to be a top threat worldwide, particularly in Sub-Saharan Africa, the Middle East, South Asia, and Southeast Asia. Increased migration flows are likely to continue to fuel social and interstate tensions globally, while drugs and transnational organized crime threaten public safety. Political turbulence is rising in many regions as governance erodes and states confront growing public health and environmental threats, all of which have the potential to be exacerbated by the impact of the global Covid-19 pandemic. Issues as diverse as Iran's perceived adversarial behavior, rising conflicts in the African Sahel, and the rise of nationalism in Europe (seemingly fueled in part by migration from the conflict regions) are all expected to escalate global threat levels. Source: Worldwide Threat Assessment 2019.

9.2.2. Defense Models Relying More on Equipment and Electronics

Today's military operations are becoming increasingly complex. Smaller armies are deployed on enlarging battlefields and are fighting against unconventional adversaries, as witnessed in Afghanistan, Iraq, or Mali. In such conflicts, militaries often do not encounter a conventional military on a traditional battlefield. Instead, they face a diverse array of asymmetric threats employed by the adversary to achieve military objectives. Countering asymmetric threats requires the combination of airborne forces, such as, jets, helicopters, and UAVs, as well as infantry on the ground in so-called hybrid operations. Such complex operations have to deal with refugees, medical relief, disaster and emergency

assistance, as well as anti-terror/counter-insurgency and conventional operations at the same time. These asymmetric conditions pose new challenges to communication systems as well as intelligence, surveillance, and reconnaissance ("**ISR**"). Co-operative, networked communication systems are key to these kinds of operations and sensors and analytics systems have to evolve to connect directly with, and interact through, complex networks and to remain effective. For example, with the enlargement of the operational area and the increasing quality of imagery, the data collected by UAVs and manned aircraft is growing, thus raising the demands on the processing and analyzing of such data to ensure that the results are transported to the relevant personnel on the ground as quickly as possible (source for information in this paragraph: RSAdvisors Study).

However, as the Russian invasion of the Crimea and Eastern Ukraine has shown, conventional forms of conflict still exist. This event was the catalyst that is driving European countries to reconfigure the structure of their armed forces towards a more cold-war-like stance and capability. The focus is no longer only on hybrid operations; the ability to conduct large-scale, vehicle- and platform-heavy maneuvers and deployments is required as well. Accompanying this requirement is a re-emphasis on investments into front line platforms with conventional capabilities to face conventional adversaries (source for information in this paragraph: RSAdvisors Study).

Countering such adversaries can only be effectively undertaken if one's own force is similarly equipped. In the course of the abovementioned invasion of the Crimea and Eastern Ukraine, the Russian use of electronic warfare capabilities and sensors seemed considerably more advanced than expected by NATO. After years of neglect, Russia's increasing investment in military technology and invasion of Crimea and Eastern Ukraine demonstrated advanced capabilities that threaten traditional areas of NATO technical advantage. In a similar but different manner, the continued growth of Chinese military capabilities and use of them and its economic strength to gain leverage in the Indo-Pacific region have created similar challenges (source for information in this paragraph: RSAdvisors Study).

Separately, the ability to conduct coordinated operations between air, land and sea, including sub-surface, elements is becoming more and more important. Such multi-domain operations can conduct independent maneuvers, employ cross-domain fires, and maximize human potential. Their execution requires the ability to share information and data quickly and accurately between domains, and between multiple actors in each domain at once. For example, an airborne early warning and control system (AWACS) coordinates fighter strikes on a target by receiving data from low-level UAVs directed by special forces soldiers on the ground, while also providing targeting data for ship-launched missiles (source for information in this paragraph: RSAdvisors Study).

To achieve the level of desired connectivity, large amounts of electronic communications, sensors, and data analytical capability installed in all platforms used in an area of operation are needed, including equipment used at the level of individual soldiers. Information and analysis are increasingly disseminated in a "mesh" network to all users simultaneously, rather than previous methods that were limited to communication within each domain in a hierarchical command and control architecture or between two specific points. A mesh network requires investments in communications and data transmission. This will result in software-defined systems becoming the norm. As a side-effect, it creates additional need for security and spectrum dominance to ensure reliability of communications and information dissemination, thereby increasing the importance of electronic support measures and countermeasures technology, as well as electronic intelligence ("**ELINT**"), signals intelligence ("**SIGINT**"), and communications intelligence ("**COMINT**") capabilities (source for information in this paragraph: RSAdvisors Study).

9.2.3. Equipment Spending Driven by Major New Platform Procurement Programs

Major new platform procurement programs globally are expected to drive equipment spending in the near- and medium-term across all domains. In Germany, in particular, a significant "catch-up" effect in defense spending is expected in order to match constantly evolving and increasing requirements for modern armed forces. Additionally, the recent announcement of a German stimulus package in response to the economic impacts of the Covid-19 pandemic of up to EUR 10 billion is expected to accelerate several near-term projects and contribute to near-term growth in defense spending (source for information in this paragraph: RSAdvisors Study).

In Europe, the start-up of various multi-national programs through institutions of the European Union such as the Permanent Structured Cooperation (PESCO), the Coordinated Annual Review on Defense

(CARD), and the Commission's European Defense Fund (EDF), as well as the growing alignment between member states in types of platforms and systems in service are expected to shape the development going forward. France, the United Kingdom, Germany, and Italy together made up more than 70% of equipment spending in Europe in 2019. Germany is expected to be a major driver of this anticipated growth as it seeks to refurbish and recapitalize existing combat capability. Equipment spending is expected to be the fastest growing portion of the overall German defense spending from 2019 to 2024E (source for information in this paragraph: RSAdvisors Study).

In the rest of the world, the rebuilding of key conventional capabilities, such as long-range strike capabilities, C4I and C4ISR modernization (see also "*9.2.5. Developing New Technologies*"), electronic warfare, and underwater warfare, is expected to be one key focus area for equipment modernization and spending. Additionally, renewed investments into border protection solutions, in particular, in Northern Africa against the background of the continued conflicts in various countries of the continent, such as Libya, Sudan and Mali, remain one of the key drivers of equipment spending (source for information in this paragraph: RSAdvisors Study).

Equipment spending for platforms and programs in the domain air is expected to be a key area of investment, with Eurofighter deliveries continuing, and customers also looking to an upgraded Eurofighter with a further enhanced Eurofighter common radar system (the "**Captor-E**" radar), see also "*10.6.2.1. Eurofighter*". F-35 deliveries continue globally as well, and older generation platforms like the F-16s also continue to be in demand globally, particularly on the second hand market as more advanced users acquire next-generation platforms. Regarding helicopters, the UH-60 Blackhawk family, NH90 (with a potential mid-life upgrade approaching, see also "*10.6.2.2. NH90*") and Chinook CH-47 are all anticipated to continue selling well. Additionally, in July 2017, Germany and France agreed to carry out a mid-life upgrade program for existing Tiger helicopters to extend their lifecycle beyond 2038, with the aim to have the first helicopter meeting this up-to-date standard delivered by 2025/2026, see also "*10.6.2.3. Tiger*" (source for information in this paragraph: RSAdvisors Study).

With respect to the domain land, there are multiple vehicle programs driving expected equipment spending such as procurement of Ground Based Air Defense (GBAD) systems, for example, in Germany, Norway, Qatar, Pakistan, and South Africa, as well as strong demand for the Leopard 2 MBT by Poland, among others. In the United States, the Next-generation Combat Vehicle (NGCV), and other future vehicle programs are expected to start in the 2020s as the country seeks to recapitalize portions of its fleet. In 2020, it is expected that the Australian Mounted Close Combat Capability (LAND 400 Phase 3) project, which is scoped to acquire replacements for the current M113 Armored Personnel Carriers and supplement the current fleet of Maneuver Support Vehicles, will advance further. In France, the Scorpion project aims to transform the equipment and networking of the key operating unit of the French army. Under the modernization plan, the French army aims to have an operational capability by the middle of the 2020s. In the United Kingdom, the Ajax family of vehicles (Ares, Athena, Atlas, Apollo, and Argus), which is designed to cover roles ranging from troop carrying to recovery and command-and-control ("**C2**"), is expected to enter into service in 2020, with the first units delivered in July 2020 (source of information in preceding paragraph: RSAdvisors Study).

In the domain sea, numerous submarine programs, mainly based on either the French Naval Group Scorpene design, or the TKMS U212/214 platform, are expected to remain important elements for equipment procurement in the near- and medium-term. Norway, Italy, South Korea, and others are expected to continue expanding their underwater warfare capabilities. Surface fleet programs are expected to be driven by ongoing Freedom class littoral combat ship deliveries and the Future Frigate in the United States, as well as multiple programs across NATO and in Latin America for modern, capable warships (frigates, Offshore Patrol Vessels (OPVs), and corvettes). These programs include, among others, the MKS 180, a multi-purpose combat ship to be developed for the German navy (see also "*10.6.6.1.1. MKS 180*"), and the Type 26 frigate (source of information in preceding paragraph: RSAdvisors Study).

9.2.4. NATO Embarking on Wave of New Investments

NATO and the transatlantic relationship are expected to be confronted by multiple challenges. Disorder within the alliance is largely the product of political developments within several member states. Thus, the state of NATO in 2024E is expected to depend primarily on the alliance's internal political cohesion. The varying nature of the threats will continue to challenge NATO's unity, in particular among its

European members. Several NATO countries in Central and Eastern Europe clearly consider Russia as the major security concern, while in Southern Europe, the instability and turmoil in the Middle East and Africa are judged to be the most important challenge. Source: The Future of NATO.

In terms of NATO's military-operational priorities and related capability development, the core task of territorial defense is expected to continue to dominate. In this context, close coordination with the EU will be required to carry out the same sort of operations under the so-called Common Security and Defense Policy. In terms of capabilities, NATO will likely develop an array of robust, sophisticated, and evolving capabilities across all domains, including heavier, more high-end, fully supported, deployable, sustainable, and interoperable forces and capabilities that are held at high readiness to perform the whole range of NATO's tasks and missions. Increasing military mobility – in the air, at sea, but in particular across land in Europe – remains a high priority, in which the EU will be of great importance. A more equal burden-sharing within NATO is considered one of the key factors to lowering transatlantic tensions. Source: The Future of NATO.

NATO defense spending is forecast to grow at a slower rate than the Global Defense Market with a CAGR of approximately 2.4% from 2019 to 2024E, pulled down by the growth stabilization in the United States. Excluding the United States, NATO defense spending is expected to see stronger growth overall from 2019 to 2024E (adding EUR 40 billion to reach EUR 313 billion in 2024E), with equipment spending (*i.e.*, procurement and R&D spending) expected to grow appreciably faster than overall spending (source of information in preceding paragraph: RSAdvisors Study).

In 2017, the EU has launched important new initiatives in the defense area for the implementation of the EU Global Strategy such as PESCO, CARD and EDF. EDF allocates money from the EU budget for defense R&D and the development of military equipment. The financial volumes are relatively small through 2020, but may increase over the period of the EU's Multi-annual Financial Framework (MFF) 2021-2027. The European Commission has proposed to spend an aggregate amount of approximately EUR 9 billion on defense in that timeframe (source: EU Budget Proposal). Additionally, a dedicated budget of approximately EUR 1.7 billion will be earmarked in the Connecting Security Facility in order to enhance strategic transport infrastructure and improve mobility (source: EU Budget Proposal). Strengthening the European technological and industrial base is also an important goal of the EDF, supported by several large European military equipment programs, such as EUROdrone Male, Anglo-Italian and Franco-German FCAS projects and the Franco-German cooperation for the MGCS. Source: The Future of NATO.

9.2.5. Developing New Technologies

The Global Defense Market is expected to be shaped by rapidly developing new technologies in various research areas and targeted at a multitude of usage cases, some of which are set out below:

9.2.5.1. Artificial intelligence

Defense companies around the world will continue to focus on disruptive technologies and fourth industrial revolution technologies, such as artificial intelligence ("**AI**"). AI is becoming prevalent across new platforms and systems, and this trend is set to increase, with intelligence increasingly devolved from platforms and systems, and injected into weapons with the United States, among others, expected to pioneer this development. Research programs also include AI in the defense domain in the field of cognitive electronic warfare, navigation techniques for drone swarms, detection and signal processing in sensors, and dynamic spectrum allocation for radar/radio equipment in the congested radio frequency (RF) spectrum (source of information in preceding paragraph: RSAdvisors Study).

9.2.5.2. Unmanned Systems and Counter Unmanned Systems

Unmanned systems continue to expand across domains, with unmanned underwater vehicles (UUV) having matured into a viable option for ISR systems, and pose genuinely disruptive potential as reconnaissance and weapon systems. This is expected to have an impact on the present development of defense solutions against unmanned systems with an accelerating development of counter-unmanned air systems, which is entering the developmental test and early usage phase (source of information in preceding paragraph: RSAdvisors Study).

9.2.5.3. Command, Control, Communications, Computers, Intelligence ("**C4I**"), Surveillance, and Reconnaissance ("**C4ISR**")

The C4ISR domain is undergoing significant technological innovation and development. It is a primary driver of the need for more advanced sensors, systems, and electronics, and its growth is being supported by the evolution of key technologies, of which the following are core examples (source of information in preceding paragraph: RSAdvisors Study).

- *Multifunction RF systems:* Systems, which consolidate several RF functions, like radar, electronic support, electronic attack and datalink communications within a shared set of electronics and antenna apertures using active electronically scanned array technology, are advantageous in terms of size, weight and power, lifecycle cost reduction, adaptive resource allocation, interference suppression and electromagnetic compatibility. Multifunction RF systems also contribute to a platform's radar cross-section reduction and performance optimization of the RF functions (source of information in preceding paragraph: RSAdvisors Study).

- *Anti-access area denial (A2/AD):* A2/AD threats are driving the development of aerial network alternatives such as satellite communications. This requires resilient C2/BM, low-probability-of-intercept/low-probability-of-detection (LPI/LPD) data links, disaggregated space systems, low earth orbit (LEO) and medium earth orbit (MEO) constellations and a variety of other ISR and sensor technologies that will drive the ability to identify and respond to an evolving threat environment (source of information in preceding paragraph: RSAdvisors Study).

- *GaN:* A shift towards non-silica-based semiconductors, such as GaN, can be observed in the field of power electronics in defense applications, such as amplifiers for radar-based applications that are expected to have a significant impact on the systems in terms of better power density and superior thermal conductivity (source of information in preceding paragraph: RSAdvisors Study).

- *Short wave infrared (SWIR):* Defense applications for SWIR sensors are expanding. Initially developed for crucial surveillance and reconnaissance missions, SWIR now finds applications in medium-sized turrets, targeting pods, and man-portable systems (source of information in preceding paragraph: RSAdvisors Study).

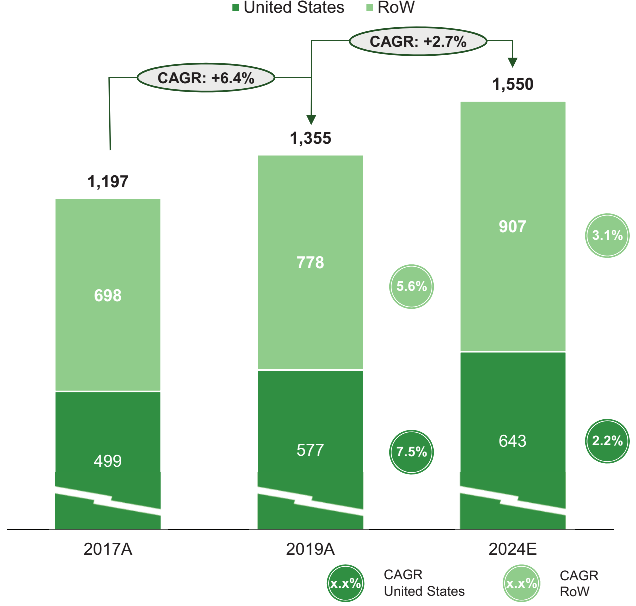
- *Cyber-security:* Cyber-security concerns now influence procurement schedules and boost funding, particularly as the need to secure the electronics on defense systems and platforms is growing. The growth of electronic systems on land, air, and sea platforms creates a threat to those platforms from cyber attack, and requirements to protect platforms and systems against such attacks is expected to increase (source of information in preceding paragraph: RSAdvisors Study).

9.3. The Global Defense Market

The defense market covers a wide range of activities, such as designing, developing, manufacturing, marketing, selling, and servicing of equipment, including (i) small arms, ammunition, and artillery, (ii) aircraft, helicopters and UAVs, (iii) electronic components like radars, electronic warfare systems, aircraft avionics, optical and optronics equipment, (iv) military vehicles such as tanks, and (v) naval vessels, warships and submarines. In addition to the aforementioned activities, the global defense market comprises spending on military operations and maintenance of equipment, salaries of military personnel (including healthcare, pensions and hardship payments) as well as funding for the construction of new and maintenance of existing military facilities (source of information in preceding paragraph: RSAdvisors Study).

In accordance with the RSAdvisors Study, we base our definition of the global defense market on the total defense spending by governments (including supranational organizations) and government agencies across all domains (air, land, sea, space, and services) and for the accounts, procurement, R&D, (procurement and R&D, collectively referred to as equipment), operations and maintenance, personnel and construction in all regional markets, excluding Russia, China, Iran, the Democratic People's Republic of Korea, Syria, Libya, and Venezuela (the "**Global Defense Market**"). In 2019, the Global Defense Market amounted to approximately EUR 1,355 billion (source of information in preceding paragraph: RSAdvisors Study).

The following chart provides an overview of the Global Defense Market's growth from 2017 to 2019 and the expected future growth from 2019 to 2024E (all figures in EUR billion, unless otherwise indicated):



The Global Defense Market is characterized by specific market dynamics driven by unique demand-side customer and supply-side industrial considerations. There is only a limited commercial market for defense equipment, as the demand for defense equipment is largely limited to governments, nations' armed forces and supranational organizations, such as NATO. Due to the unpredictability of the geopolitical environment and international relations, some government customers consider it risky to rely only on international or non-national providers of defense equipment. Consequently, such government customers maintain an interest in preserving national capabilities in the defense sector, for example, through funding of a substantial part of or all R&D efforts for the development of new, state-of the art defense equipment. Additionally, the global Covid-19 pandemic has caused some countries like Germany to announce stimulus packages with certain funds being intended to acquire defense equipment and to ensure the reliability and viability of their national defense supply chains (source of information in preceding paragraph: RSAdvisors Study).

The Global Defense Market is shared by supply-side and demand-side barriers to entry. On the supply-side, a comprehensive understanding of operational requirements and specific, often times mission-critical, capabilities is essential, generally requiring substantial experience. The development of new products and systems generally requires significant investments in production and R&D facilities, as well as highly qualified personnel. Furthermore, the products in demand by the armed forces and government customers are typically highly complex (due to the increasing capability requirements). Consequently, their development requires specific technical expertise that a new market entrant may not have to the same extent as established players. On the demand-side, well-established relationships with the relevant government customers are crucial for winning large projects. The same notion holds true for the relationship with key platform manufacturers and prime contractors, who may be reluctant to engage new market entrants for projects that are often times complex and long lasting, thus demanding mutual trust between the partners. In addition, high qualification and security requirements (often requiring clearances from the end-customer) common in the industry constitute further barriers to entry as the certification for relevant security standards involving both the supply chain and operational security are often times time-consuming and costly, particularly in developed markets such as Europe or the United States (source of information in preceding paragraph: RSAdvisors Study).

While the United States continues to account for the largest portion of global spending in the Global Defense Market, other regions are expected to grow faster between 2019 and 2024E and thus present particularly attractive opportunities. The resurgence of investment in defense and security is expected to proliferate across geographies and domains and to drive spending growth in multiple regions. In particular, it is expected that European countries will strive to modernize their armed forces across domains to counter security risks in the Baltic and North Seas and to address challenges associated with the continued high number of engagements in crisis regions. APAC countries are also expected to continue growing their armed forces and modernize equipment for meeting security challenges, for

example, in the East and South China Sea. Intra-regional geopolitical rivalries and tensions in the Middle East, and their manifestations in flashpoints such as Yemen, Iraq, or Syria, are driving countries in this region in their defense spending, which is expected to increase in the near to medium term. While the global Covid-19 pandemic has impacted large parts of society and the economy, these prevailing geopolitical trends make it likely that defense spending will continue through the forecast period to 2024E (source of information in preceding paragraph: RSAdvisors Study).

9.4. The Global Defense Electronics Market

9.4.1. Overview and Characteristics

Within the Global Defense Market, we are active in the defense equipment segment (the "**Global Defense Equipment Market**"), which includes designing, developing, manufacturing, marketing, selling, and servicing of equipment, and excludes, for example, spending on military operations and maintenance of equipment, salaries of military personnel (including healthcare, pensions, and hardship payments), as well as funding for the construction of new and maintenance of existing military facilities. The Global Defense Equipment Market amounted to approximately EUR 342 billion in 2019 and is forecast to grow at a CAGR of approximately 4% from 2019 to 2024E (source of information in preceding paragraph: RSAdvisors Study).

The defense electronics market is a sub-segment of the Global Defense Market and of the Global Defense Equipment Market. Defense electronics systems make up defense customers' key sensing, processing, and dissemination systems that are critical for protection, detection, battlefield coordination, targeting, and situational awareness. The global defense electronics market, our principal market, is one of the fastest-growing sub-markets of the Global Defense Market and is predicted to experience substantial growth in the future driven by, among others, increasing electronics content in defense equipment (source of information in preceding paragraph: RSAdvisors Study).

In accordance with the RSAdvisors Study, we base our definition of the global defense electronics market on the total defense spend by governments (including supranational organizations) and government agencies across all domains (air, land, sea, space, and services) for defense electronic components in the sub-segments of (i) sensors and effectors including acoustics, communications, radar, electronic warfare, optronics, as well as (ii) processing and control systems, including avionics and vectronics (*i.e.*, computing systems that perform guidance, control, and processing in support of core platform functions), and command-and-control and battlefield management ("**C2/BM**") systems in all regional markets, excluding Russia, China, Iran, the Democratic People's Republic of Korea, Syria, Libya, and Venezuela (the "**Global Defense Electronics Market**"). In addition to procurement and R&D, which account for the majority of the market volume, the Global Defense Electronics Market also comprises the overall spend for the operation and maintenance relating to spare parts, upgrades to components and software, as well as general upkeep of the aforementioned electronic components. These elements of operation and maintenance were included in the RSAdvisors Study in order to accurately reflect all areas of potential revenue for defense electronics providers.

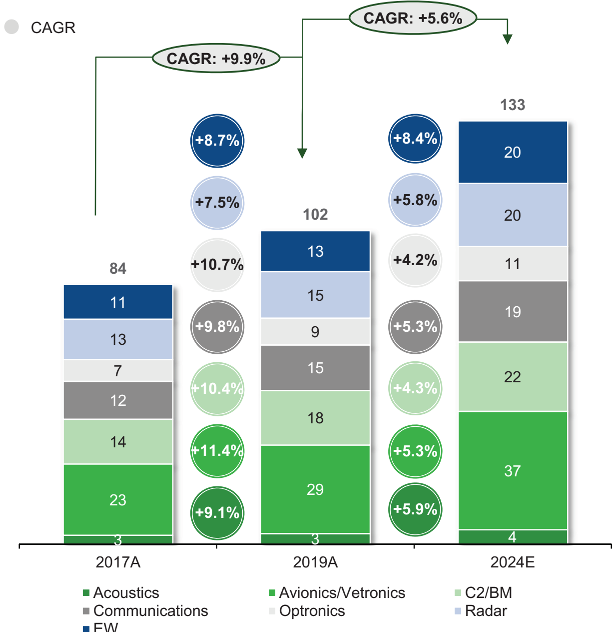
In 2019, the Global Defense Electronics Market amounted to approximately EUR 102 billion whereby approximately EUR 15 billion of the Global Defense Electronics Market related to radar solutions and approximately EUR 9 billion related to optronics in 2019. Overall, the Global Defense Electronics Market is expected to grow at a CAGR of approximately 5.6% from 2019 to 2024E (source of information in preceding paragraph: RSAdvisors Study).

On a segment level, sensor and effector systems are forecast to grow faster than the Global Defense Electronics Market from 2019 to 2024E. This trend is expected to be driven, among other things, by the development of next-generation integrated air-and-missile defense systems including the lower-tier air-and-missile defense sensor (LTAMDS) for the United States armed forces that will provide the sensing capability for the U.S. future integrated air-and-missile defense system (IAMDS), a planned new tactical air defense system for the German armed forces (*Bundeswehr*) (TLVS), and the common anti-air modular missile extended range (CAMMS-ER) system. The development and subsequent procurement of fifth-generation fighter jets such as the F-35, sixth-generation fighter jets like the FCAS and Tempest, as well as the procurement of new naval vessels, including the German K130 and MKS 180 and the Type 26 and 31e for the Royal Navy of the United Kingdom, are also expected to significantly contribute to this development (source of information in preceding paragraph: RSAdvisors Study).

The anticipated growth in processing and control systems is expected to be driven by upgrades of combat and tactical vehicles and naval vessel, including large vehicle programs like the Australian Mounted Close Combat Capability (LAND 400 Phase 3) project, Next-Generation Combat Vehicle (NGCV) in the United States as well as Project Scorpion in France, and multiple naval programs like the Type 26 ship in Australia, the UK, and likely Canada, as well as the U.S. future frigate, and German MKS 180 frigate. Investments in land vehicle and naval programs are expected to continue to increase through the decade and large next-generation programs like the multi-national MGCS (Main Ground Combat System) are expected to provide additional opportunity and growth into the 2030s (source of information in preceding paragraph: RSAdvisors Study).

9.4.2. Breakdown of the Global Defense Electronics Market by Account

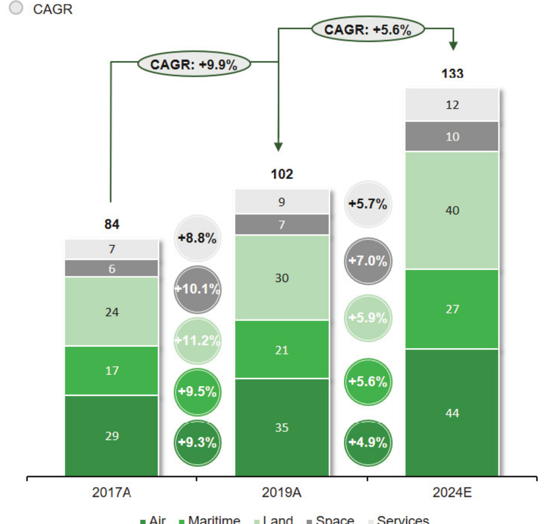
The following charts provide an overview of the Global Defense Electronics Market's growth from 2017 to 2019 and the expected future growth from 2019 to 2024E broken down by account (all figures in EUR billion, unless otherwise indicated):



On an account-level, EW is forecast to show a particular strong growth at a CAGR of 8.4% from 2019 to 2024E. This growth outlook is expected to be supported mainly by the growth in signals intelligence, electronic intelligence, and the requirement for wider situational awareness and management of the Electro-magnetic spectrum. Specifically, this is driving upgrades and recapitalization of EW systems across countries, focusing on a mixture of land and airborne situational awareness and battle management capabilities (source of information in preceding paragraph: RSAdvisors Study).

9.4.3. Breakdown of the Global Defense Electronics Market by Domain

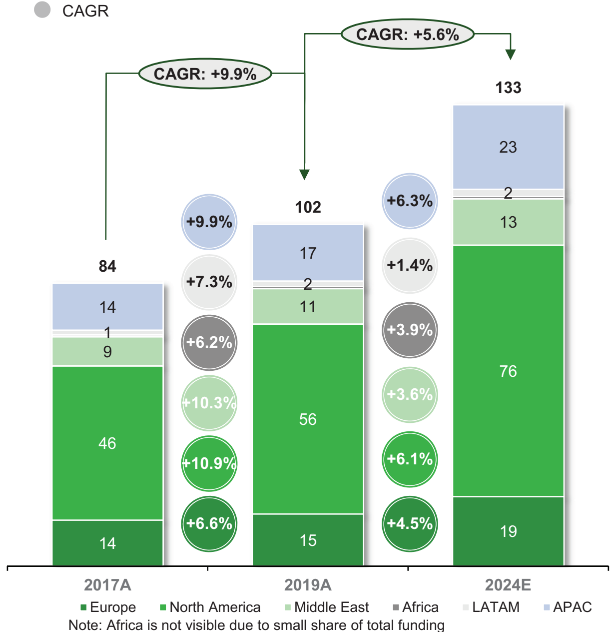
The following charts provide an overview of the Global Defense Electronics Market's growth from 2017 to 2019 and the expected future growth from 2019 to 2024E broken down by domain (all figures in EUR billion, unless otherwise indicated):



The expected increases are mainly due to growing need for electronics content which includes, among other things, the development and subsequent procurement of (i) active protection systems designed to prevent line-of-sight guided anti-tank missiles/projectiles from acquiring and/or destroying a target, (ii) 360-degree imaging systems for situational awareness, (iii) digital fire control systems, and (iv) soft-kill countermeasure systems including directed infrared counter measures (DIRCM) and the aforementioned development of next-generation integrated air-and-missile defense systems. Through 2024, the air domain is expected to remain the largest single domain due to the continuing need for radar, communications, and spectrum dominance solutions including electronic warfare. Within this domain, the fastest growth is expected in spectrum dominance because of the increase in self-protection systems and the renewed focus on ELINT, SIGINT & COMINT, as well as offensive electronic warfare jamming systems (source of information in preceding paragraph: RSAdvisors Study).

9.4.4. Breakdown of the Global Defense Electronics Market by Region

The following chart provides an overview of the Global Defense Electronics Market's growth from 2017 to 2019 and the expected future growth from 2019 to 2024E broken down by region (all figures in EUR billion, unless otherwise indicated):



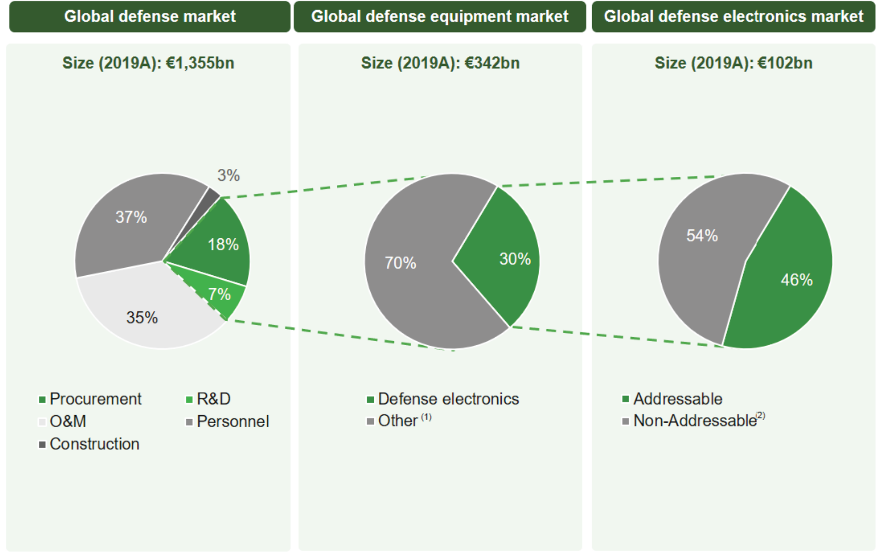
In 2019, the United Kingdom, France, Germany, and Italy accounted for approximately 70% of the European defense electronics market. The German defense electronics market is forecast to grow at a CAGR of approximately 7.0% from 2019 to 2024E (see also "*9.6.2. Key Trends and Drivers in the German Defense and Defense Electronics Markets*") (source of information in preceding paragraph: RSAdvisors Study).

9.5. Accessible Defense Electronics Market

9.5.1. Addressable Defense Electronics Market and Accessible Defense Electronics Market

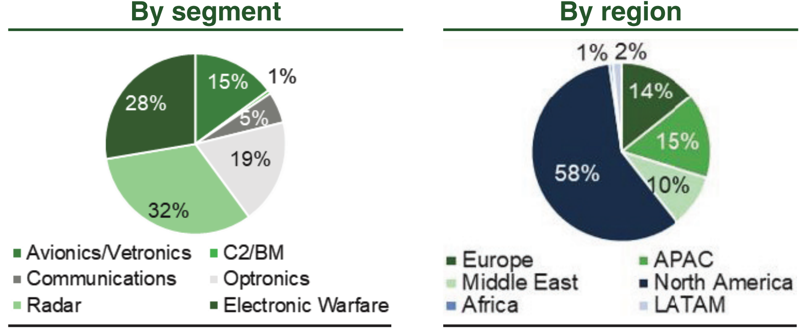
The Global Defense Electronics Market comprises equipment and, to a certain degree, operation and maintenance spend related to various defense electronic components in various segments and sub-segments. Our product portfolio may not extend to all of these sub-segments, for example acoustics, parts of communications, and C2/BM. Consequently, we do not consider these sub-segments to be part of our addressable market, which we define as that part of the Global Defense Electronics Market for which we provide products and services (the "**Addressable Defense Electronics Market**"). In 2019, the Addressable Defense Electronics Market amounted to approximately EUR 46 billion (source of information in preceding paragraph: RSAdvisors Study).

The following chart provides an approximate overview of the Global Defense Market, the Global Defense Equipment Market, and the Global Defense Electronics Market in 2019 (source: RSAdvisors Study):



(1) Other includes other equipment spending such as platforms, munitions and non-electric sub-systems.
(2) Non-addressable electronics includes acoustics, sub-segments of the Comms market and strategic C2/BM.

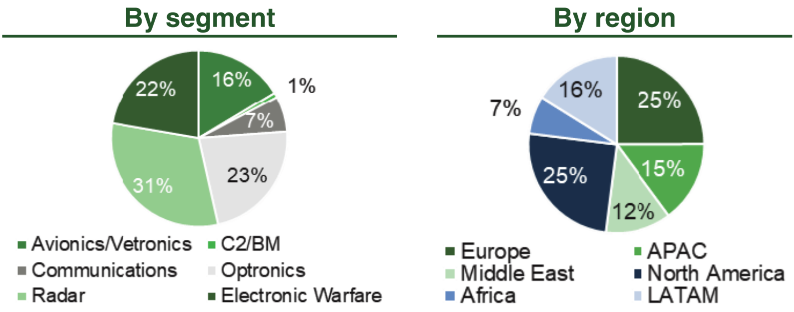
The following chart provides an approximate breakdown of the Addressable Defense Electronics Market by account and region in 2019 (source: RSAdvisors Study):



Certain regions that are part of the Global Defense Market and the Global Defense Electronics Markets are less accessible for us or not accessible at all. For example, because of export controls enacted by Germany or other countries where we manufacture, we are prevented from or have limited ability to export to China, Iran and Russia, as well as certain other countries.

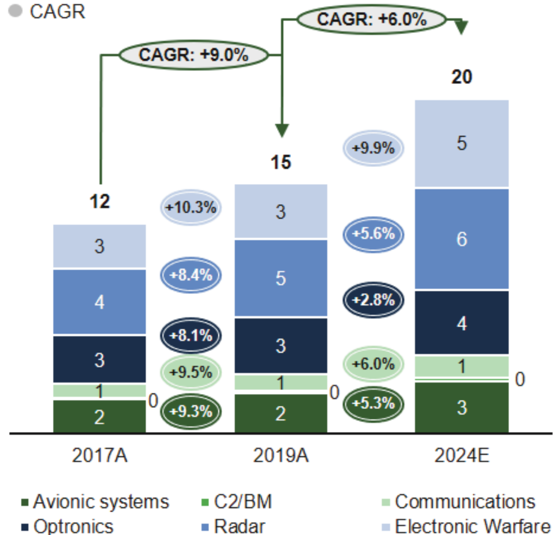
We define our core accessible defense electronics market as such part of the Addressable Defense Electronics Market that relates to highly accessible regions, excluding non-accessible markets, such as Russia, China, and Iran. In addition, we exclude parts of certain less accessible markets where we have a lower market presence due to barriers that prevent full access to that market, such as the United States, Japan, Turkey, Israel, and Italy (the "**Accessible Defense Electronics Market**"). In 2019, the Accessible Defense Electronics Market amounted to approximately EUR 15 billion (source of information in preceding paragraph: RSAdvisors Study).

The following chart provides an approximate breakdown of the Accessible Defense Electronics Market by account and region in 2019 (source: RSAdvisors Study):



9.5.2. Breakdown of the Accessible Defense Electronics Market by Account

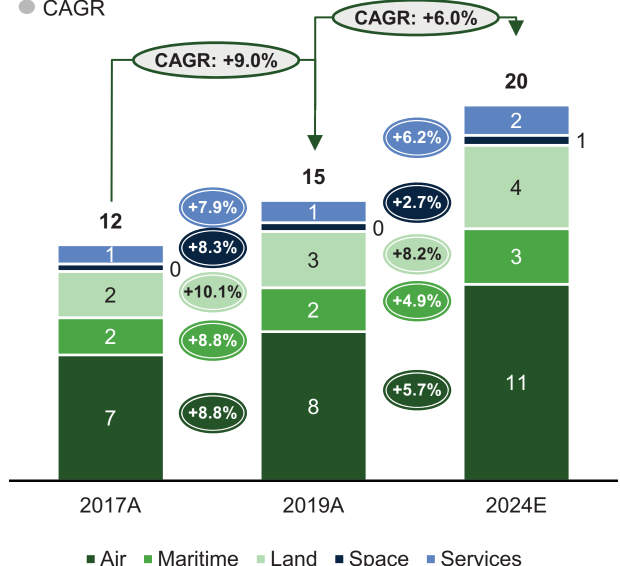
The following chart provides an overview of the Accessible Defense Electronics Market's growth from 2017 to 2019 and the expected future growth from 2019 to 2024E broken down by account (all figures in EUR billion, unless otherwise indicated) (source: RSAdvisors Study):



On an account-level, EW is forecast to show a particular strong growth at a CAGR of 9.9% from 2019 to 2024E. Radar spending is expected to grow strongly at a CAGR of 5.6% from 2019 to 2024E supported by major new air and ground fire control radar programs (source of information in preceding paragraph: RSAdvisors Study).

9.5.3. Breakdown of the Accessible Defense Electronics Market by Domain

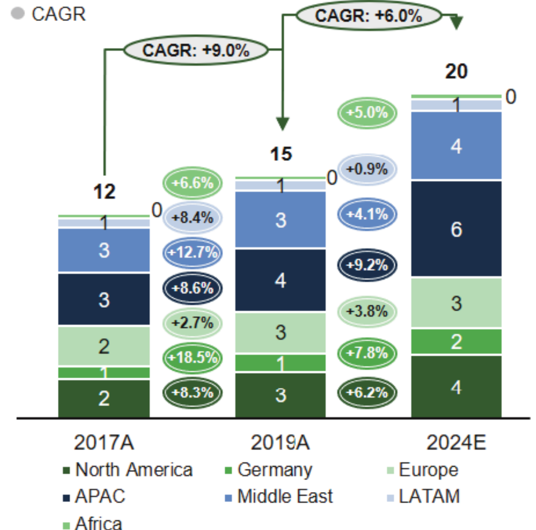
The following chart provides an overview of the Accessible Defense Electronics Market's growth from 2017 to 2019 and the expected future growth from 2019 to 2024E broken down by domain (all figures in EUR billion, unless otherwise indicated) (source: RSAdvisors Study):



On a domain level, the land domain has the highest expected growth outlook at an approximate CAGR of 8.2% from 2019 to 2024E. The air domain is expected to remain the largest domain by far and is expected to show strong growth at an approximate CAGR of 5.7% from 2019 to 2024E. In absolute terms, the growth of the air domain is expected to account for the largest share over this period (source of information in preceding paragraph: RSAdvisors Study).

9.5.4. Breakdown of the Accessible Defense Electronics Market by Region

The following chart provides an overview of the Accessible Defense Electronics Market's growth from 2017 to 2019 and the expected future growth from 2019 to 2024E broken down by region (all figures in EUR billion, unless otherwise indicated) (source: RSAdvisors Study):



Globally, Germany and APAC are expected to be the regions with the fastest growth in defense electronics spend from 2019 to 2024E. Within Europe, the UK, France, and Germany are expected to account for approximately 50% of such defense electronics spend driven by major procurement programs. In APAC, strong growth in Australia, Japan, South Korea, and India is expected to be driven by the need to modernize electronic warfare, radar, acoustics, and C2/BM. While the U.S. market is anticipated to

remain the largest individual market globally, it is expected to see a slower growth from 2019 to 2024E compared to 2017 through 2019 because of the stabilization of programs and the potential impact in the outyears from projected debt increases resulting from the U.S. government's response to the global Covid-19 pandemic (source of information in preceding paragraph: RSAdvisors Study).

9.6. Deep Dive – The German Defense and Defense Electronics Market

9.6.1. Overview and Characteristics

The German government's defense equipment expenditure for the different branches of its armed forces (*Bundeswehr*) was our largest single direct revenue source in each of the years 2017 to 2019. The development of the German government defense spending, in particular, is also indirectly important for our business, since Germany, besides France and the United Kingdom, is one of the leading participants and decision makers for key European and other international defense projects (source of information in preceding paragraph: RSAdvisors Study).

In accordance with the RSAdvisors Study, we base our definition of the German defense market on the total defense spending by the German government and government agencies across all domains (air, land, sea, space, and services) and for the accounts, procurement, R&D (procurement and R&D, together equipment), operations and maintenance, personnel and construction (the "**German Defense Market**"). The German Defense Market also includes German contributions to the EU defense budget, as well as additional funding outside the budget of the German Federal Ministry of Defense (*Bundesministerium der Verteidigung*) (source of information in preceding paragraph: RSAdvisors Study).

In 2019, the German Defense Market was estimated at approximately EUR 47 billion and it is forecast to increase significantly to EUR 56 billion in 2024E, which is tantamount to a CAGR of approximately 3.7%. Although the German government had repeatedly stated its intention to increase its defense budget to 1.5% of its GDP by 2024, this target is already likely to be exceeded in 2020 due to the economic impacts of the Covid-19 pandemic. With the expectation that Germany will maintain this level of spending and taking into account lower GDP levels, German defense spending is forecast to reach approximately EUR 56 billion in 2024E (source: RSAdvisors Study).

Additionally, the recent announcement of a German stimulus package in response to the economic impacts of the Covid-19 pandemic of up to EUR 10 billion is expected to accelerate several near-term projects and contribute to near-term growth in defense spending. As of July 2020, exact details of which programs will be prioritized with this funding have not been published by the German government, but we anticipate that additional K130 corvettes and, potentially, additional Eurofighter aircraft could be part of the package. We believe we are well placed to receive orders for system and sub-system elements on both these potential programs. The German Defense Market is expected to continue to grow faster than the European spending average in order to catch up to its UK and French peers following decades of underinvestment (source of information in preceding paragraph: RSAdvisors Study).

9.6.2. Key Trends and Drivers in the German Defense and Defense Electronics Markets

We believe that the following factors continue to drive growth and shape the German Defense and Defense Electronics Market in the near and medium term:

With a CAGR of approximately 6.4% from 2019 to 2024E, equipment spending in Germany is expected to constitute the fastest growing account driven by the continued update of existing platforms such as Puma and Leopard 2A7V and Eurofighter, NH90, and Tiger MKIII, as well as the introduction of key next-generation systems including, in particular, MKS 180, NNbS, and the heavy lift helicopter (S*chwerer Transporthubschrauber*, "**STH**"). In addition, spending for operations and maintenance is also expected to continue growing at a CAGR of approximately 5.7% from 2019 to 2024E driven by required maintenance of current equipment inventory (source of information in preceding paragraph: RSAdvisors Study).

In the near- to medium term, SIGINT & ESM programs for new surface ships and submarines such as the MKS 180 and U212CD, along with Pegasus, are expected to drive spending. Similarly, radar and

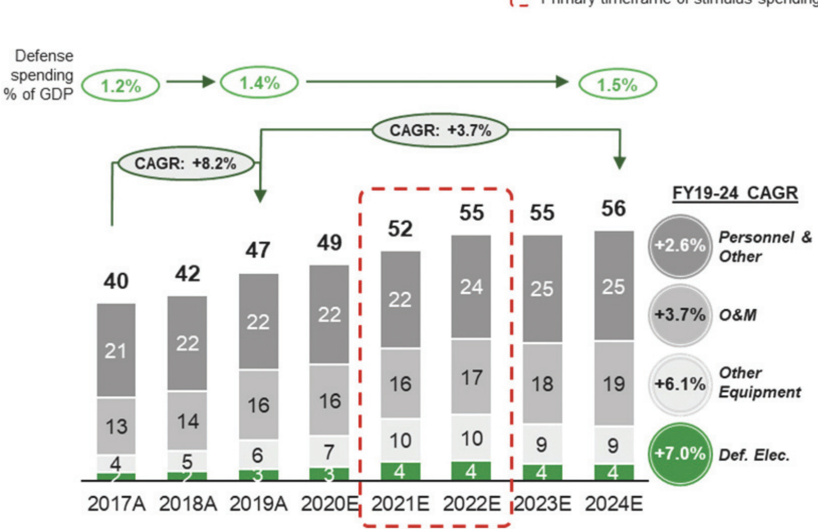
electronic warfare are expected to grow rapidly through 2024, driven by air (Captor-E program being the largest individual contributor to growth), land (TLVS, NNBs) and sea (MKS 180, F124 upgrade) programs. Additionally, FCAS, MGCS, and MAWS are also expected to contribute to rising equipment and defense electronics spend (source of information in preceding paragraph: RSAdvisors Study).

Additionally, as outlined above, the recent announcement of a German stimulus package in response to the economic impacts of the Covid-19 pandemic of up to EUR 10 billion is expected to accelerate several near-term projects and contribute to near-term growth in defense spending. These funds are earmarked for projects involving domestic companies and starting no later than 2021, and include, for example, investments in research overseen by German armed forces (*Bundeswehr*) universities, IT improvements, and environment-friendly upgrades to non-tactical vehicles, and refurbishments of government-owned facilities. According to the RSAdvisors Study, programs expected to benefit from this package include some that are particularly relevant for us, such as the ECRS Mk1 radar upgrade for the Eurofighter, MKS 180, and the K130 corvette (source of information in preceding paragraph: RSAdvisors Study).

As a consequence, our home market, Germany, is expected to experience particularly strong growth due to a stimulus effect in German defense spending. From 2017 to 2019, German defense spending grew from EUR 40 billion to an estimated EUR 47 billion, corresponding to 1.2% and 1.4% of the respective GDP and a CAGR of 8.2%. The electronics share in German defense spending is estimated to have increased from 4.3%, or EUR 1.7 billion, in 2017 to 5.6%, or EUR 2.6 billion, in 2019, corresponding to a CAGR of 22.5%. Assuming a total defense expenditure of 1.5% of the GDP and 6.5% of total defense expenditure spent on electronic equipment in 2024E, total German defense expenditure would reach EUR 56 billion that year, of which EUR 3.6 billion would be electronic equipment expenditure. This would correspond to a CAGR over the period from 2019 to 2024E of 3.7% (for total German defense expenditure) and 7.0% (for electronics expenditure). Though Germany is expected to achieve its goal of increasing defense spending to 1.5% of GDP in 2024E already by the end of 2020 due to the Covid-19 related GDP contraction, German defense spending is expected to benefit from the stimulus package of approximately EUR 10 billion in this period (source of information in preceding paragraph: RSAdvisors Study).

9.6.3. Breakdown of the German Defense Market

The following chart provides an overview of the German Defense Market's growth from 2017 to 2019 and the expected future growth from 2019 to 2024E broken down by the categories, (i) defense electronics, (ii) non-defense electronic equipment, (iii) operation and maintenance (O&M) and (iv) personnel & other (all figures in EUR billion, unless otherwise indicated; red frame indicating primary timeframe of stimulus spending) (source: RSAdvisors Study):

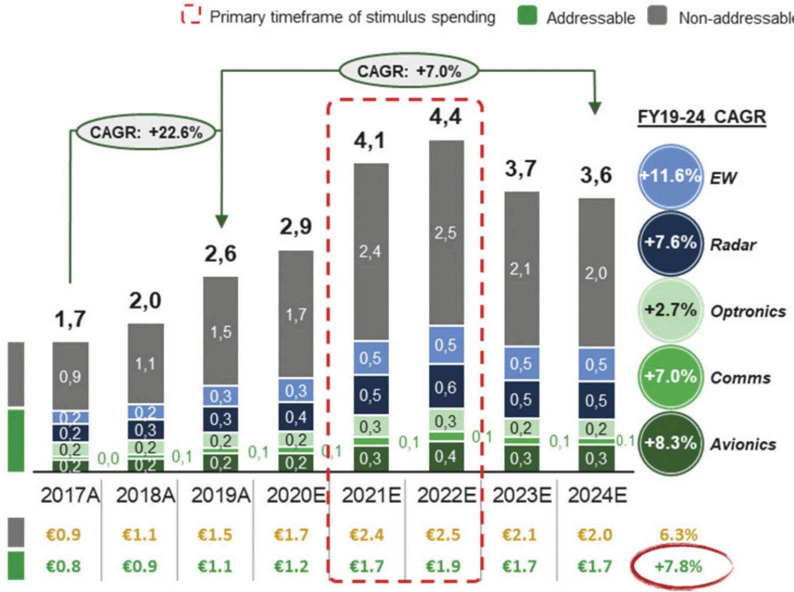


9.6.4. Breakdown of the German Defense Electronics Market

In accordance with the RSAdvisors Study, we base our definition of the German defense electronics market on the total defense spending by the German government and government agencies across all

domains (air, land, sea, space, and services) for electronic components in the sub-segments (i) sensors and effectors including acoustics, communications, radar, electronic warfare, optronics, as well as (ii) processing and control systems including avionics and vectronics (*i.e.*, computing systems that perform guidance, control, and processing in support of core platform functions), and C2/BM systems (the "**German Defense Electronics Market**"). In 2019, the German Defense Electronics Market accounted for approximately one third of the overall defense equipment spending of the German government (source of information in preceding paragraph: RSAdvisors Study).

The following chart provides an overview of the German Defense Electronics Market's growth from 2017 to 2019 and the expected future growth from 2019 to 2024E, broken down by (addressable) sub-segments (all figures in EUR billion, unless otherwise indicated) (source: RSAdvisors Study):



The addressable part to the German Defense Electronics Market, in particular, is forecast to grow significantly from 2019 to 2024E at a CAGR of 7.8% (source of information in preceding paragraph: RSAdvisors Study).

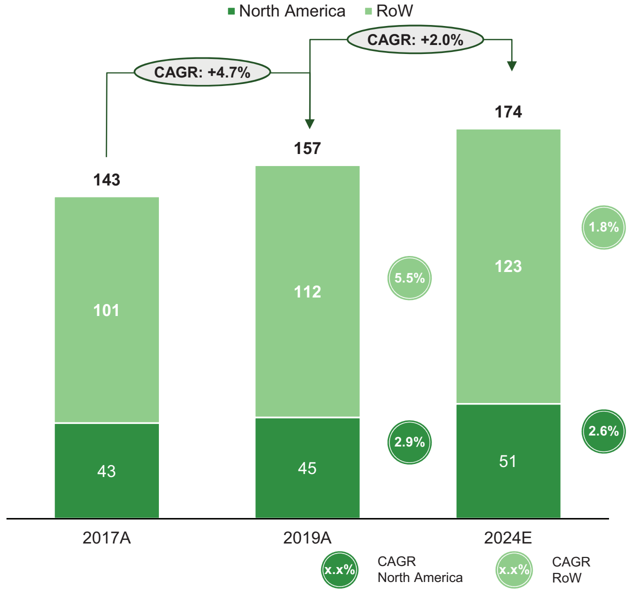
9.7. Certain Non-Defense Markets

9.7.1. Overview and Characteristics

We pursue certain activities outside the defense sector, in particular, the global markets for aircraft avionics, civil ATC, border security, and counter-UAV systems. The following description provides a brief overview of these non-defense markets as well as the major relevant trends and drivers for our activities therein.

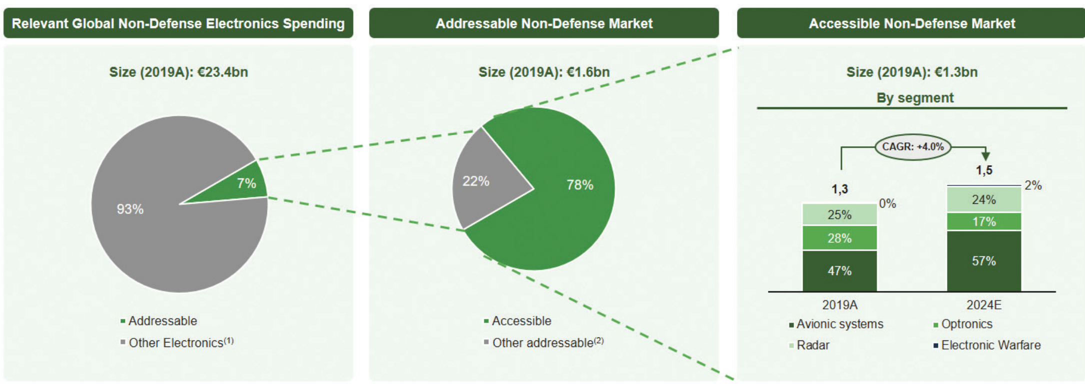
Within the most relevant non-defense markets, we target a wide variety of customers which include (i) for aircraft avionics, among others, police and security agencies as well as coast guard organizations, (ii) for civil ATC systems, in particular, civil ATC agencies such as the U.S. Federal Aviation Administration and the *direction générale de l'Aviation civile*, (iii) for border security systems, for example, the European border and coast guard agency, commonly known as Frontex, or the U.S. coast guard, and (iv) for counter-UAV systems, airports, and providers of critical infrastructure such as energy providers. The combined market size of these markets is estimated at approximately EUR 159 billion in 2019 whereby the vast majority of more than 90% related to aircraft avionics (source of information in preceding paragraph: RSAdvisors Study).

The following chart provides an overview of the aforementioned relevant non-defense markets' growth from 2017 to 2019 and the expected future growth from 2019 to 2024E, broken down by North America and the rest of the world (all figures in EUR billion, unless otherwise indicated) (source: RSAdvisors Study):



In accordance with the RSAdvisors Study, we base our definition of the accessible non-defense market on the portions of the markets for (i) aircraft avionics, (ii) civil ATC systems, (iii) border security systems, and (iv) counter-UAV systems, excluding non-accessible and certain less accessible markets as well as markets with a low market presence, and further excluding certain niche markets in which we have no presence (the "**Accessible Non-Defense Market**"). In 2019, the Accessible Non-Defense Market accounted for approximately EUR 1.3 billion (source of information in preceding paragraph: RSAdvisors Study).

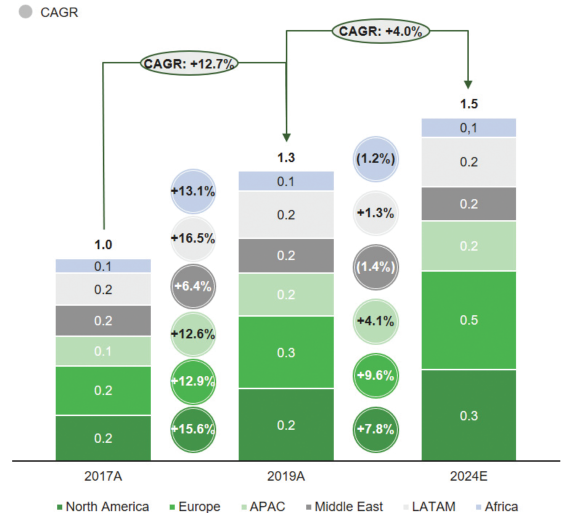
The following chart provides an overview of the approximate addressable and accessible parts of the relevant global non-defense market in 2019 (source: RSAdvisors Study):



(1) Other Electronics includes commercial fixed-wing avionics, air traffic automation systems, and border security management systems.
(2) Other Addressable includes spending in countries that are less accessible to the Group (for example, the United States).

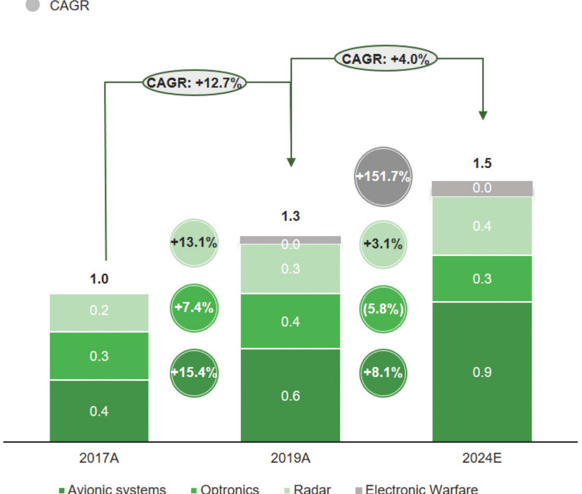
9.7.2. Breakdown of the Accessible Non-Defense Market by Region

The following chart provides an overview of the Accessible Non-Defense Market's growth from 2017 to 2019 and the expected future growth from 2019 to 2024E, broken down by region (all figures in EUR billion, unless otherwise indicated) (source: RSAdvisors Study):



9.7.3. Breakdown of the Accessible Non-Defense Market by Segment

The following chart provides an overview of the Accessible Non-Defense Market's growth from 2017 to 2019 and the expected future growth from 2019 to 2024E, broken down by segment (all figures in EUR billion, unless otherwise indicated) (source: RSAdvisors Study):



9.7.4. Key Trends and Drivers in the Accessible Non-Defense Market

We believe that the following factors continue to drive growth and shape the Accessible Non-Defense Market in the near and medium term:

9.7.4.1. Air Traffic Affected by Covid-19

The global Covid-19 pandemic has had a large impact on air traffic in 2020 (driving an estimated decline of 48% in terms of year-on-year traffic levels), and this is likely to continue through 2021, though we expect air travel to recover through 2022 and 2023. It is possible that air traffic will not return to 2019 levels of 5.5 trillion Revenue Passenger Miles (RPMs) before 2025. However, if air travel eventually recovers and the reliance on air freight continues, the expansion and improvements of airports are expected to continue in order to increase efficiency while maintaining safety. This includes the modernization of civil ATC infrastructure. For example, Eurocontrol is aiming to digitize operations and the U.S. Federal Aviation Administration's next-generation program is well underway with system procurement ongoing (source of information in preceding paragraph: RSAdvisors Study).

The commercial rotorcraft market is expected to remain relatively stable, not having been affected to date by the global Covid-19 pandemic in the same way that commercial aircraft travel has been. Commercial aircraft production has been severely curtailed as airlines have paused the majority of flights due to the global Covid-19 pandemic. This has led to delays in delivery of new aircraft from OEMs, as well as the cancellation or delay of orders for new aircraft. As a result, aircraft manufacturers including Airbus and Boeing have cut production rates by more than 30% in many cases, and Airbus has released guidance that it does not anticipate increasing build rates for its A320 series aircraft again before 2022 at the earliest. As Revenue Passenger Miles (RPMs) and passenger numbers are not expected to recover to 2019 rates until 2024/2025, it is projected that total annual deliveries of commercial aircraft will not reach 2019 rates within this timeframe either (source of information in preceding paragraph: RSAdvisors Study).

9.7.4.2. Border Security Remain in the Political Focus

Border security is an issue that is getting renewed political attention in various regions across the globe. Various nations are focusing on protecting their borders through a combination of different solutions, including optronics and radar (source of information in preceding paragraph: RSAdvisors Study).

9.7.4.3. Small UAS usage widespread

Small unmanned aerial systems ("**UAS**") production globally nearly doubled from 2017 to 2019 reaching approximately 2 million units in 2019. In 2020 and beyond, small UAS are expected to become more and more part of everyday life. Because UAS are relatively inexpensive and ubiquitous, there is a need to deploy countermeasures against the potential security threats they pose. While UAS provide many use cases in a variety of fields, they may also be used for terrorism, drug trafficking, corporate espionage, etc. Furthermore, the rise in awareness regarding countermeasures is increasing their demand, especially in developing economies. The homeland security and commercial end user segments have witnessed an increase in demand for counter UAS, due to the rising number of adverse drone-related incidents. Source: Bloomberg.

By technology, the global counter-UAS market is segmented into laser systems, kinetic systems, and electronic systems. The electronic systems segment is projected to dominate the market during the near and medium-term future.

9.8. Competitive Environment

Our main competitors in the relevant sub-segment and regions of the Global Defense Electronics Markets are various large scaled defense electronics providers, as well as a number of pure-play defense electronics providers.

In contrast to many of our main competitors, we believe that we distinguish ourselves as a focused player within the defense electronics value chain providing integrated mission systems, mission sub-systems, and defense electronic modules. In comparison, certain of our competitors, such as Thales, Leonardo, BAE Systems, SAAB, and Raytheon, pursue a less focused approach and offer large, integrated platforms and so-called systems of systems.

9.8.1. Scaled Defense Electronics Providers

Scaled defense electronic providers are often the defense electronic divisions of much larger Prime System Integrators or OEMs active in the aerospace and defense market. Generally speaking, these defense electronic divisions are one of many parts of these larger companies, often developed initially to provide vertically integrated sensor and electronic capabilities on large platform programs. From a business model perspective, such defense electronic divisions tend to follow the parent group platforms, but as volume sales of these platforms are often not high enough to sustain the relevant operations of these players, they also seek to go to market independently as a sensor or electronics house. For example, SAAB sold SeaGiraffe radars to the U.S. Navy for the Independence-class littoral combat ship, and did so as a sensor provider directly, without having a competing maritime platform to offer (source of information in preceding paragraph: RSAdvisors Study).

Scaled defense electronics providers active in the Addressable Defense Electronics Market include, among others, SAAB, Leonardo, Thales, BAE Systems, Indra, Rheinmetall Defence, and Safran. In addition, there are a number of large producers of defense and security technology based in the United States, which compete with us in certain sub-segments of the Global Defense Electronics Markets, including, in particular, L3Harris, Northrop Grumman, Raytheon (which merged with United Technologies in the first half of 2020), and Lockheed Martin. Elbit Systems and IAI, both based in Israel, are also active in certain part of our Addressable Defense Electronics Market (source of information in preceding paragraph: RSAdvisors Study).

9.8.2. Niche Defense Electronics Providers

Niche defense electronics providers are smaller, more focused companies in Europe and the United States that typically access only a few or even a single of our key markets. For example, Terma is primarily a navigation and coastal security radar provider, Rohde & Schwarz addresses primarily the communications arena, and Atlas Elektronik is primarily a sub-surface acoustics and torpedo provider. These competitors often access the relevant market without platform-related divisions. As such, they have more flexibility as they can partner with larger, scaled providers to compete on programs beyond their size, and can often partner with multiple platform providers and system integrators. Additionally, they have greater flexibility in setting their R&D agendas and budgets, and can focus larger portions of money onto their niche capability areas, rather than having to spread it across multiple different levels of the supply chain. Lastly, niche providers are often able to offer more competitive pricing, without having the burden of large corporate overheads and pricing/negotiation structures (source of information in preceding paragraph: RSAdvisors Study).

Niche defense electronics providers active in our addressable markets include, among others, Terma, Ultra Electronics, Cobham, Rohde & Schwarz, FLIR, Sierra Nevada Corporation, and Collins Aerospace (part of United Technologies that merged with Raytheon in the first half of 2020) (source of information in preceding paragraph: RSAdvisors Study).

10. BUSINESS

10.1. Overview

We are a provider of defense and security electronic sensor solutions. Our product portfolio ranges from radars, to electronic warfare and avionics (electronic systems used on aircraft, such as crash recorders), to optical and optronic (electro-optical systems, such as thermal imaging devices) equipment; in addition, we offer a range of customer support solutions and services. As such, we are exposed to some of the fastest growing sub-markets of the Global Defense Market (source: RSAdvisors Study), as well as select adjacent non-defense markets.

As a platform-independent provider, we supply our products to a variety of platforms (such as fighter jets, armored vehicles, and naval vessels) of different manufacturers, for example, radars and self-protection systems for the Eurofighter jet and optronics for the Leopard 2 MBT. In addition, we sell stand-alone solutions, for instance ATC systems. Approximately one third of our revenue in 2019 was generated from other end-customers in the EU and NATO (excluding Germany) and NATO-equivalent countries (Australia, Japan, New Zealand, and Switzerland), for which we rely on well-established export control procedures and which we therefore generally consider unproblematic from an export control perspective. Export control procedures for other markets tend to be more complex and time-consuming; see also "*10.9.7. Export Control Approvals*".

As the largest European supplier with exclusive focus on the defense and security electronics market (source: RSAdvisors Study), together with our technological as well as research and development capabilities and a focus on investments in recent years into the development of new or upgrade of existing products, we believe we benefit from competitive advantages in terms of customer focus, capability, expertise, and investment, and that we have positioned ourselves as a key defense electronics provider.

Based in Taufkirchen near Munich, Germany, we had more than 5,400 employees (full-time equivalent) globally as of December 31, 2019 and generated EUR 1,114.2 million of revenue, EUR 160.8 million of Adjusted EBIT, and EUR 215.6 million of Adjusted EBITDA in 2019. In the first half 2020, we recorded an increase in our revenue, Adjusted EBIT, and Adjusted EBITDA to EUR 440.3 million, EUR 18.1 million, and EUR 41.3 million, respectively, compared to EUR 415.6 million, EUR 16.6 million, and EUR 40.9 million, respectively, in the first half 2019. Our Order Backlog as of December 31, 2019 and June 30, 2020 was EUR 2,202.3 million and EUR 3,426.9 million, respectively.

Our organization is structured into two operating segments: (a) Sensors, which comprises the three operating divisions (i) Radar, IFF & COMMS, (ii) Spectrum Dominance & Airborne Solutions, and (iii) Customer Services; and (b) Optronics. As example platforms for our products, we provide major parts of the nose radar, the digital map generator, and elements of the self-protection system for the Eurofighter jet and optronics for the Leopard 2 MBT, and we are the global market leader for military ATC (based on number of radars ordered between 2010 and 2018) and conventional submarine optronics (based on platform coverage and installed base) (source: RSAdvisors Study). In Germany, our home market, we are the leading provider (based on platform coverage and installed base) of airborne electronic warfare equipment (with a track record of over 50 years), of radar and IFF systems and of vehicle optronics (source: RSAdvisors Study). In addition, we offer products for non-defense applications, such as border protection radars and optronics equipment, civil ATC systems, sub-systems for semiconductor manufacturing equipment, flight data recorders and other avionics for commercial aircraft.

We believe our product portfolio, together with our technological and R&D capabilities, puts us in a prime position as a supplier of electronics products for defense and security platforms and programs. With global defense spending on the rise, particularly in our key markets (Germany and the rest of Europe), and at the same time, electronic components becoming increasingly pivotal and accounting for a larger share of defense equipment (source: RSAdvisors Study), we expect the opportunities available to us to increase significantly in the future as we capture these megatrends.

Complementing our product portfolio, and building on an installed base of our products of more than 63,000 units globally (management estimate) and the long lifecycles of defense platforms, our aftersales business offers a range of customer support solutions and services, which provide a

recurring source of revenue. We have built a network of twelve service stations across five continents to sell spare parts and offer our services, which comprise field support, maintenance, repair, and overhaul, as well as a variety of simulation activities, among other things.

With our separation from Airbus, we believe we have started a remarkable development. Building on our heritage of more than 150 years, the strong efforts by our highly skilled, committed employees, and hundreds of initiatives implemented in connection with our operational improvement and efficiency program HENSOLDT GO!, we have become a stand-alone organization, with an international sales network and a productive R&D organization, including our in-house incubator HENSOLDT Ventures. Over the course of three years, we have completed various acquisitions, which have helped us expand our business in terms of geography and product range. In 2020, we won a milestone order for us worth more than EUR 1.4 billion for the joint development of the ECRS Mk1 nose radar for the German and Spanish Eurofighter fleets and the production of such radar for the German fleet. In addition, given recent budget approvals, partial budget approvals, government endorsements, or pricing incentives, we believe we are well placed to receive additional orders for the ECRS Mk1 and the Eurofighter's self-protection system Praetorian DASS in an aggregate amount of approximately EUR 0.8 billion, an order for our TRS-4D radar for the MKS 180 worth approximately EUR 0.2 billion, and an order for the Pegasus program worth approximately EUR 1 billion until 2022. We believe we are ideally positioned to continue on this growth trajectory going forward as we strive to become Europe's leading, platform-independent provider of defense and security sensor solutions with global reach.

10.2. Our Strengths

10.2.1. Exposure to one of the Fastest-Growing Sub-Markets of the Defense Market

The global defense and security electronics market, our principal market, is one of the fastest-growing sub-markets of the Global Defense Market and is predicted to experience substantial growth in the future (source: RSAdvisors Study). Our targeted growth is supported by three concerted demand drivers: growing defense spending globally, driven by a push to meet NATO targets; increasing electronics content in defense equipment; and a catch-up effect in defense expenditure in Germany, our home market.

In a push to meet NATO target defense spending as a percentage of GDP, the total defense budget of NATO member states (excluding the United States) is expected to grow at 3% CAGR from 2019 to 2024E. At the same time, the defense electronics spend included in their total defense budget is expected to grow at 5% CAGR, and German defense electronics spend is expected to grow at 7% CAGR over the same period. This demonstrates that electronics are increasingly playing a pivotal role in modern defense platforms and, accordingly, accounting for a larger share in the total platform value. For example, the share of electronic content in the total value increased from approximately 25% to approximately 45% from the Leopard 2A4 to the current 2A7+ generation; from approximately 25% to approximately 40% from the Panavia Tornado to the current Eurofighter tranche 3; and from approximately 20% to approximately 35% from the F122 to the current F125 frigate (source of information in preceding paragraph: RSAdvisors Study).

In addition, our home market, Germany, is expected to experience particularly strong growth due to a catch-up effect in German defense spending. From 2017 to 2019, German defense spending grew from EUR 40 billion to an estimated EUR 47 billion, corresponding to 1.2% and 1.4% of the respective GDP and a CAGR of 8.2%. The electronics share in German defense spending is estimated to have increased from 4.3%, or EUR 1.7 billion, in 2017 to 5.6%, or EUR 2.6 billion, in 2019, corresponding to a CAGR of 22.5%. Assuming a total defense expenditure of 1.5% of the GDP and 6.5% of total defense expenditure spent on electronic equipment in 2024E, total German defense expenditure would reach EUR 56 billion that year, of which EUR 3.6 billion would be electronic equipment expenditure. This would correspond to a CAGR over the period from 2019 to 2024E of 3.7% (for total German defense expenditure) and 7.0% (for electronics expenditure). Although Germany is expected to achieve its goal of increasing defense spending to 1.5% of its GDP by 2024 already in 2020 due to the Covid-19-related GDP contraction, German defense spending is expected to continue to grow through 2024 and the remainder of this decade. Additionally, the recent announcement of a German stimulus package in response to the economic impacts of the Covid-19 pandemic of up to EUR 10 billion is expected to accelerate several near-term projects and contribute to near-term growth in defense spending. These funds are earmarked for projects involving domestic companies and starting no later than 2021, and include, for example, investments in research overseen by German armed forces

(*Bundeswehr*) universities, IT improvements, and environment-friendly upgrades to non-tactical vehicles, and refurbishments of government-owned facilities. According to the RSAdvisors Study, programs expected to benefit from this package include some that are particularly relevant for us, such as the ECRS Mk1 radar upgrade for the Eurofighter, MKS 180, and the K130 corvette (source of information in preceding paragraph: RSAdvisors Study).

For additional information on the markets in which we operate, see also "*9. Markets and Competitive Environment*".

10.2.2. European Pure-Play Sensor Solutions Leader

We are the largest European company that focuses exclusively on defense and security electronics, and we hold market leadership positions in a variety of business areas (source: RSAdvisors Study). We are the global market leader for military ATC (based on number of radars ordered between 2010 and 2018) and conventional submarine optronics (based on platform presences and installed base) (source: RSAdvisors Study). In Europe, we are one of the top three providers of radar, IFF, and electronic warfare solutions (source: RSAdvisors Study). We also believe we are the leader in land-based communications electronic warfare systems in South Africa.

Our home market, Germany, is the foundation of our success. We are a champion in Germany based on our market leadership (in terms of platform presences and installed base) for airborne electronic warfare equipment (with a track record of over 50 years), for radar and IFF systems, and for vehicle optronics (source: RSAdvisors Study). In addition, we maintain a close strategic relationship with the German federal government, primarily handled by our dedicated public affairs team in Berlin. The German Government's 2020 Strategy Paper identified sensor technology, as well as electronic warfare and certain cyber technologies, among other areas, as key industrial technology fields for national defense purposes. As the German key provider of defense electronics sensor technology with the broadest range of capabilities (source: RSAdvisors Study), we believe we will be able to benefit from these strategic plans.

10.2.3. Platform-Independent Offering with Long-Lifetime Positions

Our product portfolio is focused on specialized sensor technology, which can be used on a broad range of platforms and as independent solutions across domains, including air, land, sea, and security. Example platforms in the air domain include the Eurofighter jet, the A400M transport aircraft, the F-16 jet, the NH90, and UH-60 helicopters. Sea platforms using our products include Type 212/214 submarines, the F125 frigate, the K130 corvette, and the Freedom class littoral combat ships. Land platforms using our products include the Leopard MBTs and the Fuchs PzH 2000, Fennek, and Puma armored vehicles, as well as others. Non-platform solutions using our products include, in the land domain, for instance, the weapon-location radar COBRA and the air defense radars TRML-3D and TRML-4D. In addition, our products are used as solutions in the security domain, for instance, for critical infrastructure, such as oil and gas storage, and airport perimeter protection, border security, the protection of military bases, as well as wildlife protection. This diversity of applications allows for a large potential customer base and supports our business' resilience. In addition, we can leverage our modular design approach for many of our products, which allows scaling of production and development costs.

We also benefit from the long lifetimes of many of the platforms on which our products are used, which provides opportunities for upgrades and ongoing services. For example, the Eurofighter sensor suite, comprising its radar and self-protection systems, for which we provide lifetime support services, has been in production since 1998 and is expected to be produced until after 2025, with an estimated in-use life of approximately 40 years and an installed base of more than 560 operational aircraft. We are also the leading German radar provider for the F125 frigate. Our TRS-3D/4D naval radars have been installed on approximately 100 military vessels since 1994 and are expected to continue to be installed until after 2030. Their estimated in-use life is approximately 40 years, over which we expect to continue to provide upgrade, maintenance, and lifetime support services. Additionally, we have been the leading provider of optronics for the Leopard 2 MBT since its program inception. We expect to continue to provide sights and lifetime logistics, maintenance, and upgrades over its estimated in-use life of more than 50 years. The Leopard 2 installed base comprises approximately 2,700 tanks, which have been produced since 1979 and are expected to continue to be produced until after 2035 (source of information in preceding paragraph: RSAdvisors Study).

10.2.4. Innovative Engineering Capabilities Delivering State-of-the-Art Technology

Electronics development is the core of our DNA, and our focused development activities have been fundamental in creating our state-of-the-art technology portfolio. Building on over 150 years of innovation heritage since Moritz Carl Hensoldt (1821-1903), a German pioneer of optics and precision mechanics, who started developing optical equipment, and a business legacy including, among others, AEG, Aerospatiale-Matra, Airbus, Carl Zeiss, Cassidian, Daimler, Dornier, EADS, Messerschmitt, Siemens, and Telefunken, we have established a productive R&D organization. As of December 31, 2019, approximately 1,700 employees (headcount) worked in engineering across divisions and geographies. We believe that the experience of our employees in engineering and their long association with our organization plays a key role in maintaining the quality and consistency of our R&D activities and the products and solutions that we develop.

In the last three years, we have positioned ourselves to capture attractive opportunities. While we continue to invest in products for specific customer platforms, we have also focused on the development of our own product range, targeted at a wide customer base, thus increasing our independence from specific customers and platforms. Our self-funded R&D spend (comprising research and development costs and additions to capitalized development costs) increased from 5% of our revenue in ∑2017 to 8% of our revenue in 2019, and has nearly doubled since the acquisition of the Orlando business to EUR 86 million in 2019. For an overview of our consolidated income statement and certain other APMs and operating metrics for 2017 and ∑2017 (adjusted to reflect our business for the full twelve months 2017), see "*2.7. Note Regarding the Presentation of Certain Financial Information*".

In addition, we conduct customer-commissioned (and -funded) R&D, which accounted for a high single-digit percentage of the aggregated 2019 revenue of our three divisions which typically perform R&D activities, namely (i) Radar, IFF & COMMS, (ii) Spectrum Dominance & Airborne Solutions, and (iii) Optronics (management estimate based on an analysis of the ten largest projects in each of these three divisions in 2019) (see also "*8.3.6. Research and Development Efforts*"). The success of our development efforts is reflected in the profile of our technology and services portfolio: Based on management estimates, more than approximately 80% of our revenue in 2019 related to sales of and aftersales for products that were newly introduced or received upgrades in the last five years (*i.e.*, since 2014), with more than approximately 15% of our revenue related to products that were newly introduced in such period.

A recent project illustrating our R&D capabilities is our drone detection and defeat system Xpeller. Xpeller is available in wearable, mobile, and fixed-site configurations, and combining know-how and products from across the Group. Xpeller provides a multi-sensor fusion system for modern threats from UAVs and can be used, for example, to protect airports and other critical infrastructure, prisons, or events with VIPs. Xpeller has both military and law enforcement applications. Industry and security companies may also operate Xpeller. Its market potential is estimated at up to EUR 7 billion (aggregated for the period from 2019 to 2024E), with a 28% CAGR from 2019 to 2024E (source: RSAdvisors Study). In an effort to drive forward innovative ideas both from our employees and outside our organization, especially in the areas of cyber-security, robotics and AI, and data analytics, in 2017, we also established an in-house startup incubator, HENSOLDT Ventures (see "*10.8.1.2. HENSOLDT Ventures*").

10.2.5. Proven Execution Track Record with Strong Financial Profile

Since our separation from Airbus, we have undergone a successful transformation to a stand-alone business with a proven execution track record. As part of our operational improvement and efficiency program HENSOLDT GO!, we have focused on, among other things:

- operational excellence, through strong operational improvements since the carve-out from Airbus and the implementation of approximately 300 measures, as well as continued improvements across sourcing, manufacturing, and logistics, for example;
- R&D excellence, with a EUR 86 million R&D spend (comprising research and development costs and additions to capitalized development costs) in 2019, having nearly doubled since the acquisition of the Orlando business, to support future growth and continued optimization efforts in our R&D activities (see also "*8.3.6. Research and Development* Efforts");

- commercial development, expanding our international footprint through the establishment of 19 international sales offices as of December 31, 2019, the introduction of key account management, as well as the expansion of public affairs and marketing activities;
- strategic development, including geographic and product expansion to complement and diversify our portfolio, and
- the completion of various acquisitions.

In terms of project execution, we have profound experience in taking over lead positions in projects for the delivery of complex designs and sub-systems to our customers. In particular, we believe we have a structured and tested control infrastructure in place aiming to ensure reliable program execution. This control infrastructure is based on two pillars: risk identification and mitigation planning, which are part of our internal project control process we use to track and analyze our projects, among other things, by project costs, project achievements, and project milestones. As part of our risk identification process, we assess whether adequate transparency and reporting is in place to allow tracking of technical progress compared to budget consumption, the availability of own engineering resources to cover planned work, to which extent contributions of our customers are required for delivery under the program, and our dependency on timeliness and quality of subcontractor deliveries. Mitigation planning includes our dedicated project management organization, early recruitment of resources, contractual provisions to cover potential shortfalls or delays of customer contributions, and risk contingencies to mitigate quality problems at subcontractors by re-engineering and backing up own developments.

The success of our transformation is reflected in our financial growth, which was additionally supported by various accretive acquisitions and is demonstrated by the development of revenue and Adjusted EBITDA between ∑2017 and 2019 set forth below (for an overview of our consolidated income statement and certain other APMs and operating metrics for 2017 and ∑2017 (adjusted to reflect our business for the full twelve months 2017), see "*2.7. Note Regarding the Presentation of Certain Financial Information*"):

	For the Financial Year		
	2019	**2018**	**∑2017**
(in EUR thousand)	**(unaudited, unless otherwise indicated)**		
Revenue	1,114,164*	1,110,117*	1,017,838
Adjusted EBITDA	215,551	189,936	154,666

* Audited.

Between 2016 and 2019, our revenue grew at a CAGR of more than 5% and we improved our Adjusted Gross Profit margin (*i.e.*, Adjusted Gross Profit as a percentage of revenue) by more than 5 percentage points to 30%. Adjusted for M&A activities, we delivered a low single digit revenue CAGR since 2016.

Our Adjusted Gross Profit improved from EUR 265 million in ∑2017, to EUR 307 million in 2018, to EUR 334 million in 2019, corresponding to 26%, 28%, and 30% of our respective revenue. Our Adjusted EBIT improved from EUR 131 million in ∑2017, to EUR 148 million in 2018 and EUR 161 million in 2019, corresponding to margins (in terms of revenue) of 13%, 13%, and 14%, respectively. For further details, see "*2.7. Note Regarding the Presentation of Certain Financial Information*" and "*8. Operating and Financial Review*".

At the same time, due to our disciplined and strategic investments and our asset-light business model, our business has generated cash flows despite significant investments made to support future growth, particularly in R&D activities. Our Adjusted Pre-Tax Unlevered Free Cash Flow developed from EUR 102 million in ∑2017, to EUR 92 million in 2018 and EUR 75 million in 2019. Following implementation of the Offering, taking into account expected net proceeds of the Offering and ongoing cash flows, we target a net leverage ratio (calculated as the ratio of (i) the sum of non-current financing liabilities, non-current lease liabilities, current financing liabilities, and current lease liabilities less cash and cash equivalents as of the respective balance sheet date, in relation to (ii) Adjusted EBITDA for the twelve-month period ended on such balance sheet date) of approximately 3 times by year-end 2020, which we aim to further reduce to less than approximately 2.25 times in 2021 and to less than approximately 2 times in 2022 and the medium term (assuming, in each case, a stable Group structure). In case of acquisitions, we may experience a temporary increase in our net leverage ratio, without affecting our medium-term target.

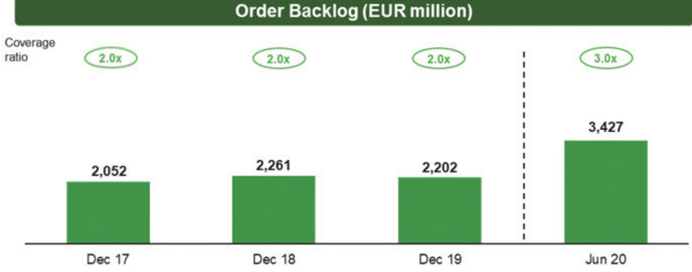
We believe that the high resilience of our business performance has been demonstrated in 2020 during the Covid-19 pandemic. After a temporary closure of our offices and production facilities for a few weeks, all our German offices and production facilities and most of our international offices and facilities have resumed operations, ramping up quickly due to a largely robust supply chain on the one hand and adapting processes to minimize health risks on the other hand (see also "*10.17. Health and Safety, Corporate Social Responsibility*"). In terms of demand, while there have been minor Covid-19-related delays and shifts in project timing, we have so far not experienced any formal cancellations of major orders from defense customers or other material effects on our Order Backlog or future opportunities in the defense sector due to the pandemic. On the contrary, in the spring and summer of 2020 in particular, we have been able to secure several strategic, large-volume orders and budget approvals for expected future projects, see "*10.2.6. High Growth Visibility*". To deliver under these contracts, as well as potential future orders of similar magnitude, we have addressed, for example, process management, resource allocation, and subcontractor handling at an early stage, and, due to our dedicated project management organization, internal reporting and contractual arrangements, and engineering capacities, we believe we are well prepared for this next phase of our development. At the same time, we have remained focused on our R&D efforts and continued spending according to plan, in order to equip ourselves for additional future growth. Overall, we believe we have managed to maintain and expand our momentum during the past months and we believe that we are well positioned to capitalize on increasing international and domestic demand.

10.2.6. High Growth Visibility

We benefit from high revenue visibility with promising growth prospects due to (i) our strong Order Backlog, (ii) our significant short- to medium-term pipeline of opportunities, and (iii) the long-term opportunities created by the development of European next-generation platforms and the ongoing supercycle in the defense industry. In addition, we believe we have significant opportunities to increase our revenue from M&A activities.

We have built a strong Order Backlog, which provides us visibility of our prospective revenue stream. As we generate most of our revenue from medium- and long-term project contracts, whereby work is performed over a period of multiple years and sometimes decades, once we enter into a binding contract with a customer, we consider the value of that project as Order Backlog. In the last six months, among other orders, we were awarded a contract to equip approximately half of the German air force's Tornado aircraft with our Mode 5 IFF-capable LTR 400 transponders, and we won a milestone order for us worth more than EUR 1.4 billion for the joint development of the ECRS Mk1 nose radar for the German and Spanish Eurofighter fleets and the production of such radar for the German fleet (see also "*8.3.3. Strong Growth Platform with High Revenue Visibility*").

The chart below shows our Order Backlog growth from December 31, 2017 to June 30, 2020, together with the respective coverage ratio (ratio of Order Backlog to revenue in the last twelve months). For a breakdown of our Order Backlog by segment as of December 31, 2019 and as of June 30, 2020, see "*8.3.3. Strong Growth Platform with High Revenue Visibility*".



For 2020, we expect a ratio of Order Intake in relation to revenue of approximately two times. For further details, see "*8.4. Our Key Performance Indicators and Other Alternative Performance Measures*".

Beyond our existing Order Backlog, in the short to medium term, we believe we are well positioned to win a number of key contracts in Germany and internationally. In particular, given recent budget approvals, partial budget approvals, government endorsements, or pricing incentives, we believe we are well placed to receive additional expected orders for the ECRS Mk1 and the Eurofighter's self-

protection system Praetorian DASS in an aggregate amount of approximately EUR 0.8 billion, an order for our TRS-4D radar for the MKS 180 worth approximately EUR 0.2 billion, and an order for the Pegasus program worth approximately EUR 1 billion until 2022 (see also "*10.6. Key Platforms and Systems*"). In the aggregate, the value of these expected orders, together with our Order Backlog as of June 30, 2020, amounts to approximately EUR 5.4 billion, or approximately five times our revenue in 2019. This amount of Order Backlog and, to the extent received, expected orders, is expected to be converted into revenue over the next several years, at a conversion rate of approximately one fifth in each of 2020 and 2021 and approximately one seventh in each of 2022 and 2023.

In total, we believe that from 2021 to 2023, in addition to our Order Backlog and the expected orders mentioned above, approximately EUR 10 billion in total opportunities will be available to us for tender (management estimate of total opportunities; not taking into account our probability to win the contract) from key platforms such as the Eurofighter jet, the NH90 helicopter, the Puma armored vehicle, the Leopard 2 MBT, the Type 212/214 submarine, and the MKS 180 warship. Besides the projects mentioned above, with regard to the remainder of 2020 and 2021, we believe we are particularly well placed for opportunities such as the retrofit and further acquisitions of Eurofighter aircraft, radar systems for the TLVS (as defined below), and self-protection components and IFF for the STH.

By geography, we estimate that approximately 30% of this short- to medium-term pipeline of opportunities will be available for tender from end-customers in Germany and approximately 70% from end-customers in other countries. Some of our priority geographies include:

- Central and Eastern Europe, where we expect increased defense spending given tensions with Russia, with key opportunities in Poland and Hungary (in the areas of ATC and air defense radars, as well as Leopard upgrades);
- North Africa, with key countries including Egypt and Algeria (in particular for IFF, submarine optronics, and our passive radar, as well as border protection systems for Algeria), as well as Tunisia and Senegal;
- APAC, where we focus specifically on India, Indonesia, and South Korea; and
- Other regions, including France (where we aim to leverage the Nexeya footprint and relations), the Middle East, and North America.

With respect to our long-term opportunities, we believe there is significant growth potential from the development of European next-generation platforms and the ongoing supercycle in the defense industry (see "*8.3.2. Supercycle in the Defense Industry*"). As some specific examples of the opportunities presented by these long-term developments, we have started to position ourselves for participation in three key prospective European next-generation programs, FCAS, MGCS, and MAWS. We believe that, in total, these three key European next-generation programs represent potential opportunities for us of approximately EUR 14 billion (management estimate of our potential share in the potential total value created by these three programs over their respective lifecycles, which may extend over multiple decades and beyond 2040). See also "*10.6.6.2.1. Future Combat Air System*", "*10.6.6.2.2. Main Ground Combat System*", and "*10.6.6.2.3. Maritime Airborne Warfare System*".

Besides organic growth potential from our Order Backlog and short- to long-term opportunities, we have a proven M&A platform to find and execute on the right strategic acquisition opportunities. We have a successful history of integration and synergy extraction from our M&A activities to date. Each of our various acquisitions since 2017 was made with a specific strategic rationale. With some, we focused on acquiring new technological capabilities, such as EuroAvionics for situational awareness, Kelvin Hughes for radar and security, and PentaTec for general engineering. With others, we significantly expanded our geographical reach, as in the case of Nexeya for France and Intersoft Electronics for the APAC region. With Tellumat, our most recent signed acquisition (expected to close in the fourth quarter of 2020), we aim to achieve a combination of both strategic goals, focusing on radar technology capabilities specifically in South Africa. We continue to evaluate potential M&A targets in line with our disciplined acquisition strategy and believe there is further revenue growth potential through M&A activity in the market. See also "*8.3.4. Acquisitions*".

10.3. Our Strategy

Our strategy is built around our vision to become Europe's leading, platform-independent provider of defense and security sensor solutions with global reach. This vision comprises four angles:

- Innovation champion: We constantly strive to develop cutting-edge solutions, exploit new technology trends, and expand our capabilities portfolio;
- Expanded international business: Building on our strong capabilities developed in Europe, we are strengthening our international and export reach;
- Defense and security focus: From our core markets in the defense industry, we are continuing to access adjacent markets, including non-defense applications of our technology; and
- Sensor solutions house: Building on our heritage as a provider of sensor components, we aim to consolidate our position as a comprehensive sensor solutions house to provide integrated customer solutions.

Building on our expansion in recent years, our strategic framework driving the growth and business improvement strategy towards this vision focuses on five dimensions of our business: (i) innovation, (ii) our customers, (iii) operational excellence, (iv) M&A, and (v) our culture.

10.3.1. Innovation: Expand and Invest Behind Capability and Solution Set

We strive to expand our portfolio across two axes: capabilities and solutions. Across these axes, we screen technology and product opportunities to identify "white space" opportunities, meaning unmet and unarticulated needs, based on factors such as market size and growth, the technological fit for our organization, and the competitive landscape.

In order to approach the Accessible Defense Electronics Market of approximately EUR 15 billion in 2019 (source: RSAdvisors Study), our portfolio development strategy is oriented across three axes: (i) strengthening our recurring and modular product approach, (ii) growing via integration across sensors and technologies, and (iii) growing up the value chain with full system solutions. Key investments include radar warner receiver and jammers in spectrum dominance, air defense radar enhancements and future communication and data links in radars, and ground vehicle situational awareness and missile approach warners in optronics.

In terms of broadening our capabilities portfolio, we focus particularly on the development of new competencies in communications (in particular satellite communication and datalinks), radars (in particular for space applications), electronic warfare (in particular radar warning receivers and radio frequency countermeasures), as well as cyber protection. Specific capabilities we intend to advance include airborne ISR and electronic warfare sensors, land and naval tactical sensors, the modification of our products for non-defense purposes, next-generation data communication, cyber protection capabilities, sensor data processing, fusion, analytics capabilities, and sensor solutions for integrated ISR. For our aftersales business, a focus is on the development of "digital age" services and advanced service models, as well as support for third-party equipment and products. In addition, with respect to our aftersales business, our growth strategy is focused on further penetration of our installed base, advanced services models, simulation systems, and M&A, through which, including the revenue from services for our Optronics portfolio, we aim to double our ∑2017 Customer Services divisional revenue in the near term, which we expect to largely achieve by the end of 2020 (for an overview of our consolidated income statement and certain other APMs and operating metrics for 2017 and ∑2017 (adjusted to reflect our business for the full twelve months 2017), see "*2.7. Note Regarding the Presentation of Certain Financial Information*").

Regarding the vertical integration of our business, we aim to expand across the value chain for sensors, from engineering and technological capabilities, to individual components, to subsystems and sensor systems, to product support, towards fully integrated system solutions across the sensor capability spectrum for defense and security applications.

In line with our approach in the last three years, we continue to focus on facilitating growth in targeted markets by expanding our platform-independent product range. Since our separation from Airbus, our self-funded R&D spend (comprising research and development costs and additions to capitalized development costs) increased from 5% of our revenue in ∑2017 to 8% of our revenue in 2019, and has

nearly doubled since the acquisition of the Orlando business to EUR 86 million in 2019. Our investments in R&D follow our strategic orientation. Based on our experience and the estimated profile of our revenue by product age, after an initial introductory phase, our products generate most growth once they have reached a certain age and lifecycle position. Building on our self-funded R&D spend in the past, we strive to continue to invest behind this roadmap to drive enhanced solutions.

For the execution of our innovation strategy, each of our divisions, in particular Radar, IFF & COMMS, Spectrum Dominance & Airborne Solutions, and Optronics, has defined specific focal points:

In Radar, IFF & COMMS, focus areas include the expansion of our fighter radar capabilities towards complete radar systems, the development of AESA radar solutions for air combat and air-ground support, a new radar business line in South Africa, and new naval and land-based radar products. The division is also focused on building up a portfolio of products that are subject to neither the U.S. International Traffic in Arms Regulations ("**ITAR**") nor German export restrictions, and enlarging its solutions offering. Along the product development flow from modules and sub-systems into complete solutions, key topics in terms of technology innovation include resource optimization and improved cost for receiver and exciter components, reliability and multi-tasking capabilities for transmitters and antennas, and clutter and interference suppression and deep learning for signal processing tools.

In our Spectrum Dominance & Airborne Solutions division, there is an established technology roadmap for future product and solution developments, taking into account opportunities from data mining/fusion and AI. Targeted new developments include, for example, lightweight crash recorders and certifiable airborne computers for avionics, and new modular airborne versions of our Kalaetron product family for electronic warfare. The division is also focused on the development of cyber protection solutions within HENSOLDT Ventures and extended airborne integrated solutions for situational awareness. Current technology developments focus on, for example, certifiable multi-core computing for airborne solutions as well as miniaturization and software-defined electronic warfare systems.

Our Optronics division focusses on building up situational awareness solutions across domains and enhancing its system capabilities, in particular for land, security, and naval applications. It also aims to expand its non-defense business based on our partnership with a customer in the semiconductor industry for metrology toolsets, and expanding software capabilities. Along the evolution of sensors and software into products, technological focus areas include multi-spectral imaging for cameras, smart sensing with high-performance embedded image processing for thermal imagers, laser imaging and communication, the use of AI and deep learning for automatic classification and target recognition, as well as augmented and virtual reality solutions.

10.3.2. Our Customers: Be the Preferred Customer Partner

Our goal is to become a long-standing partner for our customers and, to this end, we intend to focus on two pillars: packaging our technology into comprehensive solutions for our customers, and creating and maintaining customer intimacy through our global sales force and service stations.

Three select platform/product examples demonstrate our solution-oriented approach and long-term customer relationships: For the Eurofighter jet, we provide the Captor-E nose radar, part of the self-protection system Praetorian DASS, and avionics equipment, and as a part of the Euroradar and the EuroDASS consortiums since 1985, have formed long-term relationships with the main Eurofighter consortium members Airbus, BAE Systems, and Leonardo. We are also leading the consortium for the development and production of a further enhanced Captor-E radar, the ECRS Mk1, and in that capacity have recently been awarded a milestone order for us worth more than EUR 1.4 billion for the joint development of the ECRS Mk1 nose radar for the German and Spanish Eurofighter fleets and the production of such radar for the German fleet (see also "*8.3.3. Strong Growth Platform with High Revenue Visibility*"). Similarly, in connection with our provision of optronic equipment for the Leopard 2 MBT, we have been partners since 1979 with KMW and Rheinmetall Land Systems, the tanks' manufacturers, and the LEOBEN community of user countries. Finally, through a combination of radars, surveillance cameras, and C2 software, we have provided border security solutions in North Africa as a trusted partner since 2011.

Besides our focus on offering solutions for long-term platform integration, we are pursuing a dedicated regional strategy, building on customer intimacy created through our global sales network, to grow our geographic addressable market.

For our home country Germany, our long-term growth strategy is focused on positioning ourselves, supported by government-funded R&D, on new European programs and capturing the anticipated increases in defense spending and, simultaneously, shifts to electronic content in such spending. In addition, we aim to leverage our status as a supplier of sensitive technologies and to secure our inclusion in platforms through partnerships with prime defense contractors.

Our export strategy is centered on leveraging our home country technologies for worldwide distribution. We aim to position ourselves in the most attractive markets by creating local proximity (for instance, through sales hubs, satellite offices, and our external network), increasing our international business operations, and building local partnerships to support our sales campaigns. In addition, as in Germany, we intend to strengthen exports by embedding our products on platforms through collaboration with prime defense contractors.

To support our goal of developing customer relationships domestically and internationally, we have built a sales organization comprising more than 100 full-time employees in sales and distribution as of December 31, 2019, spread in each of our sales hubs in Europe, Middle East, APAC, Africa, North America, and LATAM. Our sales approach is tailored to market dynamics and facilitates solutions delivery to our customers. We have developed a three-tiered sales organization (product sales, domain sales, and international sales) in order to not only assist our customers with specific campaigns, but also focus on the development of their markets and business with our domain and international sales teams. In addition, to maximize customer intimacy, since our separation from Airbus, we have established a key account management team to serve approximately a dozen of our most important prime defense contractor customers.

In addition to our Group-wide customer relations strategy, each of our divisions has its own, specific sales strategy in place:

Focus areas in our Radar, IFF & COMMS division include, for example, the fostering of our strong customer relationship with the German armed forces (*Bundeswehr*), sales of our TRS-4D radar and system solutions to the German navy, the development and production of the ECRS Mk1 radar, establishing the Group as the main supplier to the German armed forces (*Bundeswehr*) for IFF, in particular Mode 5 IFF, broadening strategic international cooperations, for example with Raytheon, developing a market for our TwInvis passive radar, and partnering with system providers for complex air defense solutions. Key growth opportunities in the short term for our Radar, IFF & COMMS division include, for example, our airborne radar (in particular, related to the ECRS Mk1 and the Eurofighter), ATC (for both defense and non-defense purposes), land radars (such as the TRML-4D for Hungary and Germany and our passive radar for Germany), naval radars (mainly the TRS-4D for the MKS 180 warship and the K130 corvette), IFF and cryptography (such as Mode 5 IFF upgrade for Norway and Germany and National Secure Mode systems), and security solutions (for instance, a border and harbor security program in Tunisia and a border security program in Pakistan). Additional examples of priority geographies in the short term include Poland and Hungary in Europe for ATC and air defense radars as well as Leopard upgrades; Egypt, Algeria, and Tunisia in North Africa for our passive radar, border security, and National Secure Mode systems; India, Indonesia, and Singapore in APAC for our PrecISR and TRS radar families as well as ATC; and Kuwait, Oman, Qatar, Saudi Arabia, and Pakistan in the Middle East for our Cobra, ATC, and PrecISR systems, border security solutions, and TRML and TRS radars.

Our Spectrum Dominance & Airborne Solutions division aims to become the national partner in Germany and South Africa for electronic warfare as a sovereign technology and the national partner for Germany with respect to European and NATO defense programs, such as the Eurofighter jet and the NH90 and Tiger helicopters, as well as a partner for integrated airborne solutions in European programs such as FCAS and MAWS. Key growth opportunities in the short term for our Spectrum Dominance & Airborne Solutions division include, for example, the Eurofighter (new aircraft as well as retrofits), Pegasus, the Eurodrone, upgrades to the Tiger helicopter (avionics and self-protection), avionics and self-protection components for the STH, and electronic warfare (in particular tactical systems for customers in Europe and the Middle East). Additional examples of priority geographies in the short term include European countries for the MAWS, the MALE RPAS (Medium Altitude Long Endurance Remotely Piloted Aircraft System), avionics, and tank self-protection for the Czech Republic and the UK; India, South Korea, and Japan in APAC for land and airborne self-protection and warning systems as well as electronic attack solutions; Saudi Arabia and the UAE in the Middle East for land-

based electronic warfare; the Xpeller counter-UAV system and potential FCMS business with Sikorsky in North America; and small land-based electronic warfare opportunities in LATAM.

The focus of our Optronics division is on keeping its strong convoy partnerships with platform integrators, offering state-of-the-art technology at competitive pricing, and alignment with our customers' go-to-market strategy. Key growth opportunities in the short term for our Optronics division include, for example, the optronic mast for the U212 submarine, newly built and upgraded land platforms (such as the Leopard 2, the PzH, the new RECCE vehicle, the Puma, and feasibility studies for the MGCS), industrial commercial solutions (in particular next-generation optical metrology), and aerospace (for instance, the Missile Approach Warning Sensor Unit (MAWSU) for export to Air National Guard and Gripen customers and the development and sale of gimbals with a Saudi Arabian partner, among other things). Additional examples of priority geographies in the short term include Europe, in particular a cooperation between Germany and Norway for optronic mast solutions; Algeria in Africa for border protection solutions and equipment of the Fuchs and upgrades of Russian tanks; India, Indonesia, and South Korea for submarine Optronics and naval surveillance, among other things; and the Middle East and North America for MBT optronics and gimbals.

Our aftersales business, managed by our Customer Services division, is focused on the further penetration of our installed base through sales of services for our products in the field that are not fully serviced by us yet, as well as the transfer of traditional support contracts to performance-based logistics support models. It has also developed certain advanced service models, which, while focusing on core competencies derived from classic customer support activities, go beyond pure customer service for our products. With respect to simulation solutions, the focus is on the expansion of our existing train simulation business, completion of our training simulator portfolio by reaching from tablet-based solutions to full motion simulators, and the development of a new business field in the area of radar integration simulators. We believe we are well positioned for key growth opportunities for our aftersales business because of our broad offering with a well-balanced market and customer exposure, long platform lifecycles offering recurring revenue sources, proactive service management of our large installed base, the past and planned introduction of new service models, and the growth potential from support for third-party products.

10.3.3. Operational Excellence: Drive Continuous Improvement

Driven by our culture of continuous improvement, we aim to create further value from enhanced execution in our operations.

In connection with our carve-out from Airbus, we set up our comprehensive HENSOLDT GO! program, which has already delivered a number of improvements to date and continues to drive our operational progress. In the area of operational excellence, we have already improved operations and development efficiency and our procurement organization. In the future, we intend to focus on enhancing production, further boosting development, and improving supply chain management. In the area of enablers, we have managed to improve the efficiency of our general administrative functions, finalize the carve-out from Airbus, and free up net working capital. In the future, we intend to focus on improving our net working capital efficiency, digitalization, and engineering governance. Accordingly, we expect our net working capital to show an improvement in relation to revenue in 2020 and 2021 before eventually stabilizing and declining to typical levels in the medium term.

These future focus areas will continue to be accompanied by a comprehensive suite of performance measures to track the success of our operational excellence initiatives.

For further details on our HENSOLDT GO! program, see "*8.3.5. Operational Excellence and Efficiency Program HENSOLDT GO!*".

10.3.4. M&A: Pursue Strategic M&A

We intend to continue to use value-accretive acquisitions to accelerate our growth. We have a clear M&A strategy in place to identify the right opportunities, which specifically focuses on four key considerations:

- accessing new and disruptive technology, particularly in the areas of AI, data fusion and analytics, autonomy capabilities, and intelligence and cyber;

- strengthening our focus regions and entering into new markets, in particular in Europe (for example France, Austria, and Spain), APAC (for example, Australia), and North America, in particular the United States;
- expanding our product portfolio, in particular for solutions offerings, connectivity and communication, lower-end security products, and other sensor capabilities complimentary to our existing portfolio; and
- creating value and scale from consolidation, by leveraging our existing position in Germany and joining forces with partners in Europe.

We have implemented a structured, disciplined target assessment and execution process, through which we move from target identification to initiating contact and active engagement. Potential targets are monitored and evaluated on an ongoing basis and we enter into more specific discussions and negotiations from time to time, with a focus on strategic, bolt-on acquisitions.

We have a track record of successful M&A execution, with various completed acquisitions since our separation from Airbus, each with a unique strategic rationale. For EuroAvionics, the focus was on the acquisition of its technology and products, such as new drone control and autopilot capabilities, and supporting our strategy in situational awareness and non-defense platforms. With regard to Kelvin Hughes, we considered in particular adding new elements to our product portfolio (for example, its radar and security products portfolio and C2 solutions), as well as its regional presence. PentaTec was attractive for its engineering capabilities and protection product portfolio, while Nexeya, our largest acquisition to date, provided not only an addition to our product portfolio through its test and integration services, but also access to the French regional market. The rationale for the IE Asia-Pacific acquisition was mainly strengthening our regional expansion in Australia and adding its customer support services offering to our portfolio. Tellumat is an attractive target for a combination of technological and regional considerations, as we expect it to both help us expand our local business in South Africa and access new regional markets as well as strengthen our technology portfolio, in particular for radar development at our South African sites. For details on our M&A activities, see also "*10.10. Our M&A Activities*".

10.3.5. Our Culture: Create a Top-Tier Culture

We are committed to promoting a culture of collaborative success among diverse employees across our organization. Collaboration, together with excellence, ownership, and innovation we believe creates entrepreneurial spirit, which forms a building block for our continued success as a company.

We strive to stay an attractive employer by offering development perspectives, work-life balance, and competitive remuneration. Our support and award package includes training and development, for example training programs, special career paths, and exchange programs with other industries; attractive compensation, including through recognition for outstanding performance, a bonus system, and variable remuneration based on Group performance; and a number of benefits, such as a Group pension scheme, spot awards, flexible working time models, and health management.

We believe that these measures have contributed to the high loyalty among our staff, with a substantial share of our employees having spent several years in our business.

10.4. History of HENSOLDT

The Group was created from various former Airbus activities in the areas of defense and security electronics. With legal and economic effect as of the end of February 2017, HENSOLDT Holding GmbH, via its subsidiary HENSOLDT Holding Germany GmbH, acquired 100% of the shares of HENSOLDT Sensors GmbH and HENSOLDT Optronics GmbH. By way of the aforementioned acquisition, HENSOLDT Holding GmbH became at that time the parent company of the Group and was at that time a wholly owned subsidiary of the Selling Shareholder, save for one share held by the Federal Republic of Germany. For further details, see Note 6.1 to the Audited Consolidated Financial Statements 2017 on page F-241 et seq. Initially, ADS held a 25.1% stake in HENSOLDT Holding GmbH to ensure a smooth separation of the Orlando business from ADS and its affiliates. In June 2018, the shares held by ADS were acquired by HENSOLDT Holding GmbH and held as treasury shares until cancellation of these shares in November 2019. See also "*8.2.4. Carve-out and Acquisition of the Orlando Business*". Since our independence from Airbus, we have operated as a stand-alone company under the majority ownership of the Selling Shareholder, an entity indirectly owned by KKR.

While we are a relatively young company in our current form, we can trace our heritage back over more than 150 years to Moritz Carl Hensoldt (1821-1903), a German pioneer of optics and precision mechanics. In 1847, he founded an optical workshop for telescopes, astronomical instruments, and microscopes under his name and thus created one of the first large optical companies in Wetzlar, Germany. Moritz Carl Hensoldt revolutionized the reconnaissance technology of his time with innovative binoculars and riflescopes. After Hensoldt's death, the Carl Zeiss group acquired his company in 1928. This company later became Carl Zeiss Sports Optics, with optical products for civilian and hunting applications, and Carl Zeiss Optronics Wetzlar, with optical products for defense applications. Other companies that have become part of our legacy over the years include, among others, AEG, Aerospatiale-Matra, Cassidian, Daimler, Dornier, EADS, Messerschmitt, Siemens, and Telefunken.

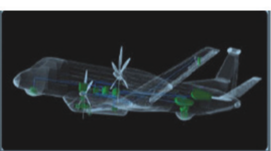
10.5. Our Technology and Products

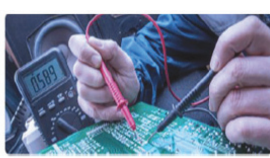
10.5.1. Overview

We are a sensor solutions provider in the defense and security industry with a portfolio focus on radars, electronic warfare, avionics, and optronics. In line with the platforms in which many of our products are integrated, our products' lifecycles (meaning the time from operational readiness to decommissioning) are typically a decade or longer, and in some cases up to 40 years or more, such as the MDPR air defense radar systems delivered to the Pakistan air force in 1975, or the Tornado nose radar and the Leopard 2 periscopes as well as gunner sight systems, which are in use since the 1980s. We constantly strive to improve our existing offering and add new products through own developments, industrial cooperations, as well as acquisitions, in order to increase competitiveness and provide increased value to larger markets.

We categorize our technology and products into four divisions: (i) Radar, IFF & COMMS, (ii) Spectrum Dominance & Airborne Solutions, (iii) Customer Services, and (iv) Optronics. However, we often provide a variety of our products from different divisions to a particular platform, such as the Eurofighter (see "*10.6.2.1. Eurofighter*"), to which we contribute radars from Radar, IFF & COMMS and electronic warfare equipment from Spectrum Dominance & Airborne Solutions, or we combine technologies developed in different divisions to build an integrated product, such as our drone detection and defeat system Xpeller, which uses technology from each of our Radar, IFF & COMMS, Spectrum Dominance & Airborne Solutions, and Optronics divisions. In 2019, we generated 32% (2018: 34%; 2017: 29%) of our revenue in Radar, IFF & COMMS, 25% (2018: 29%; 2017: 31%) in Spectrum Dominance & Airborne Solutions, and 25% (2018: 22%; 2017: 23%) in Optronics. Our Customer Services division (which includes the Nexeya business since October 2019, see "*10.7. Our Aftersales Business*") generated 17% (2018: 13%; 2017: 14%) of our revenue in 2019.

While we generated approximately 84% of our revenue in 2019 from sales and aftersales related to products sold for defense-related purposes, we also offer non-defense applications of our technology and products, to which approximately 16% of our revenue in 2019 related. We aim to grow the relevance of our non-defense business in the long term, supported by our acquisition of Nexeya (see "*10.7.7. Nexeya*"). Non-defense applications comprise customizations or uses of our products for government agencies, civil, or commercial purposes, which include, for example, border protection radars, civil ATC, avionics for commercial planes and helicopters, equipment for industrial manufacturing, counter-UAV systems for security purposes, cyber-security solutions for industry, and space equipment such as radars and optics. Our main end-customers for these non-defense applications are government agencies other than ministries of defense, such as police, space, and border protection agencies, airport operators, manufacturers, and businesses in sensitive industries. Due to their potential dual-use character, sales of our products for non-defense purposes are typically still subject to applicable export control regulations (for details, see "*11.3. Export Controls*").





Our four divisions – Radar, IFF & COMMS, Spectrum Dominance & Airborne Solutions, Optronics, and Customer Services

10.5.2. Radar, IFF & COMMS

10.5.2.1. Overview

In our Radar, IFF & COMMS division, we develop and manufacture stationary, transportable, and mobile radar systems used for surveillance, reconnaissance, and target acquisition in defense and security applications, as well as ATC for both defense and non-defense purposes. These systems are used on various platforms, including the Eurofighter (see "*10.6.2.1. Eurofighter*") and Lockheed Martin's Freedom class littoral combat ships, or as stand-alone solutions.

By end-customer, in 2019, we generated approximately one quarter of our Radar, IFF & COMMS revenue in Germany, approximately one quarter in the rest of Europe, and the remainder in the rest of the world. Besides Germany, other key markets for our Radar, IFF & COMMS division are Australia, Canada, Chile, Egypt, the Middle East, Norway, Switzerland, the United Kingdom, and the United States.

Our 2019 divisional revenue in our Radar, IFF & COMMS division can be broken down into (i) naval and ground radars (approximately half), (ii) airborne and space radars, including the Eurofighter radar (approximately one fifth), (iii) IFF and COMMS equipment (approximately one fifth), as well as (iv) ATC radars and solutions (approximately one tenth). By platform type where our Radar, IFF & COMMS products are used, approximately one quarter of our 2019 divisional revenue was generated from air surveillance systems, approximately one sixth from fighter aircraft, with additional substantial shares from naval vessels (frigates, destroyers, corvettes) and border and coastal surveillance systems.

Key competitors in our Radar, IFF & COMMS division include IAI, Indra, L3Harris, Leonardo, Northrop Grumman, Raytheon, and Thales.

In our product design, we follow a modular and scalable approach. For example, our TRML-3D/4D land radars share the foundation of our TRS-3D/4D naval radars, and many of our product variants share a similar radar core and are mainly defined by their control and processing software.

10.5.2.2. Land Radars and Solutions

Our land radar products, which can be fixed, transportable, or mobile, are used for a range of defense and security applications, such as ATC, air defense and weapon location, security solutions, and counter-UAV systems.

10.5.2.2.1. ATC Radars and Solutions

Our ASR systems use a combination of a primary and a secondary radar, with the primary radar being used to obtain the location and speed of the target in a non-cooperative way and the secondary radar providing additional information such as identity and flight data from cooperative aircraft. By combining both radars, our systems are able to provide comprehensive information about the detected aircraft within an area which we believe to be beyond the range of a typical ASR system. In addition, our ASR systems are able to independently determine the position and altitude of non-cooperative aircraft, which is critical information in defense scenarios. Our ASR systems are available in several variants and we market them in cooperation with Raytheon, a U.S.-based international aerospace and defense company. They are already in use at multiple Canadian military airports and are currently being integrated into the Australian air force's ATC system, which covers an area the size of Western Europe. Furthermore, we have been awarded a contract to replace the German military ATC radar systems and supply German military airports with our ASR systems. In addition, our ASR system can also be used for non-defense purposes.

10.5.2.2.2. Ground Radars and Solutions

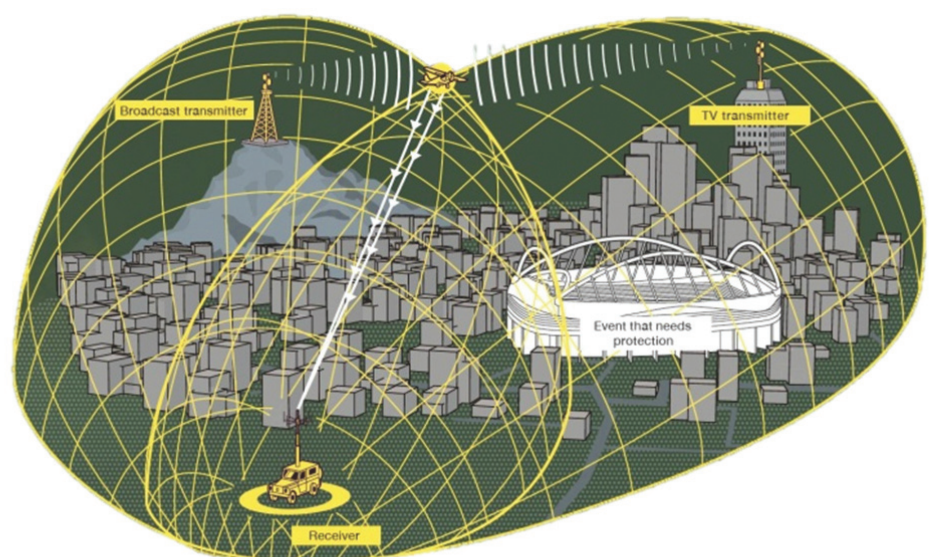
Ground based air defense (GBAD) radars assume an important role within our land radars and solutions portfolio. They are highly mobile and designed to be easy deployable. One of our major mobile radars is the TRML-4D, an advanced AESA radar launched in 2018 with an integrated IFF system (see "*10.5.2.5. Identification Friend or Foe (IFF) and Data Communications (COMMS)*"), and a more advanced product compared to our TRML-3D radar. Available in several specific variants, it provides reliable target data for very small targets within a few seconds with just one rotation of its antenna, which we believe to be pioneering technology.

In addition to civil ATC systems, non-defense applications of our radars include, for instance, border security and the protection of critical infrastructure, which we collectively call security solutions. We address the security solutions market with our SPEXER radar family, different variants of which are already being used as part of border security systems, by coastguards, for counter-UAV systems, and for monitoring nuclear power stations. SPEXER systems comprise high-performance surveillance radars for different ranges that automatically detect and classify ground, sea, and low-flying air targets. They can be fixed installations or be used as transportable systems, and their modular building concept means that we can exploit economies of scale in the production of different variants. Besides radar components, our security solutions usually include elements from our optronics and spectrum dominance portfolio (such as cameras and countermeasures), with the backbone of each solution being our C2 operator console (CXEye).

An additional example of a radar-based product for security applications is our Xpeller system, which is specifically designed for protection from UAVs. Other land-based radar systems that can be used in various scenarios include the SxV surveillance and tracking systems, which are particularly capable of performing in adverse weather conditions and detecting small targets, such as UAVs, even in clutter.

Besides mostly fixed systems such as ASR or transportable, yet stationary, radars like SPEXER and SharpEye, we also offer mobile land-based surveillance radars for the protection of ground forces and air defense missions. For protection against hostile battlefield threats, our weapon-location radar COBRA allows the rapid location and high-precision tracking of hostile artillery positions, which is essential for effective responses.

One of our recent ground-based radar developments is the TwInvis passive radar, which we consider a milestone in radar development. As shown in the diagram below, it does not emit any radar signals itself, but uses existing signals in the vicinity (for instance, from TV and audio broadcast transmitters) to detect aircraft, and thus remains virtually invisible to others, including the target of a potential countermeasure or attack. We expect this technology not only to be introduced into the ground based air defense (GBAD) market, but also to form the basis for further products, such as civil ATC or naval air defense applications, which we expect especially in the littoral.



Functioning mode of the TwInvis passive radar

10.5.2.3. Naval and Coastal Radars and Solutions

Our family of naval and coastal radars contains a diverse portfolio of products, many of which use the same radar core as our ground radars. The TRS-3D, for instance, can serve both as a stand-alone radar for the surveillance and air defense requirements of single-radar ships, even under severe clutter conditions encountered in coastal waters, or as the air defense radar on large frigates, multi-radar ships, or battlegroups for detecting short- and medium-range missiles. Our latest naval radar is the TRS-4D, an AESA radar using GaN semiconductor technology, which also forms the basis of our land-based TRML-4D radar (see "*10.5.2.2.2: Ground Radars and Solutions*"). We provide the TRS-4D radar

in a rotating and a non-rotating version depending on the ship class (corvettes or frigates) and customer requirements. Our customers are, among others, the German and U.S. navies and we have been selected, for example, to supply the TRS-4D radar for the weapon system of the German MKS 180 warship.

Besides defense radar systems, we also offer coastal surveillance and maritime navigation solutions for navies, coastguards, as well as commercial shipping. The SharpEye radar technology, which we obtained through the acquisition of Kelvin Hughes (see "*10.10.6. Kelvin Hughes (2017)*"), has helped us build a navigation and surface search radar that is installed in numerous types of vessels from small boats up to cruise liners, container ships, and tankers. Beyond individual radars, our portfolio also includes on-shore vessel traffic management systems and complete naval bridge systems for onboard navigation, as well as naval combat management systems for ship classes like off-shore patrol boats. We are also a member of the European Naval Radar (ENR) consortium with Leonardo and Thales, which develops a maritime surveillance radar for the naval version of the NH90 helicopter.

10.5.2.4. Airborne and Space Radars

Airborne radar systems, in particular for fighter aircraft, pose particular engineering and design challenges due to high performance requirements, while being subject to weight and space limitations. Due to the high complexity and costs, we regularly work with partners in the development of airborne radars within multi-national programs.

10.5.2.4.1. Eurofighter Radar

As a member of the Euroradar consortium, we provide major subsystems and components for the nose radar of the Eurofighter, which we believe to be one of the leading fighter aircraft in the world (see "*10.6.2.1. Eurofighter*" and "*10.9.4.2.1. Eurofighter Radar Consortiums*"). In the course of a retrofit to the Eurofighter's existing mechanically scanned Captor-M radar system, we and our partners are currently developing the Captor-E radar, an AESA radar for the future Eurofighter nose radar system, which we expect will enhance the operational capabilities of the Eurofighter jet. In addition, we are leading a consortium for the development of a further enhanced Captor-E radar, known as the ECRS Mk1, which includes a multi-channel receiver.

10.5.2.4.2. Other Airborne and Space Radars and Solutions

In addition to the Eurofighter radar, we supply airborne radar kits, for example, for the NH90 naval helicopter (see "*10.6.2.2. NH90*"), for which we have been a member of a consortium for over ten years. We are part of the national research project ProSA-n (*Projekt Sense and Avoid – national*), providing our detect-and-avoid collision warning radar for UAVs. Our future Detect and Avoid (D&A) radars for UAVs will replace the pilot's perception with an AI assisted support system to facilitate the safe integration of UAVs into the airspace. We believe that besides military UAVs, this system also has potential to be integrated in UAVs for non-defense purposes, such as for urban air mobility and unmanned cargo.

One of our more recent developments is the PrecISR family of products, comprising a range of GaN-based AESA airborne surveillance radars that can be integrated into any kind of aircraft (fixed-wing, helicopter, and UAVs). These radars are capable of detecting, classifying, and tracking (moving) ground, sea, and air objects. Recently, the PrecISR radar has been integrated in a mission aircraft and successfully performed its maiden flight.

For space applications, we are able to develop special radars for geo-imagery, producing high-resolution images of our planet. We supply essential radar electronics such as transmit-and-receive modules and core radar electronics for satellite-based radars that can create both two-dimensional and three-dimensional reconstructions of landscapes and objects in any weather. Components supplied by us have been used in space for over two decades, for example, on the German TerraSAR-X and TanDEM-X radar satellites, as well as other satellites from Germany, Spain, Europe, and South Korea, among others.

10.5.2.5. Identification Friend or Foe (IFF) and Data Communications (COMMS)

IFF refers to technology that allows its user to identify aircraft, vessels, and ground forces as friendly or potentially hostile through the transmission of specific coded signals and the analysis of the (encoded) response received from the target. This technology is essential to most of our radar products and applications, including ATC and air defense and naval radars, and thus constitutes an integral part of our portfolio.

We have five decades of experience in designing, manufacturing, integrating, and maintaining IFF equipment, which includes interrogators (such as the MSSR 2000I and the MSR1000I), transponders (such as the LTR 400), antenna systems (such as NRAS), test systems (such as the BTI 1000I tester), and military cryptographic computers (such as QRTK and National Secure Mode systems). Our IFF portfolio has Mode 5 IFF capabilities, which is the latest data transmission standard in IFF and allows the identification of threats in real time, enhances security through new cryptographic algorithms, reduces friendly fire causalities, and thus maximizes combat effectiveness in the air, on land, and at sea. We believe that we are one of the major Mode 5 IFF technology providers worldwide. Conceived with a modular and sustainable design, our Mode 5 IFF portfolio is certified by the U.S. Department of Defense and by NATO, thus ensuring full interoperability between NATO allies. Our IFF products equip a range of different platform types from UAVs, helicopters, and fighter aircraft, to complex naval vessels, to ground-based air defense radars (including military and civil ASR).

Furthermore, to address non-NATO markets, we have developed solutions for National Secure Mode systems, providing customers turn-key solutions for secure IFF capabilities based on individual cryptographic algorithms.

Beyond identification and exchange of basic information through IFF, our COMMS technology provides datalinks to enable the secure and real-time exchange of operational data between military platforms and missiles. Our key product is the Lygarion family of datalink solutions, which ensures protected line-of-sight transmission in operational environments on air, land, and sea platforms.

10.5.3. Spectrum Dominance & Airborne Solutions

10.5.3.1. Overview

Our spectrum dominance portfolio, which contributed approximately two thirds of our revenue in 2019 in the Spectrum Dominance & Airborne Solutions division, reflects the fact that military superiority cannot be solely achieved by physical presence through tanks, aircraft, or warships. Instead, communication and situational information in the area of operations and about one’s own and enemy forces are increasingly important in conflicts. We develop specialized sensors to collect information from the electromagnetic spectrum, intelligent software to process the collected raw data, and tools to protect, obstruct, or manipulate communications, which together are designed to lend information superiority and, ultimately, military success to our (end-)customers. Such systems based on sensor data collection, data mining, and AI create new capabilities for the early detection of threats and the protection of one’s own forces in complex situations.

Our airborne solutions portfolio, which contributed the remaining approximately one third of our 2019 Spectrum Dominance & Airborne Solutions revenue, offers a broad range of avionics (electronics used on aircraft) for manned and unmanned, defense and non-defense platforms, including situational awareness products for low visibility environments that leverage our sensors portfolio. The term “airborne solutions” also reflects our ability to deliver integrated airborne systems, combining our avionics portfolio with a range of airborne sensors from our other divisions as well partners and suppliers, which allows our customers to buy from a one-stop shop solution. It thus also stands for our ambition to expand our market position as a comprehensive mission system partner for major European programs such as FCAS and MAWS (see “*10.6.6.2.1. Future Combat Air System*” and “*10.6.6.2.3. Maritime Airborne Warfare System*”, respectively).

By end-customer, in 2019, we generated more than half of our Spectrum Dominance & Airborne Solutions revenue from Germany, approximately one tenth from the rest of Europe, and the remainder from the rest of the world. Besides Germany, other key markets for our Spectrum Dominance & Airborne Solutions division include Norway, South Korea, and the United States.

By platform type where our Spectrum Dominance & Airborne Solutions products are used, we generated approximately one quarter of our 2019 divisional revenue each from helicopters and military vehicles, approximately one fifth from fighter aircraft, with an additional substantial share from ground station systems.

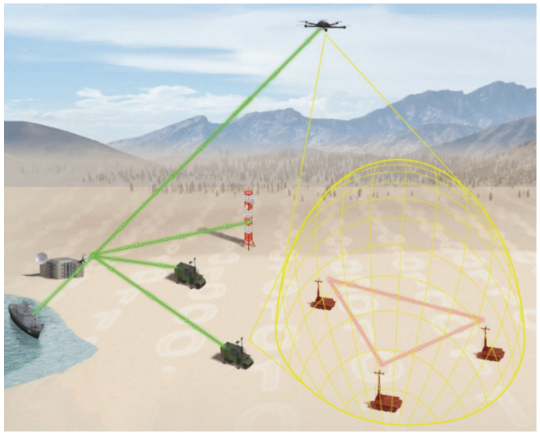
Key competitors in our Spectrum Dominance & Airborne Solutions division include BAE, Elbit, Leonardo, and Saab.

10.5.3.2. Spectrum Dominance (Electronic Support, Signals Intelligence, Electronic Attack, Self-Protection, and Cyber)

Any applications using, for instance, satellites (for example, GPS), radios, or wireless internet, in both military, as well as everyday life, depend on the use of the electromagnetic spectrum. Traditional electronic warfare uses this spectrum to one's own advantage, by collecting information from it, ensuring access to it, and preventing enemy forces from using it. At the same time, as computer networks are becoming more and more wireless, the boundaries between the electromagnetic spectrum and cyberspace are becoming less and less discernible, and trends and developments in digitalization, big data, and cyber-technologies impact both. Our spectrum dominance capabilities therefore ensure the control and exploitation of both these spectrums, through our analytic (electronic support; signals intelligence), offensive (electronic attack), and defensive (self-protection; cyber-protection) solutions.

Our product portfolio in spectrum dominance includes electronic support and signal analysis tools, various jammers, direction finders, antennas, missile, radar, and laser warning systems, as well as complete Tactical Electronic Warfare Systems (TEWS), spectrum dominance battle management systems, and self-protection systems for airborne, land, and naval platforms. We believe to be the leader in land-based electronic warfare equipment in South Africa. In addition, our products are used, for example, on the Puma and Fuchs Hummel armored vehicles, on the Eurofighter, NH90, and A400M aircraft, and on the German F123, F124, and 423 oste class, as well as certain South Korean vessels.

Our electronic support and signals intelligence solutions are dedicated to the sensing and monitoring, processing, and evaluation of the electromagnetic spectrum. They detect communication and radar signals, identify the originators, and create a comprehensive overview of the situation in real time. As an example, our signals intelligence system Kalaetron Integral not only detects, analyzes, and monitors communications and radar signals through automated resource allocation and advanced software, but is also able to evaluate the relationships between these emissions, detect who is talking to whom, and produce a situational picture of the communication network. As such, Kalaetron Integral, which can be deployed in aircraft, on land, and on vessels, can fulfill missions which previously required the deployment of multiple separate systems. Kalaetron Integral is also expected to be the basis for the Pegasus program (see "*10.6.6.1.3. Pegasus*").



Electronic attack solutions allow our customers to deny their enemies access to the electromagnetic spectrum, for example, by disabling the enemy's communication or denying them access to a restricted area. Our self-protection solutions, on the contrary, aim to keep our customers out of harm when enemies attack. In both cases, we believe controlling an enemy's ability to communicate and make use of the electromagnetic spectrum is critical in today's digital battle space.

An exemplary product group for offensive and defensive solutions are "jammers", which disrupt or restrict certain communication and other radio and radar signals (as shown in the picture above). Airborne escort jammers are used to shadow moving platforms, while stand-off jammers can counter fixed targets from safe distances, protecting other aircraft from target acquisition and tracking radars. As an electronic attack solution, on the one hand, jammers can block or confuse enemy sensors and their communications, thus potentially allowing our customers to move undetected by enemy sensors. For self-protection, on the other hand, jammers can interfere with signals to, for example, Remote-Controlled Improvised Explosive Devices ("**RCIEDs**"), control drones, or guide missiles. Among other things, our portfolio includes vehicle-mountable and man-portable jammers that are specifically aimed at the suppression of (even multiple, simultaneously triggered) radio-triggered improvised explosive devices, thereby protecting troops and convoys and defeating present-day asymmetric warfare threats. Several hundred of our RCIED jammers are in use with the German armed forces (*Bundeswehr*) and we have delivered comprehensive electronic support and attack systems to international customers.

We offer additional self-protection sensors and complete sensor suites to protect airborne, land, and naval platforms against missiles. Our sensors detect missiles either directly upon launch towards the target (such as our different variants of the Missile Launch Detection System (MILDS)) or indirectly through the detection of lasers aiming at the target to guide missiles prior to or during launch (such as our ALTAS and COLDS systems). The Kalaetron Radar Warning Receiver detects radar signals and assesses the threat they represent. It uses AI and digital signal processing methods, combines high detection probability with low false alarm rates to enable appropriate in-time-countermeasures, and maximizes crew safety. Our comprehensive self-protection suites, like the Airborne Missile Protection System (AMPS), include, for instance, laser, missile, and radar warning systems, flares, and cockpit visualization. Outside the U.S. market, we are a leading provider of ultraviolet missile warning systems on European and U.S.-manufactured rotary and fixed wing aircraft that typically use such systems, for example transport, special mission, and maritime patrol aircraft (source: RSAdvisors Study).

Airborne self-protection systems provided by us are used, for example, in the Tiger, NH90, and UH-60 helicopters. We are also part of the EuroDASS consortium, contributing to the Eurofighter's self-protection system Praetorian DASS (see "*10.9.4.2.2. EuroDASS Consortium*"). Our land self-protection systems are designed to protect military ground vehicles against anti-tank guided missiles and laser-supported ammunition, among other things. An example is the MUSS for the German armed forces' (*Bundeswehr*) Puma armored vehicle (see "*10.6.3.1. Puma*"), which consists of a missile- and laser-warning sensor, an infrared jammer, and a control unit, all provided by us.

In the field of cyber, which forms part of our spectrum dominance division, we currently focus our efforts in the area of cyber-protection.

Through our joint venture HENSOLDT Cyber, which we currently report at-equity in the consolidated financial statements, we develop embedded IT products designed to meet highest security demands. In light of the increasing reliance on digital infrastructure across industries and the associated increase in vulnerabilities, as a comprehensive electronics solutions provider, we strive to not only provide adequate protection for our own products and solutions but to also offer independent protective systems to our customers in both the defense and the non-defense sectors. HENSOLDT Cyber builds embedded IT, consisting of software and hardware, with the goal to offer not only IT security, but entire secure IT systems. For example, we have developed an operating system with a secure processor, which we believe is the first one in the world to have been mathematically proven to be free of software bugs and thus protected from conventional external attacks. As of the date of the Prospectus, we are in negotiations with our joint venture partner to potentially reorganize the corporate and financing structure of HENSOLDT Cyber, which may, among other things, lead to a full consolidation of HENSOLDT Cyber.

10.5.3.3. Airborne Solutions

Within our Spectrum Dominance & Airborne Solutions division, airborne solutions comprise our avionics products, as well as our sensor fusion and system integration capabilities. Our portfolio comprises individual avionics components (for example, connectivity products and crash data recorders), complex mission and flight control systems, and UAV solutions for defense and non-defense applications. Our airborne solutions offering combines our airborne radar and sensors capabilities with our electronic warfare and optronics experience to satisfy our customers' needs for integrated airborne solutions. We believe our portfolio addresses many sections of the avionics product market, as we provide both military and civil avionics for helicopters, fixed-wing aircraft, and UAVs.

With our airborne computers and flight control systems, we offer compact and lightweight solutions to improve mission operations and meet the needs of a variety of users and platforms. We believe our solutions combine high performance and operational safety with cyber-protective architecture.

Our SferiRec product family provides flight and mission data recording, as well as data transfer and analysis capabilities, and stores flight and voice data securely on crash-protected memory. Our data analysis and evaluation software can optimize aircraft availability and fleet management by avoiding unnecessary maintenance measures and targeting repair work. We also offer mission planning and training software that is capable of simulating flight operations taking into account numerous variables, to allow for the best preparation and execution possible. Our SferiRec flight data recorders are flying on, for example, the Eurofighter, Tornado, Tiger, and NH90 aircraft.

Our situational awareness portfolio includes mission management and pilot assistance systems for fixed-wing aircraft and helicopters that can provide crucial support during critical phases of flight, in particular in difficult vision environments. On the basis of up-to-date maps and databases, a variety of sensors, as well as quasi-real-time information on weather, provided, for instance, via datalinks, early detection and avoidance of potential obstacles, is made possible. Especially for hard-to-detect obstacles, such as cables, power lines, or rising terrain in a helicopter's flight path, pilots need the support of advanced sensing systems. Our systems provide easily visualized terrain and obstacle warnings and are capable of handling a range of third-party avionics systems. Our digital map, mission management, and situational awareness systems are in use on a variety of military platforms, such as the Eurofighter jet and the Tiger helicopter, as well as civil aircraft, for instance the H145 helicopter. Our obstacle warning sensors fly, for example, on the NH90 and EC135 helicopters.

Furthermore, our tailored connectivity and autopilot solutions, as well as detect-and-avoid systems for UAVs (or optionally piloted vehicles) allow entirely remote or autonomous flight control. In addition, our systems support video and data transfer among each other, to ground stations, as well as to other flying avionics systems. We believe such systems meet the needs of various operational demands for defense customers, with use cases in the non-defense sector as well, such as law enforcement, aerial surveillance, infrastructure inspection, and counter-UAV.

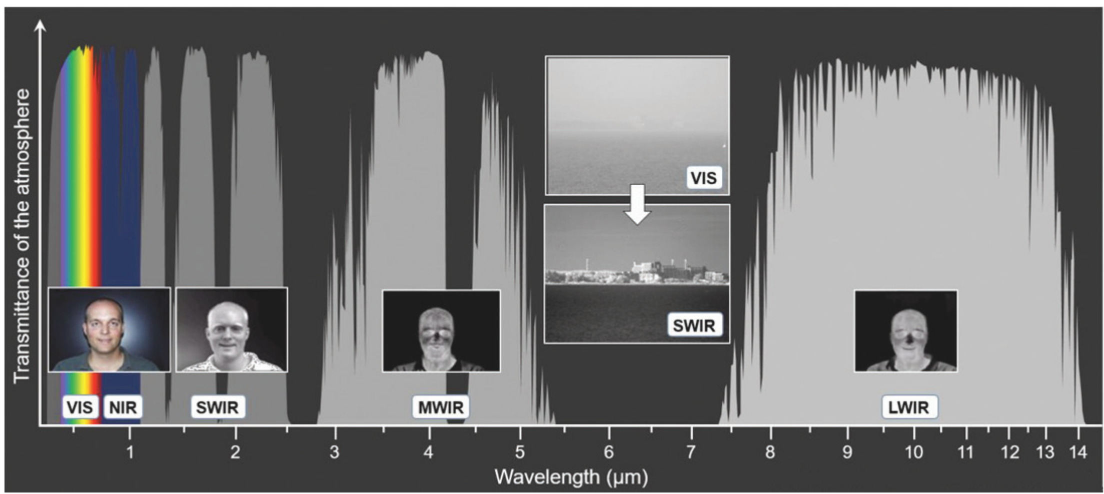
We believe our portfolio and extensive experience in avionics and integrated airborne solutions also put us in a promising position to participate in upcoming Franco-German airborne programs like FCAS, in which our airborne solutions are already part of a joint concept study, and MAWS (see "*10.6.6.2.1. Future Combat Air System*" and "*10.6.6.2.3. Maritime Airborne Warfare System*", respectively).

10.5.4. Optronics

10.5.4.1. Overview

In our Optronics division, we design, assemble, provide, and test optical and opto-electronic (optronic) products and solutions for defense and security applications. Our products and solutions are used globally in day- or nighttime conditions for observation, surveillance, reconnaissance, targeting, vision enhancement, situational awareness, and self-protection purposes, including under severe environmental conditions.

Our optical and optronic products utilize and combine the complete electromagnetic spectrum from ultraviolet light (UV) across the visual spectrum (VIS) that can be seen with the naked eye, to the different infrared spectral bands (near (NIR), short wavelength (SWIR), mid-wavelength (MWIR), and long wavelength (LWIR)). These non-visual spectrum signals can be made visible with special cameras and so-called thermal imagers:



Besides our military and security core markets, we serve industrial and scientific customers with high-precision optical and optronic metrology solutions.

By end-customer, in 2019, we generated approximately half of our Optronics revenue from Germany, approximately one fifth from the rest of Europe, and the remainder from the rest of the world. Besides Germany, other key markets for our Optronics division include Algeria, Denmark, India, Italy, the Netherlands, Peru, Poland, and South Korea.

Our 2019 divisional revenue of the Optronics division can be broken down into applications for (i) ground based systems (approximately one third), (ii) aerospace (approximately one third), (iii) naval (approximately one sixth), (iv) product support (approximately one tenth), and (v) sights (approximately one tenth). By platform type where our Optronics products are used, we generated approximately one quarter of our 2019 divisional revenue from military vehicles and approximately one sixth from submarines, with substantial shares from border and coastal surveillance systems, industrial metrology solutions, and soldier systems.

Key competitors in our Optronics division include Elbit, L3Harris, Safran, and Thales.

To build customer-specific optronics solutions within short timeframes at affordable procurement and lifecycle costs, we regularly use certain basic cross-sectional modules. Examples for these modules are high-resolution multispectral cameras (our Kite camera family), thermal imagers (such as our ATTICA and UCM products), laser rangefinders (our LDM and LP lines of products), laser target designators (our LRD product lines), networked surveillance cameras, advanced image processing algorithms, C2 software (such as ASSESS), and real-time video processing solutions.

10.5.4.2. Ground Based Systems

More than 50 years ago, we started to design and produce the first stabilized periscope systems for armored vehicles. Since then, we have established a strong partnership with leading armored vehicle providers in our German home market for the provision of optronic equipment for such vehicles. We have developed an international footprint, predominantly based on the so-called LEOBEN community (user states of the Leopard 2 MBT, consisting of, among others, Germany, Denmark, Sweden, and Norway), which continues to be relevant in connection with upgrades to that platform. Besides the Leopard 2 MBT, our optronics systems are used, for instance, on the Puma armored vehicle. Today, we offer optronics solutions for a range of armored ground vehicles, from tank periscopes (our PERI products) and targeting systems (such as the Electro-Optical Targeting System (EOTS)), to driver vision enhancement products (for example, Spectus), to observation systems (such as the BAA II surveillance and reconnaissance platform). For missions in urban and other complex environments, we are currently finalizing the See Through Armor System (SETAS), a new vehicle situational awareness

system providing 360° visual coverage for up to eight crew members with ultra-high resolution and near-zero latency. Our land defense portfolio is completed by special boresighting metrology tools used for the precise alignment of guns of any caliber.

In addition, since the 1990s, boosted by the European Union's mission to protect its outside borders, we have developed mobile and stationary sensor solutions optimized for border surveillance and large perimeter protection applications, which constitute our NightOwl product family. In addition to a broad range of individual high- and mid-end sensors, we deliver complete turnkey solutions, including sensors, data communication and processing capabilities, a C2 environment, as well as all necessary documentation and training. Sophisticated image processing algorithms are used to support the user as far as possible under all environmental conditions.

10.5.4.3. Naval

For submarines, we provide classic, hull-penetrating periscopes with direct optical view (our SERO product line), as well as non-hull-penetrating optronic mast systems (our OMS product line). For surface vessels, our MEOS system offers high-resolution, all-weather visualization, with optional target acquisition and tracking capabilities. In addition, we provide auxiliary modules and sensors, for example, for situational awareness, support systems, and integrated solutions on the basis of our core optronic equipment.

As of the date of the Prospectus, our naval solutions are used by more than 20 navies around the globe. For example, our submarine optronics are used on the German Type 212 submarine. We utilize and fuse the advantages of different visual and infrared spectral bands to match the specific operational needs, from surveillance and reconnaissance to target acquisition. Building on reliable hardware, our sensors are equipped with advanced image processing functions: Besides image quality improvement, sophisticated algorithms assist users with target detection and identification, enabling them to focus on operational tasks. Our scalable periscopes and optronic mast systems, as well as the MEOS system, can be integrated into combat management systems (the central control unit for all combat-related systems) or operate as a stand-alone solution, in newly built or retrofit submarines and vessels, and adapted to any customer- or vessel-specific requirements.

10.5.4.4. Aerospace

Our aerospace business covers a wide range of products and customer-specific solutions in stabilized airborne observation systems, airborne reconnaissance components, and space. Example platforms using our airborne optronics include the Rafale and the SAAB Gripen fighter aircraft; the latter is being equipped, for example, with our Missile Approach Warning Sensor Unit (MAWSU).

Our stabilized airborne observation systems (such as the Argos-II and Goshawk-II systems) are used by customers from several countries, including the German federal police, for various defense and non-defense aircraft. These systems enable effective surveillance, intelligence gathering, and targeting, even under severe weather conditions or at very long ranges.

As part of our airborne reconnaissance activities, we provide customer-specific high-performance modules such as multispectral high-resolution telescope assemblies, special cameras (for example the VOS digital zoom camera), and long-range laser target designators. In addition, we offer optical helmet trackers (Archer Z-150) in collaboration with BAE Systems.

We cover a wide range of space capabilities from light-weight mirror structures, telescope assemblies for earth observation and free-space laser communication, cryogenic mechanisms, grating and filter wheels (for example, for NASA's James Webb Space Telescope), laser altimeters (for example, for the European Space Agency's (ESA) BepiColombo and planned JUICE missions), and other scientific instruments, as well as necessary ground support equipment. Our space optronics team of highly qualified engineers and project managers are supported by our cleanroom production and testing facilities and the experience of numerous successful space projects.

10.5.4.5. Industrial Commercial Solutions

In recent years, based on our experience in designing and manufacturing high-end optical metrology solutions, we have been able to establish a new non-defense business field for our metrology

technology. For a customer in the semiconductor industry, we exclusively supply, on a serial production basis, a so-called Final Focus Metrology toolset. The toolset is essential for controlling the creation of a particular type of radiation that is needed in the lithographic production process of the latest generation of microprocessors. Over the course of 2020, we aim to deliver prototypes of a third-generation Final Focus Metrology toolset, which we expect will further increase capacity and efficiency of the measuring system.

In addition, we offer broad-band laser communication terminals for ground-based, naval (including underwater), airborne, and space applications, both stationary and mobile.

10.5.4.6. Sights, Scopes, and Night-Vision Attachments

Sight systems under the HENSOLDT brand we believe are well regarded among the military and special forces community around the globe. Our optics product lines, coming from our facility in Wetzlar, Germany, include sights and scopes for weapons (for instance, the RSA-S for short range combat, the 4x30i for intermediate ranges, and the 3.5-26x56 FF and 6-24x72 sights for longer ranges), spotting scopes (such as the Spotters 60 or 45), night vision equipment using image intensifiers and thermal imaging (for example, our NSV night vision clip-on and IRV thermal imaging products), and a fire control system (FCS) for portable rocket launchers.

Our optics are used by military and special forces around the world. They are designed to be off-the-shelf, quick to assemble and easy to use. With all devices coming from the same source, they offer modularity and a range of customization options. All our optics are designed to sustain their precision in every climatic environment and offer clear vision under all light conditions.

Our sights and modular night vision products have been chosen for the German “Soldier of the Future” (*Infanterist der Zukunft*) program, a modernization project for the German armed forces’ (*Bundeswehr*) infantry equipment.

10.6. Key Platforms and Systems

10.6.1. Overview

Our technologies and products are often integrated into platforms, which have key roles in military or security organizations and include, for example, fighter jets, UAVs, rotary and fixed wing aircraft, armored vehicles, or vessels. Such platforms are also important for the defense industry, as national and supranational defense budgets are largely dedicated to such central undertakings. Accordingly, a substantial share of our revenue is attributable to contributions of our technology and products to such platforms.

Defense platforms typically comprise a variety of technologies that most individual manufacturers cannot deliver. Hence, multiple specialist manufacturers often form a consortium to combine each other’s products, solutions, and experience to build the platform requested by the end-customer (see “*10.9.4.1.1. Consortiums*”). Our technologies and products are generally platform-independent, which means that they can be used stand-alone, as well as for different platforms without being restricted to a specific platform. Nevertheless, individual platforms (for example the Eurofighter platform) still account for a large proportion of our revenue, and we sometimes develop or customize products for a specific platform only.

With defense platforms becoming increasingly “intelligent”, and thus more and more complex in terms of their electronics, customer focus continues to shift from the physical platform towards electronic systems as the center of defense capabilities, and the share of electronics in the value of platforms has increased in the recent past (source: RSAdvisors Study). As a defense electronics supplier, we believe we are well positioned to increase our share in such platforms in the future.

Most defense platforms have long lead times and are planned years or decades before a final procurement decision is made. As a consequence, as part of our strategy, we start to focus our R&D and long-term business plan on some key future defense platforms early in their planning phase, in order to be well positioned when contracts are being awarded (see also “*10.8.1. Research and Development*”). Accordingly, the overview below includes platforms for which we are not yet contracted, but which we consider potentially relevant for our business in the future.

Our products are used across a variety of domains, including air, land, sea, and security. These domains correspond to the organizational structure of most of our defense and security customers (see also "*10.9. Our Sales Approach*") and can be used to categorize the different applications and platforms for which our products are used. As the intended use environment dictates product design, the different domains are also partially reflected within each of our technology and products divisions. In 2019, our total revenue distribution across domains (referring to the application of our products) was approximately 44% from air, approximately 34% from land, approximately 15% from sea, as well as approximately 8% from security and other.

Below are 2019 revenue splits of our operating divisions by domain:

Domain	Radar, IFF & COMMS	Spectrum Dominance & Airborne Solutions	Customer Services	Optronics	Total
	%				
Air	30	73	60	23	**44**
Land	36	24	24	48	**34**
Sea	21	0	13	17	**15**
Security & other	12	2	3	12	**8**
Total	**100**	**100**	**100**	**100**	**100**

Below is an overview of select key platforms that our products are already used on (left column) or that we intend to contribute to in the future (right column) (source: RSAdvisors Study).

Key German campaigns

Existing HENSOLDT programs

Program	Division	Product type	(Expected) start year	OEM
Eurofighter	Radar / IFF / Comms, SD&AS, CS	Fire-Control Radar, EW, Avionics, Comms.	Ongoing / 2020 / 2021 / 2022	BAE SYSTEMS, AIRBUS DEFENCE & SPACE, LEONARDO
NH90	Radar / IFF / Comms, SD&AS, CS	Self Protection, Avionics, Radar	Ongoing	AIRBUS DEFENCE & SPACE, LEONARDO, Fokker
Tiger Upgrade	SD&AS, CS	Self Protection, Avionics	Ongoing	AIRBUS DEFENCE & SPACE
Puma	SD&AS, Optronics	Self Protection, Vehicle Optronics	Ongoing / 2021 / 2023	KMW, RHEINMETALL DEFENCE
Leopard 2	Optronics	Vehicle Optronics	Ongoing	KMW, RHEINMETALL DEFENCE
K130	Radar / IFF / Comms	Naval Radar, IFF	Ongoing	LÜRSSEN, Blohm+Voss AG, GERMAN NAVAL YARDS KIEL, thyssenkrupp
F125	Radar / IFF / Comms	Naval Radar, IFF	Ongoing	LÜRSSEN, thyssenkrupp

New programs

Program	Division	Product type	(Expected) start year	(Expected) OEM
MKS180	Radar / IFF / Comms, SD&AS	Naval Radar, Self Protection, IFF	2020	GERMAN NAVAL YARDS KIEL, DAMEN
U212CD	Radar / IFF / Comms, Optronics	Submarine Optronics, Transponders	2021	thyssenkrupp
Pegasus	SD&AS	EW, SIGINT	2021	HENSOLDT
STH	Radar / IFF / Comms, SD&AS, Optronics	Self Protection, Avionics, IFF	2022	SIKORSKY, BOEING
FCAS	Radar / IFF / Comms, SD&AS, Optronics	Various	Dev. Study: 2019 FOC: 2040	AIRBUS DEFENCE & SPACE, DASSAULT AVIATION
MGCS	Radar / IFF / Comms, SD&AS, Optronics	Various	Dev. Study: 2020 FOC: 2035	RHEINMETALL DEFENCE, KNDS
MAWS	Radar / IFF / Comms, SD&AS, Optronics	Various	Dev. Study: 2020 FOC: 2035	Consortium

Key International campaigns

Program	Division	Product type	(Expected) start year	Country
ASR / ASR-NG	Radar / IFF / Comms	ATC Radar	2020 / 2021	
Leopard 2	Optronics	Vehicle Optronics	2020 / 2022	
Type 212	Optronics	Periscopes	2020 / 2021	
GBAD - TRML	Radar / IFF / Comms	Air Defense Radar	2021 / 2023	
Eurofighter	Radar / IFF / Comms & SD&AS	EW and Radar Systems	2021	
GBAD - COBRA	Radar / IFF / Comms	Air Defense Radar	2020 / 2021	

Program	Division	Product type	(Expected) start year	Country
FAA SENSR	Radar / IFF / Comms	ATC Radar, Passive Radar	2022	
M1 Abrams	Optronics	Vehicle Optronics	2020	
Type 209 Upgrade	Optronics	Periscopes	2020 / 2021 / 2022	
OMT Frigate	Radar / IFF / Comms	Naval Radar	2020	
SIRTAP	Radar / IFF / Comms	Airborne Radar	2020 / 2022	
Tamandere	Radar / IFF / Comms	Naval Radar	2020	

10.6.2. Air

10.6.2.1. Eurofighter

The Eurofighter is a single-seater multi-role combat aircraft. Development of the fighter jet was initiated by Germany, Italy, Spain, and the United Kingdom in 1985 and it entered into service with the German air force in 2003 (source: RSAdvisors Study). Besides the developing states, it is also used by other European customers and several states in the Gulf region. We believe that the Eurofighter will continue to generate substantial revenue for us in the future through deliveries of new aircraft, as well as maintenance and retrofit work, as the aircraft is expected to remain in operation for the coming decades.

We provide multiple systems and components for the Eurofighter. We are part of the EuroDASS consortium (see "*10.9.4.2.2. EuroDASS Consortium*"), which developed the aircraft's self-protection system, Praetorian DASS. This system protects the aircraft and its pilot by way of threat detection (for example, of missiles) and countermeasure systems (such as a flare dispenser and jammer). Within the EuroDASS consortium we believe to be well positioned for the Eurofighter's long-term evolution, which we expect to lead to a further development of the Praetorian DASS. Furthermore, we are involved in the development of the Eurofighter's secure communication system and equip the aircraft with its digital map generator. We are also sub-contracted to deliver digital hardware modules for, among other things, the weapon computer of the Eurofighter.

In addition, we are involved in the development and production of the Eurofighter's radar system. In 2008, the developing states decided to retrofit the Eurofighter's existing nose radar with an AESA radar. As part of a consortium called Euroradar, we are developing this radar under the name Captor-E. In 2020, Germany and Spain approved the upgrade of their Eurofighter fleets with a further enhanced version of the Captor-E, the ECRS Mk1, which is developed in a separate consortium, consisting of Indra and ourselves, under our leadership. This consortium has been awarded a milestone order for us worth more than EUR 1.4 billion for the joint development of the ECRS Mk1 nose radar for the German and Spanish Eurofighter fleets and the production of such radar for the German fleet (see also "*8.3.3. Strong Growth Platform with High Revenue Visibility*"). The radars are expected to be delivered within the next decade. In addition, given the approval of the abovementioned project, government endorsements, as well as pricing incentives (as described below), we believe we are well placed to receive an additional order for the ECRS Mk1 radar in an amount of approximately EUR 0.1 billion in the second half of 2020, and further, in 2021 and 2022, orders for the ECRS Mk1 radar for the Spanish Eurofighter fleet (approximately EUR 0.1 billion), as well as orders for the ECRS Mk1 and the Eurofighter's self-protection system Praetorian DASS for the German fleet in connection with the German program for the replacement of older Eurofighter models ("Project Quadriga") (approximately EUR 0.4 billion in the aggregate) and for the ECRS Mk1 and the Praetorian DASS for the Spanish Eurofighter fleet ("Project Halcon") (approximately EUR 0.2 billion in the

aggregate). Pricing incentives relate to "concurrent order windows" that we typically offer to Eurofighter customers, which means periods of up to twelve months during which customers can place orders under the same conditions as a previous order from another customer. See also "*10.9.4.2.1. Eurofighter Radar Consortiums*". We are also optimistic that several further export and upgrade opportunities will become available for the ECRS Mk1, in particular in other European and certain Middle Eastern countries. In addition, we are participating in the development of another version of the Eurofighter's AESA nose radar, the ECRS Mk2, which is a variant driven in particular by Italy and the United Kingdom.

Furthermore, we are developing a new jammer concept based on our Kalaetron product family as part of the Electronic Combat Role (ECR) concept for the Eurofighter. All products provided by us are supported by our Customer Services division in order to sustain equipment availability over the entire lifecycle of the platform.

Going forward, the Eurofighter has been chosen for replacing 40 aircraft of Germany's 90 aircraft-strong Tornado fleet and for the Swiss procurement of another estimated 40 fighter aircraft. As of 2020, the total budgeted German spending on the Eurofighter from 2020 onwards is approximately EUR 7.2 billion (source of information in preceding paragraph: RSAdvisors Study).

With respect to the Eurofighter's long-term evolution (from 2025 onwards), we are striving to supply a next-generation mission computer that fulfills the Eurofighter's long-term operational requirements by enabling advanced multi-sensor integration and data fusion, pilot mission management and decision aids, as well as interoperability and connectivity.

10.6.2.2. NH90

The NH90 helicopter is a mid-weight military transport helicopter that is developed and produced for the multi-national procurement organization NATO Helicopter Management Agency (NAHEMA) by the multi-national joint venture NHIndustries, which involves companies from France, Germany, Italy, and the Netherlands. The first NH90 helicopter was delivered to Germany in 2006, having been in development since 1995 (source of information in preceding paragraph: RSAdvisors Study).

The NH90 and Tiger helicopters share a number of systems which we provide to both programs. For example, having provided these systems for the Tiger, we were contracted to provide a tactical mission computer, mission support system, mission data transfer system, and fixed installed crash recorder for the NH90 helicopter, too, as well as its complete self-protection suite. In addition, we supply the military obstacle warning system to the German NH90 helicopters. The system is a laser-based warning system that detects obstacles approached by the helicopter and warns the pilot to avoid collisions. It is designed to work in difficult visual environments, for example, during snow fall, sandstorms, and nighttime.

NHIndustries has initiated talks with NH90 customers to prepare for a NH90 mid-life upgrade. In connection with such retrofit, we aim to continue to contribute, for example, the crash recording system, a digital map generator, a new tactical radar, and the self-protection system including radar warning receiver and obstacle warning system. In addition, as of December 31, 2019, there were 39 NH90 helicopters on order from Germany, with additional orders from Australia, France, Italy, Norway, Spain, and Sweden (source: RSAdvisors Study). As of 2020, the total budgeted German spending on the NH90 from 2020 onwards is approximately EUR 2.9 billion (source: RSAdvisors Study). As the NH90 helicopter is expected to be in use for the coming decades and to undergo maintenance and further upgrades, we believe that we will be able to continue to derive significant business from it in the future.

10.6.2.3. Tiger

The Tiger is a multi-role combat helicopter which has been developed by France and Germany since 1984 and is currently in service in France, Germany, Spain, and Australia. It is designed to perform armed reconnaissance, air or ground escort, air-to-air combat, ground fire support, and anti-tank warfare, day and night and in adverse conditions.

We are a contractor for various systems of the Tiger, including its tactical mission computer, mission support system, mission data transfer system, and fixed installed crash recorder. The tactical mission computer provides the pilot with digital mapping, datalink management, as well as terrain, situational, navigational, and tactical awareness. The mission support system provides functionalities for mission

planning, support, and debriefing. We also provide ground station software modules to the Tiger user nations.

By leveraging our avionics and radar competencies, we also developed the Tiger's radar altimeter. In addition, we provide its complete self-protection suite including radar, laser, and missile warning capabilities, and just as with the Tornado, we are making the Tiger compatible with Mode 5 IFF by upgrading its transponders.

In the future, we plan to offer a new optronic pilot sighting system based on stereoscopic and multispectral thermal imagers. In addition, we plan to develop and deliver a next-generation airborne mission computer, a mission weapon computer, and a pilot's vision enhancement system.

Furthermore, in July 2017, Germany and France agreed to carry out a mid-life upgrade program for existing Tiger helicopters to extend their lifecycle beyond 2038, with the aim to have the first helicopter delivered in this up-to-date standard by 2025/2026. The retrofit is expected to cover, among other things, avionics and communication systems such as crash recording, tactical data management systems, self-protection systems including radar warning receiver, and cyber-security, all of which we offer as part of our portfolio. Other nations have initiated discussions on similar upgrades.

10.6.2.4. Tornado

The Tornado is a two-seater multi-role combat aircraft that was introduced into the armed forces of Germany, Great Britain, and Italy in 1981. It has been used by the nations in a variety of different roles, most recently in campaigns against ISIS. The Tornado has been repeatedly modernized over the course of its service by programs for combat value maintenance or combat value adjustment.

Since 2000, we have provided the self-protection jammer for the Tornado (called *Radarstörsender Bundeswehr*), which is mounted underneath the aircraft to protect it and its pilot from radar threats. Furthermore, we equip Tornados with a digital map generator and its deployable (meaning ejectable before impact) crash recorder. The data-recording system is highly robust in case of aircraft accidents and can sustain high shocks, as well as high temperatures in order to maintain data for evaluation after an accident has occurred. To complement the on-board crash recorder, we also provide OLMOS, a ground-based support system for the aircraft, which we aim to further develop in the future to remove obsolescence and introduce new functionalities. In case of a lifetime extension of the Tornado, we aim to further upgrade its digital map generator in terms of hardware capabilities and software functionality.

Although the Tornado platform is a legacy product in many air forces, the products provided by us are still serviced and available for platform operations, and we continue to provide updates, such as a transponder upgrade that makes the Tornado compatible with Mode 5 IFF, for which we won a contract for the first half of Germany's Tornado fleet in 2020 (for Mode 5 IFF, see "*10.5.2.5. Identification Friend or Foe (IFF) and Data Communications (COMMS)*"). We expect to continue our maintenance and repair services as long as the Tornado remains in operation, and strive to take over service responsibility for the complete Tornado nose radar.

10.6.2.5. A400M

The A400M is a military transport aircraft, the development of which commenced in 2000 (source: RSAdvisors Study) and which was ordered by the multi-national procurement organization *Organisation Conjointe de Coopération en Matière d'Armement* (OCCAR) from Airbus in 2003. It was initially procured on behalf of Belgium, France, Germany, Luxemburg, Spain, Turkey, and the United Kingdom and has since been exported to additional countries. Deliveries of the aircraft started in 2013.

When we separated from Airbus, we were subcontracted by Airbus to produce the computers for the mission management and self-protection systems of the A400M. In 2018, we also took over design responsibility for both systems. Furthermore, we provide the A400M's digital map generator and the corresponding ground station mission preparation module for the preparation of the maps.

The A400M is expected to not only operate, but also continue to evolve over the coming decades. Hence, we expect further upgrade programs and purchases of the A400M in the future, with (in 2020) approximately EUR 0.6 billion total budgeted German spending from 2020 onwards (source: RSAdvisors Study). For example, Indonesia signed a letter of intent in 2017 to procure two A400Ms, while South Korea is considering trading a number of trainer jets to Spain in return for four to six A400Ms (source: RSAdvisors Study).

10.6.3. Land

10.6.3.1. Puma

The Puma is the German armed forces' (*Bundeswehr*) main armored infantry fighting vehicle since it entered into operation in 2015 after having commenced development in 2002 (source: RSAdvisors Study). As of December 31, 2019, the German armed forces (*Bundeswehr*) had purchased 350 vehicles to replace their Marder infantry fighting vehicles in the medium term. As the Marder is currently in a midlife-upgrade, it is expected to remain in service for approximately another decade.

In 2015, the German joint venture that is responsible for building the Puma contracted us to provide equipment sets for the Puma consisting of the MUSS, as well as the gunner and commander sights, which comprise a thermal imager, a laser rangefinder, and a camera. The purpose of the MUSS is, among other things, to neutralize threats before they can destroy the vehicle, for example, by interfering with an incoming missile's control mechanism or by launching smoke grenades.

Currently, the procurement of a second batch of Puma vehicles for the German armed forces (*Bundeswehr*), in a range of approximately 210 vehicles, is expected to be ordered in 2021. Furthermore, further upgrades to the Puma in the order of EUR 470 million are expected as part of a joint venture for equipping NATO's Very High Joint Readiness Task Force (VJTF) in 2023. As of 2020, the total budgeted German spending on the Puma from 2020 onwards is approximately EUR 1.0 billion (source of information in preceding paragraph: RSAdvisors Study).

10.6.3.2. Leopard 2

Since 1979, the Leopard 2 has been the German armed forces' (*Bundeswehr*) MBT, which has been deployed, for instance, in Afghanistan. In addition, it is in operation with 17 other nations that cooperate in the so-called LEOBEN user community (source of information in preceding paragraph: RSAdvisors Study).

We provide a stabilized periscope system for day-and-night vision for the commander and a thermal imager and laser rangefinder for the gunner sights of Leopard 2 tanks. Recent end-customers of our Leopard 2 optronic systems include the German armed forces (*Bundeswehr*), as well as the Canadian, Danish, Polish, and Qatari armies. In addition, some countries decided to integrate our multispectral night vision system for drivers.

The Leopard 2 is also a major pillar for our Customer Services division, through which we provide aftermarket product support such as equipment repair and spare parts delivery, help desk functions, maintenance, as well as equipment upgrades (see "*10.7.3. Integrated Logistics and In-Service Support*").

It is estimated that further upgrades to the Leopard 2 will continue in the near to medium term across a variety of users and that the Leopard 2 will remain in service at least until 2035 (source of information in preceding paragraph: RSAdvisors Study).

10.6.4. Sea

10.6.4.1. K130

The K130 class corvette is an ocean-going corvette of the German navy designed for littoral warfare and crisis reaction. The platform as a whole began its development in 2001 and the first batch of five ships was delivered to Germany in 2008 (source: RSAdvisors Study), with our TRS-3D radars and IFF system on board.

In 2018, we were contracted to provide the TRS-4D, a further development of the TRS-3D, for the German navy's second batch of five K130 corvettes ordered in 2017. The first radar is expected to be delivered in 2020. In addition, we are pursuing a contract to replace the TRS-3D radars on the existing K130 corvettes of the first batch as part of an update program.

10.6.4.2. F125

The F125 frigate of the German navy is primarily designed for low and medium-intensity maritime stabilization operations, where it is intended to provide sea-to-land tactical fire support, asymmetric

threat control at sea, and support of special forces. The F125 was first ordered in 2007 as a replacement for the F122 frigate, and our non-rotating TRS-4D radar was selected for the F125. The first frigate was handed over in 2019.

10.6.5. Security

10.6.5.1. Border Security

Our security solutions allow monitoring of land and sea borders. We offer a complete, modular surveillance suite which consists of optronic and radar sensors, as well as the hard- and software for surveillance headquarters. In these headquarters all the information is bundled so that the security or military forces on site can monitor hundreds of kilometers of border concurrently.

Our most active areas for border security in 2019 were the Mediterranean Basin and the Middle East.

In conjunction with our border security activities, we have enhanced our harbor protection portfolio. This allows us to align sea border, land border, and harbor protection in one seamless offering.

10.6.5.2. Airport Perimeters

Our Xpeller drone detection and defeat system is designed to address the growing threats from UAVs near airports and within flight corridors worldwide.

After a short-notice deployment at a large airport in the United Kingdom over Christmas 2018 and in early 2019, our equipment was acquired and installed by the operator of this airport in 2019. Subsequently, it was redeployed to another airport in the United Kingdom for continued use and testing. In cooperation with a French airport partner, our Xpeller equipment was shown at the Paris Air Show in Le Bourget and, subsequently, deployed at two French airports. It was also in operation with the same partner to protect main national events in France during the year 2019. In addition, in May 2020, it was used to secure a public remembrance day event in Amsterdam.

On a broader scope, we are pursuing additional opportunities for the Xpeller on a governmental, company, and individual level on every continent. Potential opportunities include, for example, the Frankfurt and Munich airports in Germany, multiple airports in the United Kingdom and in France, as well as Singaporean customers. The global market opportunity is estimated at up to EUR 7 billion (aggregated for the period 2019 to 2024E), with a CAGR of 28% from 2019 to 2024E (source: RSAdvisors Study). Our Xpeller portfolio continues to grow from essential support to delivering full protection capability, with the goal to integrate jamming capabilities, radio frequency detectors, and SPEXER radars (see "*10.5.2.2.2. Ground Radars and Solutions*").

10.6.5.3. Critical Infrastructure Protection

We provide protection systems to a variety of critical infrastructure facilities around the world. The facilities that we protect with, for example, radars, jamming systems, and radar warning products include energy infrastructure (for instance, dams, wind parks, and oil and gas fields), palaces, police and military bases, and spaceports.

10.6.5.4. Wildlife Protection

We also employ our technology to actively protect endangered species in some of the most diverse environments on the planet. Recent projects that our customers used our products for include, for example, identifying, tracking, and apprehending Rhino poachers and securing the Abalone sea snail in South Africa, as well as a polar bear protection expedition in Greenland.

10.6.6. Future Programs

10.6.6.1. Short to Medium Term

10.6.6.1.1. MKS 180

The MKS 180 is a multi-purpose combat ship to be developed for the German navy. Germany initially plans to order four ships, with an option for two additional ships. Our TRS-4D non-rotating radar has

been preselected and set by the German navy for inclusion in the vessel. In February 2020, Damen Shipyards was selected to build the vessel, with first deliveries expected in 2027 (source of information in preceding paragraph: RSAdvisors Study).

In June this year, the German Bundestag approved the budget for the project, and we expect contracts to be awarded later this year or in 2021. As of 2020, the total budgeted German spending on the MKS 180 from 2020 onwards is approximately EUR 5.7 billion (source: RSAdvisors Study). Given that our TRS-4D radar has been preselected for inclusion, we believe we are well placed to receive orders worth approximately EUR 0.2 billion for the four ships in 2021. In addition, we are positioning ourselves for additional upside potential from an increased share in the project.

10.6.6.1.2. U212A and U212CD

To strengthen the framework of the German-Norwegian submarine cooperation, the two nations initiated the U212 common design submarine ("**U212CD**") in 2017 (source: RSAdvisors Study), which is based on the design of existing U212A submarines. For U212A submarines, as well as the related U209 and U214 submarines, which are in use in various countries, we have provided several types of periscopes and optronic mast systems in the past and continue to provide support services. The U212CD project consists of the joint procurement of six submarines, as well as the joint utilization management and training of the crews and logistics personnel.

We intend to submit a bid for our twin-optronic mast solution OMS for the submarine, as well as a radar solution previously adopted on other U212A submarine models. Depending on ongoing budget discussions for the overall platforms, decisions are expected in late 2020 or 2021. In addition, we aim to lift synergies in providing support services for both the U212A and the U212CD submarines.

10.6.6.1.3. Pegasus

Pegasus (Persistent German Airborne Surveillance System) is the German program for an airborne SIGINT system. Originally, its concept was based on a MQ-4C Triton UAV (source: RSAdvisors Study). In early 2020, plans shifted to a manned platform based on the Bombardier Global 6000 jet. The total project volume is estimated at approximately EUR 1.3 billion (source: Reuters Pegasus Article). We believe we are well positioned for this program due to our Kalaetron Integral product and our development of the SIGINT solution as sub-system lead in the Euro Hawk program, the discontinued predecessor program to Pegasus.

In July 2020, the German Bundestag approved a budget of approximately EUR 75 million for the reservation of three Global 6000 jets as part of the project (source: Reuters Pegasus Article), and we signed a corresponding contract shortly thereafter. On this basis, and given that we have been designated as lead contractor for the program (source: German Government's Response; Reuters Pegasus Article), we believe we are well positioned to receive the main project contract, expected in the first half of 2021 (source: June 2020 BMVg Report), at an estimated value of approximately EUR 1 billion (a majority share of which is expected to be pass-through business, see "*8.3.3. Strong Growth Platform with High Revenue Visibility*").

10.6.6.1.4. STH

The German armed forces (*Bundeswehr*) intend to procure the STH as a replacement for their existing Sikorsky CH-53 helicopter.

It is expected that Germany will procure approximately 45-60 helicopters in total, and as of 2020, the total budgeted German spending on the STH from 2020 onwards is approximately EUR 5.3 billion (source: RSAdvisors Study). We have submitted bids to provide components for both contenders still participating in the competition, which are Sikorsky with its CH-53K and Boeing with its CH-47. Both have chosen us as a potential supplier, with a final equipment selection to be made once the procurement of the platform has been confirmed. We intend to provide avionics components, IFF and self-protection systems. According to the current schedule, contracts are expected to be awarded in 2022, with initial operating capability planned to be reached in 2025 or 2026 (source: RSAdvisors Study).

10.6.6.1.5. TLVS

The tactical air defense system (*Taktisches Luftverteidigungssystem*, "**TLVS**") is a program for the future mobile integrated air and missile defense system of the German air force, as a replacement for the current Patriot system, which has been in service since 1981. The new system is intended to offer better defense against a larger variety of threats. It is planned to feature improved and extended sensor capabilities, a modern communications system, advanced software algorithms, and up-to-date cyber-protection. The architecture is expected to enable a new range of capabilities for the short and medium range, with 360° detection, and simultaneous tracking and engagement of multiple threats. Over the timeframe of 2021-2028, approximately EUR 3.4 billion are expected to be spent on the development of the system (source: RSAdvisors Study).

In 2019 and again in 2020, the consortium that develops the TLVS, consisting of MBDA and Lockheed Martin, submitted an offer for the system to Germany, which is expected to be awarded in 2021 (source: RSAdvisors Study). In connection with that offer, we have submitted bids to the consortium for the development and production of antenna electronics for the multi-function fire control radar, as well as a medium-range radar system based on our TRML-4D radar.

10.6.6.1.6. luWES

The German luWES (*luftgestützte Wirkung im Elektromagnetischen Spektrum*) program is intended to improve the German air force's electronic attack capabilities. It is part of a commitment by Germany to NATO and includes three main elements: a stand-off jamming attack platform, an escort jamming platform, and a stand-in jamming system in the form of an air-launched decoy to be used when a high attrition rate is expected.

We believe we are well positioned with respect to luWES, as we are developing radar electronic countermeasure systems, such as, for example, our Kalaetron Attack, which could form the basis of a variety of jammers that are expected to be part of luWES, and we have already won contracts for customer-funded R&D related to luWES. We expect development contracts for luWES to be awarded within the next three to five years.

10.6.6.1.7. NNbS

Germany's close and closest range protection system (*Nah- und Nächstbereichsschutz*, "**NNbS**") describes a conceptual mobile system for the air defense of ground forces in the immediate and nearby vicinity, which comprises ranges of a few hundred meters to beyond 20 kilometers. NNbS is intended to complement the TLVS and will be designed to provide protection against fixed or rotary wing aircraft, missiles, rocket artillery mortars, as well as UAVs. Its potential fields of application include, for example, the protection of areas such as field camps, airfields, and assembly areas, but also military evacuation operations. Furthermore, the system is intended to guard convoys, patrols, and other ground forces on the move.

We have our focus on the delivery of several key sensor systems to be used in the NNbS, including, among other things, our TRML-4D and SPEXER radars, as well as our IFF technology, and are in discussions to initiate a joint venture to cater to the project's specific demands. It is expected that procurement will start in 2022/2023, with initial operating capability expected to be reached in 2024 (source: RSAdvisors Study).

Although the NNbS system is still in an early phase of its lifecycle, our Customer Services division is already involved in the development of system-wide support concepts and solutions. We believe that this offers the opportunity to position ourselves not only for equipment deliveries, but also for subsequent supporting services, which may not be limited to pure equipment support but also cover services on a system or subsystem level.

10.6.6.2. Long Term

10.6.6.2.1. Future Combat Air System

FCAS is a program for a next-generation weapon system, including the replacement of the current Rafale and Eurofighter jets with next-generation fighters and UAVs from around 2040 onwards. It is expected that the FCAS will also develop accompanying technology for an air combat cloud that allows exchanging and sharing of information across a multitude of assets. According to the concept, manned and unmanned platforms will be fully interoperable with allied forces across different military domains

such as land-based assets and the cyber-sphere. France and Germany first announced their intention to develop a next-generation weapons system in July 2017 and committed to the development of the FCAS in April 2018, with Spain joining in 2019. In February 2020, the three states officially launched the demonstrator phase of the FCAS with the award of an initial framework contract, which is expected to culminate in the development of the first test aircraft by 2026. The technology maturation phase, which comprises the development of demonstrators, is expected to last until about 2026, with expected first orders and start of production thereafter. An unmanned weapon carrier, as part of the FCAS, is expected to be developed from the mid-2020s onwards. The FCAS development is expected to be customer-funded.

We are involved in the FCAS demonstrator phase through the FCMS consortium (see "*10.9.4.2.3. FCMS Consortium*"), which we established to ensure readiness to compete for orders in connection with the complex topic of the networked operation of sensors and effectors within the FCAS. As we have been selected as German lead for the sensor demonstrator and are already participating in a joint concept study for the program, we believe to be well positioned for tendering products for use in the FCAS in the future. We aim to contribute to the sensor-effector network of the FCAS with smart sensor hardware and software (radar, IFF, datalinks, optronics, and electronic warfare, in particular electronic attack solutions, from stand-off and escort to stand-in jammers, and self-protection systems, as well as integrated airborne and cloud solutions). We expect some of this technology, such as onboard sensors, electronic warfare technology, and AI for sensor data fusion, to be developed and demonstrated during the technology maturation phase.

Besides the technology maturation phase, we are already contributing technology to separate German national studies for the FCAS. This includes solutions for AESA air combat radars, situational awareness, self-protection, and datalinks.

The potential total value created by the FCAS over its entire lifecycle is estimated at approximately EUR 300 billion (source: RSAdvisors Study). According to a management estimate of our potential share, the FCAS represents potential opportunities for us of approximately EUR 10 billion over its entire lifecycle, which may extend over multiple decades and beyond 2040.

10.6.6.2.2. Main Ground Combat System

MGCS is a joint German-French project to replace the existing German and French main battle tanks by 2035. While the MGCS is centered on a next-generation tank, it is also intended to operate as a network of manned and unmanned ground and aerial vehicles, similar to the airborne FCAS. We expect development of the MGCS to be customer-funded; a two-year system architecture study started in 2020. (source: RSAdvisors Study). Following the development stage, we expect tenders for contracts to be opened.

The concept of the MGCS was first initiated in 2012 (source: RSAdvisors Study). According to a letter of intent signed between France and Germany in June 2018, Germany will assume the lead role in the project, including with respect to industrial contractors. We aim to position ourselves strategically for future MGCS contract tenders as the key provider for optronic equipment, such as gunner and commander sights, 360° situational awareness, electronic attack, and self-protection systems, as well as radar, UAVs, and secure communication solutions. In April 2020, Germany and France signed a framework agreement specifying project organization and management structures for the MGCS project.

The potential total value created by the MGCS over its entire lifecycle is estimated at approximately EUR 100 billion (source: RSAdvisors Study). According to a management estimate of our potential share, the MGCS represents potential opportunities for us of approximately EUR 3 billion over its entire lifecycle, which may extend over multiple decades and beyond 2040.

10.6.6.2.3. Maritime Airborne Warfare System

MAWS is a joint project of France and Germany, announced in July 2017 and initiated in 2018, to replace their existing maritime patrol aircraft (source: RSAdvisors Study). France and Germany agreed to start a joint feasibility study in 2020 to analyze the suitability of several platforms, considering the mission system requirements (source: RSAdvisors Study). Together with Thales, ESG Elektroniksystem- und Logistik-GmbH, and Diehl Defence, we were awarded the first of two expected

parts of this feasibility study in August 2020, in which we expect to contribute smart sensor technology. Following the feasibility study, first orders are expected to be awarded in the mid-2020s, with customer-funded development to last until 2030 and production to start thereafter.

Alongside the MAWS project between Germany and France, NATO allies Canada, France, Germany, Greece, Italy, Poland, Spain, and Turkey are also members of the "Cooperation on Multinational Maritime Multi Mission Aircraft Capabilities" initiative, which is evaluating follow-on solutions for aging maritime patrol and ISR aircraft. By offering participants the opportunity to adopt common solutions, the program could result in the joint acquisition of new maritime surveillance and reconnaissance aircraft. This multinational NATO initiative could exploit the results of the German-French MAWS project, as well as the FCAS project, allowing further synergies of the mission system.

The potential total value created by the MAWS over its entire lifecycle is estimated at approximately EUR 30 billion (source: RSAdvisors Study). According to a management estimate of our potential share, the MAWS represents potential opportunities for us of approximately EUR 1 billion over its entire lifecycle, which may extend over multiple decades and beyond 2040.

10.7. Our Aftersales Business

10.7.1. Scope of our Aftersales Business

Our aftersales business encompasses our range of customer support and service activities, which are typically related to prior sales of our products.

Most of our aftersales business is comprised in our Customer Services division. This division houses the majority of our logistics and in-service support, which is responsible for the global support for our products along their entire lifecycle, as well as simulation solutions, trainings, special services, and the Nexeya business (which, for the avoidance of doubt, also includes certain immaterial non-service-related activities). In addition to the Customer Services division, our aftersales business comprises certain minor service-related activities organized within our Radar, IFF & COMMS and Spectrum Dominance & Airborne Solutions divisions, and the support and services for our optronics products, which are entirely reported as part of the Optronics segment. For further details regarding the accounting treatment of our aftersales business, see "*8.2.2.1. Our Segments*", "*8.3.7. Aftersales*", and "*8.5.1. Revenue*".

10.7.2. Overview of our Customer Services Division

Our global Customer Services organization serves several hundred direct customers worldwide, and an installed base of our products of more than 63,000 units globally (management estimate). It comprises twelve service stations on five continents, and a field service organization of highly skilled experts, providing global on-site support. All data in this paragraph is as of December 31, 2019.

By end-customer, in 2019, we generated less than half of our Customer Services revenue from Germany, approximately one third from other end-customers in Europe, and the remainder from end-customers in the rest of the world. The vast majority of our Customer Services revenue is related to the products we sell in the other two operating divisions of the Sensors segment. Of our 2019 Customer Services revenue, approximately one third related to products from our Radar, IFF & COMMS division, approximately half to Spectrum Dominance & Airborne Solutions, and the remainder was not directly related to these two divisions. By platform type that we service, the Eurofighter remained the most important one in terms of 2019 revenue, followed by approximately one fifth of our revenue in 2019 from air surveillance systems and substantial shares from naval vessels (frigates, destroyers, corvettes) and helicopters.

In addition to support and services related to our products, which account for the largest portion of our Customer Services activities, our Customer Services division also provides product-independent simulation solutions, technology trainings, and a number of special services. Furthermore, since the acquisition of Nexeya in 2019, the entire Nexeya business is accounted for as part of our Customer Services division.

10.7.3. Integrated Logistics and In-Service Support

Our comprehensive services portfolio allows us to combine service modules into tailor-made support packages for our products that match each customer's requirements. Our service activities and day-to-day customer enquiries are coordinated by a central order center, which is supplemented by a 24/7 user help desk, and receives all repair, spare parts, and field service requests. From here, requests are allocated to the responsible competence center.

We provide setup and commissioning services to ensure that our products and systems are properly installed and operational. Our field service teams conduct installations on site and manage complete site installation projects involving third parties. Furthermore, we perform scheduled or corrective maintenance, repairs, and overhauls in-house or on site. We conduct safety inspections and verify our systems' performance, including flight tests, to improve safety and quality, which involves technical updates to systems to extend their lifetime or to meet new operational requirements. This is complemented by customized customer trainings and special services as described below.

With respect to spare parts and spare components provision, we maintain supply stocks for our customers and provide materials supply from one source, rather than several. As we believe our customers value the careful management of sensitive military stocks and deliveries, we pay particular attention to ensuring that our supply chain is compliant with applicable regulations, for example the ITAR. This includes our collaboration with professional logistics providers when providing warehousing, shipping, and transportation.

We also provide comprehensive IT support (with respect to both hardware and software) for customer systems. A software maintenance infrastructure and a multi-disciplinary team of experts are responsible for software maintenance during the entire lifecycle of our customers' systems. We evaluate the IT security status of our customers' systems, develop individual IT security concepts, and monitor their status over their lifecycle.

To improve our service support, as well as product design and delivery, we maintain all technical information and data and keep them up to date, which covers all logistics support and spare parts information, as well as configuration data and data for technical manuals. Moreover, we collect, interpret, and evaluate failure data to identify root causes and propose corrective measures and product improvements. This allows us to perform proactive obsolescence management in order to identify and develop mitigation solutions and to suggest measures ranging from simple component replacements up to mid-life upgrades.

The support for the Eurofighter, with an installed base of more than 560 operational aircraft (source: RSAdvisors Study), accounted for a significant portion of our Customer Services revenue in 2019. We are part of a multi-industry support network that serves Eurofighter user countries according to their individual requirements. Our most important service contract covers the support for the German air force's Eurofighter fleet. Besides equipment repair, spare parts delivery, test equipment support, and sustainment engineering, we maintain local repair centers at two airfields and provide consulting to the air force's technical commanders.

Other major support programs relate to TRS-3D and TRS-4D naval radars on various platforms, the Leopard 2 MBT, the Tiger and the NH90 helicopters, the A400M transport aircraft, operational U212 submarines, and the German LÜR (*Luftraumüberwachungsradar*).

10.7.4. Simulation Solutions

We have brought all our simulation solutions under one product framework, the Simsphere simulation suite. Under this framework, we offer three main product-service categories: (i) Simsphere Train, (ii) Simsphere Radar, and (iii) Simsphere Air Defense. Our solutions are designed to simulate how equipment operates as part of our customers' wider systems.

Simsphere Train is a simulation suite for train drivers, offering a wide range of uses including training driver skills and advanced operations skills (such as malfunction handling), as well as route familiarization.

Simsphere Radar is a comprehensive simulation product family complementing our radar and IFF products. This suite simulates the operational interfaces, protocols, and reactions of our sensor systems. For example, to support the technical integration of our radar systems into the TLVS and NNbS programs, we have offered to develop and provide a specific Simsphere Radar simulation solution as part of our bids.

Air defense gunners and observers train weapons-handling in simulated scenarios created by our Simsphere Air Defense suite: The simulators allow gunners and observers to train together in the same scenario, as well as facilitating the joint tactical training of several teams or forces engaging multiple targets in complex scenarios.

10.7.5. Trainings

In addition and complementary to our simulation solutions, we offer product and technology trainings. While the first has a focus on operating and maintaining our products, the second is intended to convey an introduction to technologies or standards without focus on specific products.

Our product training courses aim at operators, maintainers, technicians, and administrators who use our solutions. Our standardized training portfolio can be tailored to individual customer needs and is designed to enable participants to use our solutions efficiently and safely, ensure their proper maintenance, and thereby optimize their availability. It is based on a modular concept and divided into three qualification levels which relate to external standards for field training and maintenance.

Our technology training modules provide instructions and on-hand experience for specific technologies and standards applicable across a range of products and systems. For example, we provide non-product-specific Mode 5 IFF training for, among others, project managers, engineers, technicians, and operators working in the field of radar technology.

10.7.6. Special Services

Beyond our logistics and in-service support activities, we provide a number of special services for our own products, as well as for third-party equipment.

Our services team offers field service and repair shops at customer sites, reducing the need to transport sensitive equipment. We have been involved in some notable high-end maintenance projects in the past, including the development of test equipment for the Tornado fighter jet’s nose radar.

We offer to test customers’ products, whether purchased from us or elsewhere, in our product testing facilities, including their electromagnetic compatibility and environmental resistance. For instance, our laboratory in Oberkochen, Germany, focuses on components and systems of defense and automotive electronics, while our optronics environmental laboratory carries out all common test standards in the fields of mechanical and automotive engineering, rail transport, telecommunications, medical technology, as well as other tailored areas.

Our antenna specialists provide all direct and supporting maintenance activities to keep various large-scale antenna systems operational. This involves comprehensive on- and off-site maintenance, repairs, and overhauls by our mobile service team. We operate a fully equipped facility for antenna support and services and use a flexible partner network to provide customers with further support.

We also produce cable harnesses and provide an installation service on naval and ground platforms for cables, waveguides, and connectors. Our technicians install connections between equipment on various systems. The special services’ mobile service team is capable of providing on-site or on-platform installation with its qualified, licensed, and security-cleared staff.

Furthermore, our special services comprise customized shelters for our customers, which are applications for the central command and control of military items, such as radar systems. Our shelters can be constructed for extreme environmental conditions and, for instance, be made suitable for naval applications and air transport.

10.7.7. Nexeya

In October 2019, we closed the acquisition of Nexeya (see also “*10.10.4. Nexeya (2019)*”), a French provider of test and integration solutions, mission management systems, power conversion technology, as well as customer support and services. The company has specialized in critical products and high value added services for the defense, aeronautics, railway, and energy sectors. With its three major industrial sites (in Angoulême, Massy, and Toulouse) and local agencies, Nexeya consolidates our presence in France and is a valuable enhancement in particular of our non-defense business. Through Nexeya, we also aim to drive our growth with respect to service and support for third-party products.

Nexeya's test and integration products cover both integration and validation tests, as well as production, qualification, and operational maintenance tests. Building on Nexeya's telemetry technology, its integration and validation tests, most of which can be operated from portable stations, range from on-board data acquisition systems and data analyzers, for example for urban and high-speed trains, to flight tests for avionics equipment, to the construction of test engineering centers, for which Nexeya supports its customers from design and manufacturing to training. For production and maintenance testing, Nexeya offers several solution lines for checking product compliance throughout the production process, such as WiDD, a wiring defect detector.

Nexeya's mission management systems, LYNCEA and ARGOSIA, focus on automation and supervision. LYNCEA is an embedded naval surveillance and defense combat management system that comprises a range of maritime surveillance and ISR mission systems. Similarly, ARGOSIA is a mission management system for airborne applications. Both systems are used, for example, by border protection agencies. In addition, Nexeya provides embedded optronics, guidance, and navigation systems.

Addressing market demands in the energy and oil and gas industries, Nexeya's portfolio includes hydrogen-based storage and energy recovery stations, thus making it possible to manage the intermittency of renewable energies, as well as providing stand-alone storage solutions for military camps and remote sites. The company is engaged in the safety and reliability of electrical installations by offering digital control-command systems (for example, for agricultural, chemical, and energy processes), high-power power supply systems, power conversion components, such as rectifiers and converters, and modular power solutions that meet nuclear safety standards. Some version of its power conversion solutions might be used in critical defense environments.

Nexeya's customer support and services focus on allowing the continuous operation and sustainability of its customers' critical installations. The company maintains and renovates critical ground-based or airborne equipment such as radars, weapon control systems, and electronic and optronic computers that meet stringent usage requirements. It also reviews and upgrades production and testing procedures for complex electronic equipment and control-command systems. Nexeya is a specialist in the repair and remanufacturing of obsolete spare parts: In order to repair or extend the useful life of critical systems affected by the unavailability of original spare parts, building on technical resources such as 3D tomography, X-rays, and on-site test benches, it offers diagnosis, repair, reverse engineering, remanufacturing, and workarounds for such components.

10.8. Research and Development, Intellectual Property, and Trade Secrets

10.8.1. Research and Development

10.8.1.1. Strategy and Structure

While product lifecycles in the defense industry may span many decades, as evidenced by some of our products that have been in service for up to 40 years or more, current customer demands are driven by the latest innovation. Our R&D efforts are hence fundamental to our business and our goal of developing industry-leading products and services. For details on the financial impact of our R&D efforts, see "*8.3.6. Research and Development Efforts*".

Our R&D efforts are focused on product development, building on existing basic research and studies by third parties. Depending on their complexity, the technology and systems we develop typically take three to five years to yield a product that qualifies for operational service. Especially in areas where operational safety or airworthiness is a critical feature, the process can take longer. After initial entry into service, products are regularly improved.

Our recent major R&D efforts include, among other things, our TRS-4D/TRML-4D product family (see "*10.5.2.3. Naval and Coastal Radars and Solutions*"), our Kalaetron product family (see "*10.5.3.2. Spectrum Dominance (Electronic Support, Signals Intelligence, Electronic Attack, Self-Protection, and Cyber)*"), and the ASR system (see "*10.5.2.2.1. ATC Radars and Solutions*"). We also believe we are well positioned with regard to upcoming technological trends such as deep learning and AI, and are actively following relevant quantum technologies.

Organizationally, we do not maintain a Group-wide R&D department, but have separate R&D teams in each of our technology and products divisions (see "*10.5. Our Technology and Products*"). This allows

each division to focus on the specific capabilities required for their respective area. Our Chief Technology Officer (CTO) chairs the HENSOLDT Engineering Board to ensure the coordination and implementation of an engineering governance across the Group. By division, from ∑2017 to 2019, self-funded R&D amounted to EUR 100 million in our Radar, IFF & COMMS division, EUR 63 million in our Spectrum Dominance & Airborne Solutions division, and EUR 39 million in our Optronics division (for an overview of our consolidated income statement and certain other APMs and operating metrics for 2017 and ∑2017 (adjusted to reflect our business for the full twelve months 2017), see "*2.7. Note Regarding the Presentation of Certain Financial Information*").

Besides our self-funded R&D, a significant part of our R&D activities are commissioned and funded externally by our customers, especially in case they have specific requirements such as, for example, in the case of the Captor-E for the Eurofighter (see "*10.6.2.1. Eurofighter*"). In some instances, we also seek risk-sharing partners for certain product elements or expertise from companies with particular experience in certain technologies. In addition, we cooperate with research institutes, such as those of the German Fraunhofer group.

10.8.1.2. HENSOLDT Ventures

As a separate business unit from our divisional R&D departments, in 2017, we established HENSOLDT Ventures to provide a dedicated space to drive forward innovative and disruptive projects. As our in-house incubator, HENSOLDT Ventures not only provides resources and infrastructure to promote and grow ideas of our employees and outside innovators, but we believe has also contributed to a change in the way of thinking across the Group towards a culture of entrepreneurship and technical progress. HENSOLDT Ventures focuses in particular on the areas of cyber-security, robotics and AI, and data analytics, as well as improving our existing conventional products by combining them.

In order to ensure that the ideas of our employees are recognized, we have created the HENSOLDT Ventures innovation board, to which all employees can pitch their innovative ideas. For selected ideas, HENSOLDT Ventures serves as an in-house incubator, designed to speed up the time to market by working like a start-up company. The HENSOLDT Ventures start-up academy supports our employees to further develop their idea by supplying further material and information needed, prepare a business case, and potentially develop a minimum viable product. One of our divisions and a board member are selected as sponsors in order to help the entrepreneur get budgets approved and, if necessary, prototypes produced and tested in the market. The further development of the product is decided on a case-by-case basis. As of December 31, 2019, HENSOLDT Ventures employed more than 50 employees who had screened several hundred ideas, four of which have been approved for development and one product has been incubated.

Besides supporting our own employees' ideas, HENSOLDT Ventures is constantly seeking outside opportunities to invest in innovative activities in adjacent markets that match our business and which could be integrated into our business through collaborations or joint ventures. Therefore, besides incubating ideas and projects from within the company, HENSOLDT Ventures aims to bring innovation from the outside into the Group to stay ahead of the curve and spot innovation as it happens. It establishes partnerships and collaborations with cutting-edge technology start-ups, focusing on horizontal technologies, and even founds joint ventures as its own start-up companies.

10.8.2. Intellectual Property and Trade Secrets

Our intellectual property ("**IP**") strategy aims to protect and enhance our competitive position in the various markets in which we operate. This is mainly achieved by maintaining the confidentiality of non-registered IP we keep as trade secrets. In addition, we selectively register IP rights, such as patents and trademarks.

In line with what we believe to be customary practice in the defense industry, we protect the majority of our IP by maintaining its confidentiality as trade secrets. This avoids disclosure of the idea or invention, which would occur as a result of a patent filing. At the same time, we choose our approach to the protection of IP carefully according to the specific circumstances of each case. For example, for certain proprietary technologies, we do file for patents if we consider it likely that we will be able to prove transgressions by competitors, and from time to time, we proactively publish information on certain innovations in order to prevent competitors from filing patents for them.

To ensure the confidentiality of our trade secrets, we take a variety of measures. Besides policies regarding access to information, for example, we seek to protect such IP by entering into confidentiality agreements with our employees, consultants, collaborators, and others upon the commencement of their relationships with us. These agreements require that all confidential information developed by the individual or made known to the individual by us during the course of the individual's relationship with us be kept confidential.

When we file for a new patent, we normally file a European patent, which we then validate in France, Germany, and the United Kingdom. This has the same effect as if a national patent were granted by the relevant state, and is subject to the same conditions. If deemed necessary, we seek national validation in additional countries. In order to reduce costs, we only hold patents for more than ten years in exceptional cases.

10.9. Our Sales Approach

10.9.1. Structure of Customers and Sales Channels

Our core business is targeted at the equipment of defense and security forces. Our typical end-customers are governments that allocate budgets and make procurement decisions for their defense and security forces. "Governments" in this context not only includes national governments, but also supranational organizations, such as NATO. For simplicity, we refer to both as "government (end-)customers".

Our most important government end-customer, across all our divisions, is Germany, which accounted for slightly more than two fifths of our total revenue in 2019. The next largest government end-customers vary year-to-year based on new programs or upcoming upgrades; in 2019, they included the United Kingdom, Algeria and France. European countries other than Germany accounted for approximately one quarter and the rest of the world for approximately one third of our total revenue in 2019 (in each case, combining both direct and indirect sales). In total, we derived approximately three quarters of our revenue in 2019 from end-customers in the EU and NATO and NATO-equivalent countries (Australia, Japan, New Zealand, and Switzerland), for which we rely on well-established export control procedures and which we therefore generally consider unproblematic from an export control perspective. Export control procedures for other markets tend to be more complex and time-consuming; see also "*10.9.7. Export Control Approvals*".

We sell to our end-customers through different sales channels: Besides direct sales to governments, we also sell to non-government customers, such as prime defense contractors, as intermediaries to our government end-customers. In addition, we use industrial partnerships, such as consortiums and joint ventures, to deliver our products. Below are descriptions of each of these customer types and sales channels, as well as our customer engagement strategy and resources, due diligence policies, and export restrictions.

10.9.2. Direct Government Customers

Our government customers mostly procure our products for their armed forces, which can be classified by their area of use into army (land), navy (sea), and air force (air). For these defense sales, we generally negotiate and contract with the respective armed forces' procurement agency, such as the Federal Office of Bundeswehr Equipment, Information Technology and In-Service Support (*Bundesamt für Ausrüstung, Informationstechnik und Nutzung der Bundeswehr*, "**BAAINBw**") in the case of Germany, or the *Direction générale de l'Armement* (DGA) in the case of France.

Outside the markets with our strongest presence (Germany, France, the United Kingdom, and South Africa), the focus of our direct government sales strategy is generally on the top defense importing countries around the world, such as Australia, Brazil, Canada, Chile, India, Saudi Arabia, Mexico, Singapore, South Korea, the United Arab Emirates, and the United States. With many of these government customers, we have long-standing relationships, which we aim to continue to foster, including, for example, through the maintenance of equipment already in operation.

With respect to the sales process, sales to government customers are usually preceded by a request for proposals from the potential customer, upon which we submit an offer. In advanced economies,

which tend to have sophisticated government procurement agencies, the procurement processes are typically designed to evaluate the total economic value of each alternative offer across a variety of metrics, for which price, technology, and aftermarket services can all be factors. In emerging economies, price is often the key competitive differentiator, as such government customers' budgets tend to be tighter and procurement agencies tend to be less sophisticated in their analyses; however, sometimes even a high offer price might be compensated by involving the right local partner or offering attractive offsets, such as local procurement or transfers of know-how. For this reason, we take a pragmatic approach in building each offer and tailor each offer based on how the individual government customer makes its procurement decision. In some sales processes, for example, we assist our customers in developing an operational concept that realizes the maximum potential of the product or technology that we are marketing to them.

Unless we are selling a standard product by list price, we calculate our offer price based on the customer's specific requirements and available budget, our development and production costs, associated risks, as well as, in some cases, competitive and strategic considerations. Typically, after an initial selection of proposals by the customer we enter into negotiations, whereby any part of the offer, including price, technical specifications, delivery timeframe, can be discussed by the customer. For sales to the German government, we also need to take into account price control regulations, which limit the margin we are allowed to include (for details on price controls, see "*11.2.2. Approvals and Pricing Regulations*").

For the execution of certain projects, particularly with key government customers such as Germany and France, we collaborate with our customers, for example when projects involve the development of new products or manufacturing methods. This may include, for instance, the funding by our customers of specific R&D required for the project.

10.9.3. Non-Government Customers

Our typical non-government customers are prime defense contractors, such as Airbus, KMW, Diehl Defence, ThyssenKrupp, and Lockheed Martin. They typically install our products as components into integrated products or onto platforms, such as aircraft, ships (including submarines), and vehicles (including tanks), which they then sell on to government end-customers.

Non-government customers form an essential part of our sales strategy, as their platforms create large-scale opportunities for our products in both domestic and export markets, with recurring revenue potential. As examples of products we sell to prime defense contractors, we provide optics for KMW's Leopard MBT and the TRS-4D radar system for Lockheed Martin's Freedom class littoral combat ships. In addition, we are a supplier to other industrial partners such as Terma, Leonardo, Indra, and Elettronica, which are themselves suppliers to prime defense contractors, as well as local partners in certain foreign markets, such as India. As with our government customers, we maintain long-standing relationships with most of our non-government customers.

As our non-government customers almost exclusively procure our components in connection with defense and security projects for government end-customers, our business relationships with them are typically driven by the contract between such customers and the respective government end-customer. This may occur by way of "flow-down" provisions, according to which the whole or parts of the contract with the government end-customer, such as product specifications or liability provisions, become part of our contract with our non-government customer.

There is no typical procedure for our sales to non-government customers. Sometimes, such customers involve us directly or ask us to submit an offer in a competitive process, whereas in other instances, we need to push more actively for inclusion in a project. In particular for large platforms of prime defense contractors, competition for inclusion is fierce, and demands are high with respect to product specifications and constraints (for example, regarding size and weight), as well as price expectations. In all cases, the demands of the end-customer are driving the project and we occasionally interact directly with the end-customer to discuss their requirements. In some cases, we become "convoy partners" with our non-government customers, which means that our customers build us into their platform from the start, and we thus become part of the value proposition that they offer to the end-customer. In such instances, if we are to provide particularly critical components, we might even be involved in the negotiations between our customer and the government end-customer. In other cases, our customers bring us on board after they have already obtained an order from the end-customer. In these situations, the respective government end-customers sometimes explicitly request our inclusion.

Even though we only have an indirect relationship with the government end-customer, certain features of sales relationships with government customers apply in similar ways. For example, funding by the end-customer of specific R&D that is required for the project might flow through to us, as do in some cases offset obligations, such as local procurement or know-how transfers. In connection with German projects, the German government's price control regulations might also be relevant for the pricing of our sales to non-government customers (for details on price controls, see "*11.2.2. Approvals and Pricing Regulations*"). Pricing otherwise follows similar considerations as for direct sales to governments (see "*10.9.2. Direct Government Customers*").

10.9.4. Industrial Cooperation

10.9.4.1. Purpose and Strategy

In addition to direct sales to governments and sales to non-government customers, we regularly use different forms of industrial cooperation, such as consortiums and joint ventures, to deliver our technology to end-customers. Industrial cooperation is a vital and important part of our growth strategy, as it is a way for us to expand into new product and geographical markets and enhance our chances of being integrated in key defense platforms. Cooperation with companies that have capabilities complementary to ours also allows us to fill gaps in our product portfolio and resources, and to participate in platforms in a more direct way than as a supplier to non-government customers.

Our main cooperation partners include, among others, Airbus, Leonardo, Lockheed Martin, Thales, and Raytheon.

10.9.4.1.1. Consortiums

Large defense projects, like the development of a new aircraft, are highly complex and often exceed the capabilities and resources of a single company. Most suppliers in the defense electronics industry, like ourselves, have specific fields of technological expertise, as we do with respect to sensor technologies and optronics, enabling them to develop and build only specific parts of a new platform. Furthermore, the operative and financial challenges and, therefore, risks involved in a project typically increase proportionally with project size. End-customers tend to prefer to diversify this risk among several contractors. When preparing a bid in response to an invitation to tender for certain projects, such companies therefore form consortiums so as to pool complementary engineering and technological expertise and diversify project risk across the members of the consortium.

For multinational defense projects, in particular by European countries, government end-customers often encourage (or even require) bidding consortiums of companies from each country involved, in order to promote and maintain know-how in their indigenous defense industries. We have benefitted from the German government's support in this respect in the past, for example in connection with our involvement for the provision of critical sensor technology on the Eurofighter, and aim to benefit from political support in key upcoming programs, including FCAS, MGCS, and MAWS. Certain large projects may also involve several consortiums nested within one another. For example, while the main consortium for the development of the Eurofighter consists of Airbus, BAE Systems, and Leonardo, we are a member of a separate sub-consortium responsible for the development of the radar for the Eurofighter (see "*10.9.4.2.1. Eurofighter Radar Consortiums*").

In general, consortiums are entered into for a specific project, and as such, terminate when that project is completed. They are controlled by the member that is the leader of the consortium (typically selected by the end-customer) and responsible for setting standards, maintaining the relationship with the customer, and handling delivery, as well as customer support and services. Customers typically require that all consortium partners be their direct contracting partners; hence there is generally no separate limited liability entity under which the consortium operates. Instead, consortiums are formed typically by a contract among its members, and the terms of each consortium contract normally differ, reflecting the circumstances of the individual project and composition of the consortium membership.

While we aim to take on more leadership roles in consortiums in the future (see "*10.3. Our Strategy*"), historically, we have generally not assumed the role of the consortium leader, as we are relatively specialized in our product portfolio compared to large defense contractors. In such cases, our role vis-à-vis the consortium leader is similar to our role vis-à-vis a non-government customer. We provide our products to the consortium leader according to its instructions, and the leader proceeds with them

in accordance with the consortium contract and the contract entered into with our end-customer. A key difference is, however, that we, along with the other consortium members, typically only receive consideration (proportionally, as agreed in the respective consortium contract) once the consortium receives payment from the customer.

Our consortium contracts contain extensive provisions that define each member's responsibilities within the consortium to allow for a seamless production of the end-product and avoid conflicts among members. With respect to liability in case of production problems or a faulty end-product, however, it is often difficult to factually ascertain the allocation of responsibility among consortium members for any damages, as there are many interdependencies in the development and production chain. Accordingly, consortium contracts typically do not contain extensive liability provisions. In practice, the relationships among consortium members are significantly shaped by "repeat play" within the defense industry: Because there are only a small number of key contractors, the members of a consortium in one project will often also be consortium members for another project, or there will be other business relationships between them. This generally facilitates negotiations and compromises among consortium members.

10.9.4.1.2. Joint Ventures and Other Industrial Partnerships

A joint venture is a partnership that we and another company or several other companies form to gain mutual benefits by sharing costs, risks, and rewards. We generally enter into joint ventures in order to address certain geographical markets (for example, where our partner already has a strong presence) or to add new competencies to our portfolio (for example, our HENSOLDT Cyber joint venture; see "*10.5.3.2. Spectrum Dominance (Electronic Support, Signals Intelligence, Electronic Attack, Self-Protection, and Cyber)*"), or where required in order to fulfill offset obligations imposed by customers.

In contrast to consortiums, joint ventures are entered typically for indefinite terms and not limited to a particular customer order, but focus on a particular product or product portfolio. They are separate (limited liability) legal entities with their own personnel and assets. The individual control rights, funding obligations etc. depend on the particular joint venture agreement between us and our partner.

In addition, we use other contractual partnerships and alliances to leverage our portfolio and move further towards becoming a comprehensive solutions provider (see "*10.3. Our Strategy*"), as well as for geographical expansion. An example is our strategic alliance agreement with Raytheon, under which we jointly developed our two-radar ASR system (see "*10.5.2.2.1. ATC Radars and Solutions*"), with each company focusing on the development of one of the two radars that make up the system. We believe the combination of our technical expertise and the complementary geographical markets we serve have helped make the ASR system a success for us so far. Depending on whether we or Raytheon take the lead in selling the ASR system, it will be considered either a direct government sale or a sale to a business customer.

10.9.4.2. Key Partnerships

Below are more detailed descriptions of the key consortiums and joint ventures in which we participate.

10.9.4.2.1. Eurofighter Radar Consortiums

We are a member of the Euroradar consortium, which currently develops the Captor-E AESA nose radar for the Eurofighter. The other consortium members are Leonardo and Indra, with Leonardo acting as the consortium leader. Within the Euroradar consortium, we are providing building blocks for multiple subsystems, such as the radar antenna front-end subsystem, for which we are taking the lead in development and production. The consortium was also responsible for the development and production of the previous nose radar for the Eurofighter, the Captor-M radar, for all Eurofighter jets delivered so far. We have thus been a partner in the development of both the previous Eurofighter radar and the Captor-E from the beginning.

In November 2014, the main Eurofighter consortium, comprising BAE Systems and ADS, and the NATO Eurofighter and Tornado Management Agency ("**NETMA**") signed a contract to develop the Captor-E for the Eurofighter. In 2019, we and the Euroradar consortium started the serial production for the first customer delivery of the Captor-E radar.

In addition to the Euroradar consortium, we are leading a parallel consortium for the development of a further enhanced Captor-E, known as the ECRS Mk1. In 2020, Germany and Spain approved the

upgrade of their Eurofighter fleets with the ECRS Mk1. The consortium, consisting of Indra and ourselves, under our leadership, has been contracted for the development and production of the radar, in a milestone order for us worth more than EUR 1.4 billion for the joint development of the ECRS Mk1 nose radar for the German and Spanish Eurofighter fleets and the production of such radar for the German fleet (see also "*8.3.3. Strong Growth Platform with High Revenue Visibility*").

Furthermore, an alternative Mk2 radar to meet British and Italian requirements has been proposed by Leonardo. We have submitted bids in certain key areas of competence regarding radar development in that connection as well.

For details on our work in connection with the Eurofighter, see "*10.6.2.1. Eurofighter*".

10.9.4.2.2. EuroDASS Consortium

We are a member of the four-nation EuroDASS consortium, which builds and supplies the Eurofighter with its self-protection system Praetorian DASS. The consortium was formed in the 1980s and today comprises Leonardo, as consortium leader, Elettronica, Indra, and us. The Praetorian DASS is designed to provide the Eurofighter with threat detection, evaluation, and countermeasures against both air-to-air and surface-to-air threats. The system includes electronic support capabilities, an active missile approach warner, electronic countermeasures, towed decoys, and initiation of chaff/flare deployment. Within the consortium, we provide technical know-how and competencies in system areas such as power supply and complex digital components, as well as customer support and services for Germany.

In June 2019, the main Eurofighter consortium, along with NETMA and the Eurojet consortium (responsible for the Eurofighter's EJ200 engine), signed study contracts to explore the Eurofighter's long-term future. In this context, in September 2019, Leonardo, on behalf of the EuroDASS consortium, was awarded a study contract under which the consortium will explore the future of the Eurofighter's Praetorian DASS. The objective of this study is to assess the feasibility of modifying and improving the platform to counter evolving threats for the entire expected life of the platform which is estimated to last until 2050. Full development and production of the new system called Praetorian Evolution is planned from 2025 onwards.

10.9.4.2.3. FCMS Consortium

On June 19, 2019, we, Diehl Defence, ESG Defence + Public Security, and Rohde & Schwarz announced the Future Combat Mission System ("**FCMS**") consortium, which, under our leadership, will work on the development of components for the FCAS (for a description of the FCAS, see "*10.6.6.2.1. Future Combat Air System"*).

The aim of the FCMS consortium is to assume joint responsibility for the complex area of the networked operation of sensors and effectors within the "system of systems" network envisaged under the FCAS. The consortium aims to do this in close industrial cooperation with weapon system companies and the relevant electronics companies of the participating nations France, Germany, and Spain. The consortium intends to consolidate the key defense technologies in the German industry, as well as providing a sound basis for the future development of flexible and powerful sensor/effector composite solutions for current and future weapon systems of European air forces.

As the consortium lead, we coordinated the contributions of each of the four consortium partners to establish the FCMS consortium as the German candidate for the FCAS sensor-effector network. In addition, we aim to be responsible for the sensors part within the consortium, which, in turn, we expect would be ultimately developed together with the respective national candidates of France and Spain.

10.9.4.2.4. EURO-ART International EWIV

The COBRA (see "10.5.2.2.2. Ground Radars and Solutions") was developed by France, Germany, the United Kingdom, and the United States starting in the 1980s. In 2007, we and Thales established EURO-ART International EWIV, a joint venture to manage future international sales and further development of the COBRA system. Thales is acting as the lead for marketing, production, in-service support, and product improvements, while we mainly act as product integrator of the various COBRA components supplied by ourselves, Thales, and Lockheed Martin. In addition, we provide maintenance and repair services to certain existing COBRA systems.

10.9.4.2.5. SCAFSE

Initiated by Algeria and with support from the German government, in 2014, we, together with the German company Rohde & Schwarz, and two Algerian partners (Alfatron and Epic) founded *Société Commune Algérienne de Fabrication de Système Electroniques* ("**SCAFSE**"), an Algerian company that manufactures and sells products developed in Germany for military and security applications in Algeria. We and Rohde & Schwarz hold the German share in SCAFSE through a separate investment entity (*Deutsche Elektronik Gesellschaft für Algerien*). Our goal in the SCAFSE joint venture is to improve market access in Algeria, which we believe we have been able to achieve so far through the realization of a variety of border surveillance, security, and vehicle optronics projects. With our optronics and radars portfolio provided through SCAFSE, we believe we are a long-term strategic partner for the Algerian procurement authorities.

10.9.4.2.6. Joint Venture with SAMI

In 2019, we signed a memorandum of understanding with the state-owned Saudi Arabian company Saudi Arabian Military Industries (SAMI) to form a joint venture in Saudi Arabia, with us holding a share of 49%. The goal is to establish local manufacturing and development in order to enhance Saudi Arabia's domestic defense and security capabilities, in line with the Saudi Vision 2030 program. The finalization and implementation of the joint venture has been delayed due to effects of the Covid-19 pandemic and the current economic situation in Saudi Arabia.

10.9.5. Customer Engagement

For identifying and pursuing leads, as well as customer relationship management, we rely on our international sales force, which has grown to a network of sales offices in 19 key accessible defense markets as of December 31, 2019, driven by our HENSOLDT GO! program, complementing our well-established sales network in Germany.

Alongside this geographical expansion, a focus of our sales efforts is the promotion of new product offerings in markets adjacent to our traditional defense electronics market, such as civil ATC, counter-UAV systems, and cyber-security solutions. For these markets in particular, our marketing and sales strategies differ according to the market in which our products compete. As an example, as we are a relative newcomer in both the civil ATC market and the U.S. geographic market, we decided to enter into a partnership with Raytheon for the development and subsequent marketing of our ASR system (see "*10.9.4.1.2. Joint Ventures and Other Industrial Partnerships*"). Another example of our expansion into adjacent markets is the provision of our security solutions for the prevention of rhino poaching in South Africa.

The focus of our promotional sales activities is on attending and presenting at a number of international exhibitions. Because of the importance of these events in the defense and security industry, we typically time advertising campaigns or product launches around certain key exhibitions, and consider them valuable opportunities to demonstrate the capabilities of our product portfolio and to generate press coverage. For instance, in connection with the Berlin Air Show in April 2018, we were able to demonstrate the effectiveness of our TwInvis passive radar system by tracking two F-35 stealth fighter jets that are supposed to be nearly invisible to radar. Exhibitions are also important for identifying trends in sensor development and customer needs, as well as exploring possible business opportunities with partners and competitors. In addition, we use databases and market studies in order to forecast and analyze the market.

We have structured our sales force into three parts: (i) product sales, (ii) domain sales, and (iii) international sales. Our product sales teams are integrated into each division and focus on managing the campaigns within that division. Our domain sales teams are responsible for business development within the market segments in which we compete, leading to a "transversal" approach across the portfolio of our divisions to meet customer expectations. Our international sales teams provide customer proximity all over the world, from North America and LATAM, to Europe, Middle East, and Africa, to APAC (excluding our key markets Germany and France, which are covered separately). In an effort to promote our sales organization following our separation from Airbus, as part of the first phase of our HENSOLDT GO! program, we increased the headcount in our international sales functions and also established regional sales hubs in order to further develop our export business. Furthermore, we nominated designated key account managers, who are responsible for

communicating and coordinating Group-wide sales activities for select key customer accounts. As part of the second phase of our HENSOLDT GO! program, we are focusing on dynamically coupling divisional sales and project management, including customer service and sourcing, with current production plans in order to improve efficiencies (see also "*8.3.5. Operational Excellence and Efficiency Program HENSOLDT GO!*").

With respect to some geographic markets, we rely on external business partners to represent us locally and act as the first point of contact for existing and potential customers. We evaluate and engage business partners in accordance with our Counterparty Due Diligence Directive ("**CDDD**") (see "*10.9.6. Counterparty Due Diligence*"), which involves active and risk-based due diligence and evaluation by members of our sales, compliance, legal, and senior management teams (among other stakeholders), as well as, on a case-by-case basis, external law firms and specific due diligence providers. As a matter of compliance policy, we generally do not engage business partners on a commission-only or success fee-only basis, and when we do engage business partners on such basis, we impose strict compliance procedures for the review, approval, control and monitoring of the engagements. We have worked with local business partners worldwide to support our in-house sales force in the past and will continue to do so in the future.

In addition to these local sales and marketing partners, our sales activities benefit from our participation in key platforms such as the Eurofighter, Leopard 2, NH90, or Tiger (see "*10.6. Key Platforms and Systems*"). These platforms increase our international visibility and the international distribution of our products.

10.9.6. Counterparty Due Diligence

We have implemented a counterparty due diligence process for third parties with whom we do business. That process is governed by our CDDD and part of our comprehensive compliance program (for further information on our compliance organization, see "*10.13. Compliance*"). The CDDD was designed specifically for our business operations, and entirely replaced the due diligence process that our businesses had implemented prior to our separation from Airbus.

We apply our CDDD within a risk-based due diligence approach, taking into account compliance risks (such as anti-corruption, anti-money laundering, and sanctions) and commercial considerations. For proposed engagements that involve relatively greater potential risks based on an initial assessment (which involves evaluation, for example, of the target destination and our previous interactions with the potential customer/business partner, and the specific terms of the proposed engagement), our processes call for more detailed due diligence, and the involvement of more senior personnel in the decision-making process. We have obtained specific external expert advice regarding the design and implementation of the CDDD.

In accordance with our CDDD, we established a Validation Committee, which consists of the CEO, CFO, Head of Sales, General Counsel, and Head of Compliance. Proposed engagements and transactions that present certain compliance risk factors (as defined in our CDDD) must be approved by the Validation Committee after they have been evaluated by the Compliance Department. The preparation of the facts is handled by the employee acting as the contact person for the intended counterparty and is subject to review by the respective senior executive manager. Through the Validation Committee process, members of our senior management are regularly engaged, on a practical basis, in the implementation of key aspects of our compliance program. Our CDDD is assessed periodically to ensure that it continues to be effective in design and implementation.

We have a dedicated internal compliance team responsible for supporting the implementation of the CDDD, which we increased significantly in terms of headcount and resources since our separation from Airbus.

10.9.7. Export Control Approvals

While export restrictions might impose material constraints on our business (see "*1.1.2. Our international business is subject to sales and export restrictions and controls applicable to our products, and the products or platforms into which our products are integrated, including government approval requirements and moratoriums*" and "*11.3. Export Controls*"), we believe we have been successful so far in managing the hurdles that these restrictions impose.

In 2019, the German government granted us more than 220 export licenses for end-destinations outside the EU. These licenses included sales to destinations generally considered to be critical from an export control perspective, such as Saudi Arabia and the United Arab Emirates. Once an export control approval has been granted, it generally remains valid even in case of a subsequent tightening of export control policies or rules with respect to the target destination. This means that we generally do not need to make adjustments to our Order Backlog due to the revocation of previously granted export sales approvals. In very specific cases, there may be exceptions to these principles in which existing permits and approvals may be revoked.

In addition, we develop and manufacture a number of our products outside Germany (for example, in France, the United Kingdom, and South Africa) and without any technology and components from Germany so that these products are not subject to the relatively strict German export restrictions.

10.10. Our M&A Activities

10.10.1. M&A Overview

Our acquisitions are motivated by various strategic rationales. Key themes in our major past transactions (Nexeya, Kelvin Hughes, and EuroAvionics) were geographic expansion, portfolio enhancement, strengthening of technological capabilities, and access to a wider customer base through an enlarged sales network. These themes are generally aimed at achieving revenue synergies by combining competences and reach, whereas cost synergies were less of a priority in the past.

We have implemented a rigorous four-step screening process of potential acquisition targets before they get into the due diligence stage in the framework of an M&A process, starting with a broad target identification based on geographical and product portfolio criteria, to target filtering based on, among other things, operational KPIs and an analysis of the strategic fit, to a formal "gate 1" decision by our senior management to enter into a formal process with the target.

With respect to the integration of acquired companies, we determine the most appropriate integration approach on a case-by-case basis subject to the operational and regulatory framework pertaining to the specific acquired company. Typically, we follow a holding structure concept, whereby we align key central functions, such as sales, and ensure that all relevant Group processes and guidelines (in particular, regarding compliance) are followed, but otherwise do not pursue full operational integration.

On the basis of our successful M&A history, with various completed acquisitions since our separation from Airbus, we believe we have a capable M&A platform to find and execute on the right strategic decisions. Below are brief summaries of our most material M&A activities since our separation from Airbus. For additional financial information, see also "*8.3.4. Acquisitions*" and, for details on the consideration paid, "*8.8.3. Capital Expenditures and Investments*".

10.10.2. Tellumat Business Units (2020)

At the end of June 2020, we signed an agreement to acquire two business units in air traffic management and defense solutions including radar from Tellumat, a South African diversified group. The two business units employ an aggregate of approximately 100 full-time employees. Closing is envisaged for the fourth quarter of 2020. The acquisition is part of our initiative to develop, design, and produce a radar system entirely in South Africa. In addition, it is intended to support our growth in South Africa and complement our portfolio, as well as to provide access to new markets in the region.

10.10.3. Intersoft Electronics Asia-Pacific (2019)

With effect from October 1, 2019, we acquired IE Asia-Pacific Pty Ltd, headquartered in Canberra, Australia. Now operating as HENSOLDT Australia Pty Ltd, the company is a radar solutions and services provider in the region. By offering radar support, testing, training, and installation services to the Australian Defense Force and other agencies, the company helps to improve support for our local and regional customers.

10.10.4. Nexeya (2019)

With effect from October 1, 2019, we acquired the entire share capital in Nexeya (see also "*10.20.3. Nexeya Share Purchase Agreement*").

Nexeya develops, produces, tests, and services complex electronic systems for the aerospace, defense, energy, and transportation sectors at three major operating sites in France (Angoulême, Massy, and Toulouse). As an industrial partner to the aerospace industry, Nexeya has been supplying mission management systems and other products and solutions to manufacturers of military and civil aircraft and their equipment for over 30 years. The company is active in all phases of aircraft development and operation, from the design and validation of prototypes to maintenance. Nexeya also has a strong presence in the renewable energy market, for which it develops and manufactures hydrogen-based energy storage and injection stations.

We believe Nexeya, with its long-standing client relationships and roots across a variety of markets, is a valuable enhancement to our geographic market presence in France. In our opinion, its complementary product portfolio, in particular its integrated combat and mission management systems, will help us move further towards becoming a comprehensive sensor solutions provider. Its air and naval systems, and involvement in large corresponding platforms, also present opportunities to expand our presence in these markets. In addition, Nexeya's large non-defense and customer support and services businesses correspond to our expansion strategy in these areas. Its commercial aircraft avionics portfolio, for instance, is expected to complement our previous acquisition of EuroAvionics (see "*10.10.7. EuroAvionics (2017)*"). We believe that we will be able to leverage the Nexeya portfolio by combining it with our products and solutions, and by marketing those to an enlarged customer base using our and Nexeya's combined international sales networks.

10.10.5. PentaTec (2018)

With retroactive effect from December 15, 2017, we acquired 100% of the shares in PentaTec Elektronische Systeme GmbH, Grasbrunn, Germany, and subsequently merged the company into HENSOLDT Sensors GmbH with retroactive effect from January 1, 2018. The company's portfolio included engineering services and test equipment for automotive and defense applications. In these areas, it developed hardware, software and complete systems, tailored to individual customer requirements. PentaTec's services ranged from system analysis, design, and specification through to developing hard- and firmware, and prototyping and manufacturing small series.

The company constitutes a valuable complement to our product portfolio and system design capabilities and has been fully integrated into the Group.

10.10.6. Kelvin Hughes (2017)

In order to bolster our position in the naval radar market, we acquired the British Kelvin Hughes group with effect from September 28, 2017, which operates today as HENSOLDT UK. The company designs, produces, and markets radar sensors, mainly for maritime and security applications. It is a long-standing supplier of high-performance navigation radars and surface surveillance radars primarily to the U.K. navy; however, the products are also used by navies and coastguards worldwide.

The acquisition has helped us expand our capabilities in the development, manufacture, and supply of maritime navigation and surveillance radar systems.

10.10.7. EuroAvionics (2017)

We acquired the EuroAvionics group, based in Pforzheim, Germany, with effect from August 16, 2017. The company designs, produces, and markets civil-certified avionic equipment that provides interfaces to a wide range of third-party avionics and sensors. Among its products are situational awareness mission management systems, as well as augmented reality computers and autopilots, particularly for UAVs. Its products are installed in almost every type of non-defense rotary wing aircraft.

Due to its complementary portfolio and markets, acquiring EuroAvionics particularly helped us to enter adjacent markets, such as non-defense applications.

10.11. Production

10.11.1. Production Strategy

The reliability and quality of our products are at the center of our production strategy, along with the ability to maintain and repair our products over long periods of time.

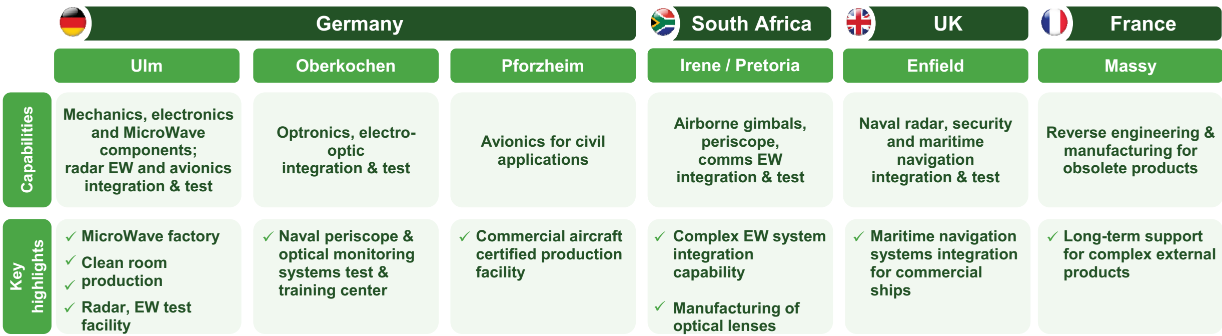
The key elements of our production chain are pre-production, integration, and testing. With regard to pre-production, which is the most resource-intensive element of our production chain, we aim to stay "asset-light", meaning our in-house pre-production is mostly performance-driven and limited to more intricate or critical components, such as radar transmit-and-receive modules, while other parts that are more driven by economic considerations, such as low-complex printed circuit boards or composites, are largely outsourced. The share of outsourced pre-production tends to be higher for mechanics compared to electronics, the majority of which we produce internally. As such, for some of our products, our production is limited to the integration and testing of components procured from our suppliers (see "*10.12. Procurement*"). There are monitoring systems in place at all of our production sites that allow us to track delivery performance in terms of time, cost, and quality.

We aim to consolidate our products within product families sharing a modular design. For example, a step in the production of our TRML-4D, TRS-4D, Spexer 2000, and ASR products has already been converted from a single-piece production process to a joint assembly line production.

As part of our HENSOLDT GO! program, several improvement measures in the area of production have been initiated and successfully carried out. In addition to efficiency enhancement initiatives, warehouse management was optimized and inbound logistics sustainably improved. The profitability of the various areas of production was analyzed and resulting measures were taken and implemented.

10.11.2. Production Sites

Below is an overview of certain key German and international facilities:



Our major production sites in Germany are in Ulm, Oberkochen, and Pforzheim.

At our facility in Ulm, the largest of our production sites, the assembly, final integration, and testing of ground, ship, and airborne products for radar and spectrum dominance takes place. In addition to mechanics and printed circuit board production, we operate a microwave factory in Ulm, which we believe to be one of only a few worldwide and which allows us to produce components for radar and electronic warfare in a cleanroom.

Our Oberkochen facility specializes mainly in optronics solutions for defense and non-defense applications. The site in Oberkochen is the largest production facility of our Optronics division.

Pforzheim is the headquarters of the EuroAvionics group that we acquired in August 2017 (see "*10.10.7. EuroAvionics (2017)*"). EuroAvionics designs, produces, and markets certified avionic systems that interface with a wide range of third-party avionics and sensors.

In addition to our German sites, we have two South African production sites, in Irene and Pretoria. Our site in South Africa's capital Pretoria is the headquarters of our subsidiary GEW Technologies (Pty) Ltd., and we manufacture electronic warfare solutions at this site. Irene is close to Pretoria and is the headquarters of our subsidiary HENSOLDT Optronics (Pty) Ltd., and we manufacture airborne gimbals, parts for submarine periscopes, and optic components at this site. Since 2019, our South African subsidiaries operate under the united brand "HENSOLDT South Africa".

Our U.K. production site in Enfield, Greater London, specializes in naval radar, security, and maritime navigation solutions.

Following our recent acquisition of Nexeya, we have a new production site in Massy, France. It focuses on, among other things, reverse engineering and manufacturing for obsolete products, thus supporting our services portfolio for third-party products.

For additional information regarding our real estate, see also "*10.18. Real Estate*".

10.12. Procurement

10.12.1. Procurement Strategy

Our supply chain management focuses particularly on quality and availability. We apply stringent standards to the choice of our suppliers and our collaboration with them. Like our products, the components we procure are not only subject to particularly high technical quality and performance requirements, but also often have to comply with export control regulations, national and international certifications, or special security and confidentiality requirements.

In addition, due to the diversity of our product portfolio, we procure relatively low volumes of a broad range of high-end products. As our customers' orders and the quantity of each order are often volatile, the same is true for our required supplies. This reduces our supplier concentration, but also restricts the procurement strategies available to us due to the low number of qualified suppliers to choose from and our consequent limited negotiation power.

In the future, as part of the second phase of our HENSOLDT GO! program (see "*8.3.5. Operational Excellence and Efficiency Program HENSOLDT GO!*"), we plan to work towards an end-to-end, integrated supply chain management synchronized with project and production needs. For instance, by increasing supply and production transparency, our goal is to allow for more just-in-time deliveries by suppliers according to our productions schedule "right up to the conveyor belt". As one of the steps towards this model, we aim to further standardize components and consolidate suppliers across our divisions, thus reducing procurement cost. Furthermore, our procurement strategy focuses on improving our cost estimation procedures, establishing long-term framework agreements.

10.12.2. Supplier Selection and Onboarding Process

Before any supplier selection, our internal supplier selection board decides whether to procure a component or to produce it in-house ("make or buy strategy"). For these purposes, the supplier selection board benchmarks our internal capabilities with those of external suppliers.

After a procurement decision has been made, the supplier selection board leads the supplier selection process. We generally strive to create and maintain competition among suppliers for as long as possible during this process. The supplier selection board's mission is to optimize specifications in order to select the best supplier for us in a way which aligns all stakeholders' interests and follows a structured and auditable process. To achieve this objective, it involves all internal stakeholders along the value chain of a particular supply project. A so-called multi-functional team, led by our procurement department, prepares this supplier selection process. Typically, employees from the affected products division, as well as our quality management, manufacturing, and engineering departments work together in these teams. For tender volumes exceeding a certain threshold, our supplier selection board has to approve the suggested supplier.

While certain standard components not directly related to a sensitive end-product are sometimes procured in less than a week, the process of selecting, approving, and onboarding a supplier for key parts can take up to two years. Before a contract is signed, where necessary according to our CDDD, we perform extensive counterparty due diligence on suppliers, during which we check both the prospective supplier, as well as any sub-suppliers and intermediaries. For details on the counterparty due diligence process, which is similar to the one performed with customers, see "*10.9.6. Counterparty Due Diligence*". As part of this process, we pay particular attention to any export or sales restrictions that the prospective supplier's products might be subject to, such as the ITAR (for details on export restrictions, see "*11.3. Export Controls*"). In a second step, where the focus is on technology and manufacturing capabilities, we check the prospective supplier's qualifications. In this context, we also carry out on-site visits and audits. If all results are satisfactory, the actual on-boarding process is initiated, which can include, for example, the supplier being connected to our internal IT systems.

We also help our suppliers further develop their qualifications by defining and implementing improvement measures together. As we apply the highest quality standards to our products and, hence, components, it typically takes some time for a supplier to reach the quality level required. In this process, for example, we may send procurement and quality experts to a supplier's premises to support the implementation of such improvement measures, even for an extended period of time.

Some of the suppliers that have successfully gone through the selection process are included in our list of preferred suppliers, which we maintain for direct supplies for our German entities HENSOLDT Sensors GmbH and HENSOLDT Optronics GmbH. Preferred suppliers are selected based on several criteria, including economics, accessibility, quality, and track record. These suppliers are typically addressed first for any new procurement needs. The preferred suppliers list is broken down by component category and we aim to have at least two preferred suppliers per category. Even suppliers who have made it onto the list and have signed contracts with us are subject to regular reviews. These checks can take place up to once a month, depending on the component category. In part because many of our end-products are customer-certified, and changing a supplier might require the customer's consent or a new certification, we generally try to build and maintain long-standing relationships with our preferred and other key suppliers.

For these reasons, we typically enter into long-term framework agreements under which we issue purchase orders to initiate specific supplies. We typically request an initial five-year term for the framework agreement, after which the term extends automatically by one year on a rolling basis, which provides us with the flexibility to change suppliers at short notice if we identify a better option. As we typically procure relatively small batch sizes, we generally do not guarantee any minimum volume to our preferred suppliers under these framework agreements. The contracts often contain other contractual terms that provide us with further flexibility, namely that we may at any time undertake a benchmarking of a supplier's prices by comparison with prices proposed by other suppliers of similar supplies and services. Should the supplier's pricing not be competitive, the relevant contractual provisions require the parties to enter into negotiations to optimize the respective supplier's competitiveness.

Our supply contracts include financial penalty clauses for delays in delivering supplies. In addition, we protect the quality of goods supplied to us by provisions requiring the supplier to adhere to recognized technological rules, agreed technical data and standards, and quality assurance requirements as stated either in the contract itself or in the respective purchase order.

Once we have onboarded a supplier, we have a defined "procurement gearbox" for supply orders across our four operating divisions (Radar, IFF & COMMS; Spectrum Dominance & Airborne Solutions; Customer Services; and Optronics), which contains both strategic and operational units. In accordance with the procurement gearbox, our category management team creates procurement strategies for direct supplies for our products across our divisions, and each operating division has a project sourcing team to execute the category procurement strategy. The input from category management and the project sourcing teams flows into our purchasing team, which executes orders and monitors supplies across our business lines. Our purchasing team also handles indirect supplies (*i.e.*, supplies which cannot be linked to a specific product, such as logistics and infrastructure) according to strategies developed by category management.

Our supply chain quality management team is responsible for securing our suppliers' performance, while our business excellence department develops the organization, processes, tools, and performance of our procurement.

We believe our centralized sourcing approach and optimized procurement organization has supported our growth strategy in various ways, including by reducing the required input of production materials and indirect procurement cost, ensuring quality and availability of supplied materials, and creating trusted partnerships with our suppliers.

10.12.3. Our Suppliers

Most of our suppliers are based in the EU, in particular in Germany, in part due to export control regulations limiting the number of suppliers we can consider. Especially when important components for key technologies are involved, we generally give preference to suppliers in Germany and other EU member states ("**Member States**").

Our goal is to establish long-term collaboration relationships with our suppliers, which we try to intensify and expand over the years. Reflecting this, approximately one third of our procurement of direct supplies by our German entities HENSOLDT Sensors GmbH and HENSOLDT Optronics GmbH in 2019 was handled by our preferred suppliers. As of December 31, 2019, our list of preferred suppliers contained more than eighty companies, with approximately three fifths of them located in Germany, approximately one quarter in the rest of Europe, and the remainder in the rest of the world.

Reflecting the "high mix – low volume" composition of our supply chain, our largest direct supplier accounted for a mid-single-digit percentage share of the total direct purchasing volume of our German entities HENSOLDT Sensors GmbH and HENSOLDT Optronics GmbH in 2019, with the remaining direct suppliers in the low single-digit area or less. Direct supplies accounted for approximately two thirds of the total procurement volume of HENSOLDT Sensors GmbH and HENSOLDT Optronics GmbH in 2019. The largest indirect supplier accounted for a mid-single-digit percentage share of the total indirect purchasing volume of these entities in 2019, with the remaining indirect suppliers in the mid-single-digit area or less. Indirect supplies accounted for the remaining approximately one third of the total procurement volume of HENSOLDT Sensors GmbH and HENSOLDT Optronics GmbH in 2019.

10.13. Compliance

We have developed and implemented a comprehensive compliance program that we have designed with specific regard to our individual risk profile. Our management is committed to compliance with applicable laws and regulations and promotes compliance as a central element of our Group culture, with our senior management actively involved in the compliance process and conveying the importance of the compliance program to employees ("tone from the top"). Relevant employees are regularly informed about our compliance system and receive respective trainings on a periodic basis. We have established a whistleblower system ("Hensoldt OpenLine"), and we are committed to investigate any suspicions of non-compliance and to take appropriate remedial action as warranted.

The headcount of our compliance team has increased significantly since our separation from Airbus. It is led by the Head of Compliance and addresses the relevant areas of our business, in particular anti-corruption, antitrust, data protection, and export compliance. The role of the export compliance function is to provide the procedural framework and general applicable regulations on a Group level for the separate export control teams of the relevant legal entities, which handle individual transactions with a focus on export controls and economic sanctions risks and forward individual applications for export permits to the competent authorities. We also have regularly sought and obtained support from external legal counsel on certain compliance matters. We have implemented several compliance guidelines and procedures, including an Anti-Boycott Directive to prevent violations of U.S. anti-boycotting measures, an Anti-Corruption Policy, our CDDD (see also "*10.9.6. Counterparty Due Diligence*"), a Gifts and Hospitality Directive, an Investigation Policy, a Data Protection Policy, an Offset Compliance Directive, Standards of Business Conduct, as well as rules on the operation of our whistleblower system, which, among other things, provides an opportunity to employees to personally or anonymously report violations through an "OpenLine" (anonymous telephone and email hotline). Our compliance process is also supported by our Audit department, which was established following our separation from Airbus and which is involved in conducting periodic compliance-focused auditing.

Within our comprehensive compliance program, one of our focus areas is the prevention of corruption (see also "*11.5. Anti-Corruption and Anti-Bribery*").

We have assessed that in our industry one of the key anti-corruption risks results from dealings with sales agents and other third parties providing business development or sales and marketing support services to us or on our behalf, or are otherwise involved in such activities. When we, or our competitors, are awarded a contract, in some cases, intermediaries or local companies are proposed to be involved at an early stage of the project, and have the potential to improperly influence customers unless appropriate and proactive compliance measures are taken. We have devoted substantial attention and resources to address this specific risk, including through the design and implementation of our CDDD and our broader anti-corruption compliance program, our adoption of an overarching company policy that strictly limits and controls the use of "success fee" sales agent relationships, the careful evaluation of anti-corruption risk in M&A transactions and offset arrangements, training of relevant personnel, and the communication of our approach to anti-corruption compliance to key

business partners. Our compliance policies are not, in this regard, "tick-the-box" or off-the-shelf policies, but have been developed specifically for our businesses, and with an overarching goal of ensuring that we are able to thoughtfully and practically evaluate anti-corruption compliance risk in our third-party engagements.

When business proposals are presented to us that involve, in our judgment, compliance risks that are inconsistent with our values and risk tolerance, we are not afraid of turning away those business opportunities. The implementation of our approach to anti-corruption compliance has required sustained effort and significant collaboration among sales, compliance, and other personnel. While the process is different, and in some respects more prescriptive, than the policies and procedures that some other companies in our industry have implemented, we have found that our business has been successful in implementing our compliance program while also meeting or exceeding commercial objectives. Currently, we view our compliance program as a strength that aids us in our ability to be commercially competitive in the short and long term.

As part of our comprehensive compliance program, we also regularly conduct a risk analysis to identify areas where we could improve our compliance mechanisms. In general, anti-corruption, export control, trade sanctions, antitrust, and data protection are the key areas of our compliance efforts, in each case taking into account, for example, our industry, our product portfolio, our international sales into countries with high corruption risks, and the background of our customers.

10.14. Quality Management

Our quality management strategy is to combine technical and commercial excellence, skilled and motivated employees, and quality partnerships with customers, authorities, and suppliers.

We subject products to various test procedures before they are deemed safe and ready to use. This is particularly important because of a wide variety of environmental influences that may affect our products' functionality, durability, quality, and reliability. To ensure the effectiveness of our quality system and to constantly improve processes, we undergo regular audits in accordance with certification requirements. In addition, we follow an integrated approach regarding authority approvals, meaning that we strive to standardize processes throughout our international legal entities in accordance with all applicable requirements. We are a member of the International and the European Aerospace Quality Group that aim to foster cooperation between aerospace companies and define standards in order to improve quality and reduce cost.

We conduct quality management through product testing on-site. At our facilities in Ulm and Oberkochen, we operate our own testing laboratories.

The test center in Oberkochen offers testing and qualification for electromagnetic compatibility ("**EMC**") and resistance to environmental influences, which is also provided as a service for external customers. The EMC laboratory is a modern measurement and testing laboratory with a focus on components and systems of defense and automotive electronics. At the environmental laboratory, we carry out environmental testing in accordance with all common test standards of mechanical engineering, automotive engineering, rail transport, aerospace, telecommunications, medical technology, and other areas.

10.15. IT Infrastructure and Data Protection

IT is an important part of our operations, in particular to support product development and manufacturing, procurement, sales, customer support and services, and administration, as well as internal and external communications. In addition, IT provides management with the financial and other information necessary to implement our strategy, is designed to ensure controls and compliance across the Group, and provides for uniform and timely reporting. As part of the HENSOLDT GO! program, we have paid particular attention to digitalization and hence, for example, fully digitalized our reporting process. In 2018, we rolled out a global IT strategy program for digitalization and other IT-related topics in order to, among other things, improve our operational efficiency by lowering IT costs in the short to medium term.

Our IT service portfolio is divided into Group-wide and local services. The Group-wide services are generally provided from our central datacenter in Ulm or from cloud service providers, while local

services are hosted and provided from local datacenters. Some IT-related tasks are sourced out to third parties, including, our end-user helpdesk.

We believe that we are well protected against cyber-attacks and other threats to the integrity of our IT systems and secrecy of confidential data. We maintain a dedicated cyber-security team that has implemented several measures to reduce the probability of such events and minimize their potential impact. Among these measures are awareness campaigns with remote and on-site trainings for our employees, security monitoring, and penetration testing of our IT systems. Furthermore, we have in place a crisis management organization, redundancy in business-critical infrastructure, and emergency concepts and disaster recovery plans.

For processing personal data, we have implemented measures to ensure compliance with Regulation (EU) 2016/679 (General Data Protection Regulation, "**GDPR**") and the respective implementation legislation in the national laws of the Member States, which is in Germany the Federal Data Protection Act (*Bundesdatenschutzgesetz*).

10.16. Employees

10.16.1. Workforce Structure

As of December 31, 2019, we had more than 5,400 employees (full-time equivalent), of which more than 4,000 were employed in production, R&D and services. Most of our engineering employees have worked for us for more than a decade.

In addition to our permanent employees, we deploy temporary agency employees (*Leiharbeitnehmer*) in order to be able to respond flexibly to rising demand. In 2019, on average, we employed approximately 120 temporary agency employees (full-time equivalent, excluding Nexeya due to the first-time consolidation with effect from October 1, 2019). Temporary agency employees are usually employed during peak times or for certain projects, but might also be employed on a long-term basis. A number of temporary agency employees have become permanent employees after the expiration of their temporary agency contracts. The employment of temporary agency employees is regulated by collective bargaining and works council agreements, which stipulate, among other things, remuneration, a maximum quote for temporary agency workers, the duration of their status, and the process for transfers into permanent employment.

The following table shows our number of employees (full-time equivalent) as of December 31, 2019, 2018, and 2017, broken down by function:

	As of December 31,		
	2019	2018	2017
		(unaudited)	
Production, R&D, service	4,343	3,491	3,358
Sales and distribution	106	121	91
Administration and general services	601	491	429
Others*	410	353	342
Total employees	**5,461**	**4,457**	**4,220**

*Includes working students, marginal employment, apprentices, trainees and partial retirement (passive phase).

The following table shows our number of employees (full-time equivalent) as of December 31, 2019, 2018, and 2017, broken down by region:

	As of December 31,		
	2019	2018	2017
		(unaudited)	
Germany	3,965	3,609	3,429
Rest of Europe	845	248	184
South Africa	600	576	590
North America	32	5	8
APAC	12	12	9
LATAM	1	1	0
Middle East	6	6	0
Total employees	**5,461**	**4,457**	**4,220**

Between December 31, 2019 and the date of the Prospectus, the number of our employees has not materially changed.

10.16.2. Collective Bargaining Agreements and Works Council Structure

Our Group companies in Germany, France, and South Africa maintain works councils as employee representative bodies, where required by statutory obligations. We conclude agreements with these works councils usually on topics that are subject to their co-determination according to each country's respective works councils acts (in Germany, for example, the Works Constitution Act (*Betriebsverfassungsgesetz*)). These agreements typically stipulate collective working conditions and frameworks, such as regarding remuneration, working time, health and safety, information systems, company pension schemes, social service institutions, data protection, travel policies, recruitment, or training. In Germany, works council co-determination matters are generally dealt with by the Group works council (*Konzernbetriebsrat*) to achieve consistency of employment conditions within the Group. In the Group works council, the local works council of every German site is represented with two members.

In addition, certain Group companies in Germany, France, and South Africa are subject to collective bargaining agreements with unions of the metal and electronic industries. Collective bargaining agreements typically regulate minimum working conditions.

We believe that the relationship with our employees and with unions and works councils is positive. This is reflected by the fact that there have been no material labor disputes, strikes, or layoffs since we became independent in 2017.

10.16.3. Remuneration Structure

Most of our employees receive a salary according to the aforementioned collective bargaining agreements. The amount and the structure of the salary vary according to the respective bargaining region. In addition, many employees are entitled to considerable additional payments according to works council agreements (such as performance bonuses, rewards for helpful suggestions or inventions, profit sharing, or anniversary payments). We also operate pension schemes for our employees (for details, see Note 30.1 to our Audited Consolidated Financial Statements 2019).

The remuneration of employees not covered by collective bargaining agreements (in particular specialists, and middle and low management) is structured as a fixed salary and a variable component. The variable component comprises a component linked to Group performance and a component linked to the individual employee's performance. The exact structure and adjustments are determined by regulations of the respective works council agreement and moreover depend on the classification of the particular function. In addition, employees in middle management and above not covered by collective bargaining agreements are entitled to a company car and specific healthcare services.

Executive employees are paid a fixed salary and a variable component according to each individual contract.

Several of our German entities offer models for lifetime working accounts, which represent defined benefit plans due to a pledged interest on contributions or nominal contributions, and are to be classified as post-employment benefits in accordance with IAS 19. The regular contributions of employees to their lifetime working accounts lead to corresponding personnel expenses in the reporting period.

10.16.4. Recruitment and Training

Hiring and retaining highly competent employees and providing them with regular professional training to enhance their skills and qualifications and reinforce their identification with us is important to us.

We expect increasing demand for additional employees in the future, especially in the Radar, IFF & COMMS division and in engineering areas in general. In order to fill all vacancies with skilled personnel, we pursue a diverse hiring strategy, which includes, among other things, collaborations with universities and institutes, social media, headhunting agencies, an employee referral program, and a vocational training program in Germany in cooperation with the "Duale Hochschule Baden-Württemberg".

To ensure that our personnel continues to build on their skills, we provide various forms of training and have developed a concept especially for our engineers. We encourage both initial vocational training and continuing technical and personal training for our existing workforce.

Many of our recent hires in Germany pursue dual study programs (combining theoretical and practical education), for example, in electrical and software engineering, while others are in traditional apprenticeships, ranging from electronics, electrical and software engineering, mechanical engineering, and surface coating, to traditional commercial professions. In their first year, all trainees are taught at our central training center in Ulm, before being assigned to our locations in Ulm, Immenstaad, Taufkirchen, Oberkochen, Wetzlar and Kiel. In addition, we offer special conditions for Master students who pursue their studies while they are working.

10.17. Health and Safety, Corporate Social Responsibility

The health and occupational safety of our employees are core values to us and therefore constantly monitored by management. We have established site management committees at each of our sites where health, safety and environmental issues, accidents, corrective actions, and campaigns are discussed on a regular basis. Health measures, ergonomics inspections, and trainings take place at our German locations. In addition, among other things, we carry out surveys among employees and offer awareness trainings for our employees, in particular line managers and safety delegates.

In recent months, we have particularly monitored the situation around the Covid-19 pandemic at all our sites, with the objective to protect the health and well-being of all our employees, customers, and partners. Our local business continuity management teams have reviewed and updated their plans to ensure maximum resilience of our operations. We have tested, and where necessary adapted, key processes in order to both safeguard our operations and minimize the spread of the virus.

In addition, assuming responsibility for social and ecological matters is firmly anchored in our corporate culture. As a responsible corporate citizen, we are committed to ensuring sustainability in our production processes and procurement and promoting young talent. We have implemented a variety of sustainability initiatives across the Group, ranging from systematically reducing, separating, and recycling waste, to investing in climate protection and reducing greenhouse gas emissions, using energy-efficient technologies in our production, encouraging employees to act in an environmentally friendly way, for example by prompting them to save energy and reducing business trips and paper usage. We also applied voluntarily for various accreditations based on international standards, such as ISO 14001 and ISO 45001 for our health, safety and environment (HSE) management system, as well as ISO 50001 and DIN EN 16247 for our energy management. We are committed to reducing the environmental impacts of our operations. We support various charity projects and organizations, with a particular focus on regional and local projects in the communities in which we operate, for example by funding local schools and student research competitions. In addition, we have developed a combined radar and electro-optical surveillance system that is protecting more than one thousand rhinos in South Africa and thereby contributing to the conservation of wildlife.

Through our counterparty due diligence procedures, we ensure that our suppliers and customers maintain minimum legal and ethical standards as well, for instance, with respect to the avoidance of child labor (for details on these procedures, see "*10.9.6. Counterparty Due Diligence*" and "*10.12.2. Supplier Selection and Onboarding Process*").

10.18. Real Estate

We use a range of offices, production sites, and laboratories.

We lease our main sites in Taufkirchen and Ulm, as well as two smaller test sites in Erbach and Kiel, all located in Germany, from HENSOLDT Real Estate GmbH & Co. KG, which is not a Group company, but serves as a security asset for the Group's pension obligations. The remaining sites are leased from third parties.

The leases from HENSOLDT Real Estate GmbH & Co. KG typically run for a non-cancellable minimum term of more than ten years, with a renewal or extension option. The leases were largely assumed from Airbus and partially adjusted in this regard. The remaining sites are leased from third parties. The third-party leases are individually negotiated with the lessor, but in general also with a long-term duration.

Our headquarters are located at Willy-Messerschmitt-Straße 3, 82024 Taufkirchen, Germany. This is also the registered place of business of the Company. In 2019, we opened an extension of our existing building on our Taufkirchen campus, which is now home to our top management, central functions (such as HR, finance, legal, and communications), as well as certain laboratories.

The following tables provide a summary of selected real property used by us as of December 31, 2019:

Country	Location	Size (sqm. approx.)	Lease Term	Use
		Sites Leased from HENSOLDT Real Estate GmbH & Co. KG		
Germany	Taufkirchen	>10,000	Until 2032	Headquarters
Germany	Ulm	>100,000	Until 2030	Production, R&D, sales
		Sites Leased from Third Parties		
Germany	Immenstaad	>10,000	Until 2025	Production, R&D, administration
Germany	Oberkochen	>20,000	Until 2025	Production, R&D, administration
South Africa	Irene	>10,000	Until 2024	Production, R&D, administration, sales, maintenance
South Africa	Pretoria	>5,000	Until 2022	Production, R&D, administration, sales, maintenance
United Kingdom	Enfield	>5,000	Until 2029	Production, R&D, administration

Between December 31, 2019 and the date of the Prospectus, we did not acquire or lease any additional material real property.

We believe that our existing facilities are adequate to meet our current and medium-term needs, and that suitable additional or alternative spaces will be available in the future on commercially reasonable terms.

10.19. Insurance

We maintain both Group-wide and individual insurance policies for the Company and its subsidiaries, which are managed by our corporate insurances department. In addition, we have engaged AON as an external insurance broker to place insurance policies with insurers.

All Group entities and projects are insured via our corporate insurance scheme. Our insurance policies relate to a number of risks associated with our business activities, including product and environmental liability, property damage and business interruption, marine cargo, legal expenses, crime, terrorism and aviation liability, as well as directors and officers ("**D&O**") liability.

Our D&O liability insurance covers all past, present, and future members of the management boards, supervisory boards, and advisory boards, as well as managing directors of the Company and companies in which the Company – directly or indirectly – holds the majority of shares or voting rights, to the extent such does not violate foreign supervisory law. In addition, some countries require local D&O insurance. Executive employees are also insured, provided they are subject to claims based on corporate principles. The insurance stipulates certain deductibles. Certain limitations apply regarding coverage in relation to claims in the United States or Canada. In addition, there are several exemptions from insurance coverage, for example in case of intentional breaches of duty or regarding claims in countries where the insurance of local risks by insurers not licensed in that country is prohibited. In those countries, the scope of insurance and the amount of cover depend on the local insurance policies taken out for these countries.

Our aviation liability insurance covers liability arising from defective products, such as aircraft, spares, or services.

Our local insurance policies vary from country to country. In Germany, for example, we maintain local insurance in relation to accidents suffered by employees in the course of business travel causing death or serious injuries, motor insurance, and travel-related insurance.

Our insurance policies are subject to customary exclusions, limits and deductibles. Furthermore, we have identified several risks that cannot be insured on economically feasible terms and for which, therefore, no insurance cover has been purchased, such as nuclear catastrophes, credit failure, warranty claims, and IP violations.

Under Group policies, all identified insurable risks have to be reported to our corporate insurances department. The same applies for all relevant claims or losses, which have to be reported immediately after notice in writing. Any non-insurance of insurable risks in excess of our corporate insurances has to be approved in advance in accordance with defined thresholds.

We regularly review our insurance coverage, together with our insurance broker and assess whether changes are needed.

10.20. Material Agreements

10.20.1. Financing Agreements

10.20.1.1. Post-IPO Financing Agreements

On September 7, 2020, the Company entered into a new term and revolving credit facilities agreement with, among others, Allied Irish Banks plc, Bank of America Merrill Lynch International Designated Activity Company, The Governor and Company of the Bank of Ireland, Citicorp North America, Inc., COMMERZBANK, Crédit Agricole Corporate and Investment Bank Deutschland, Crédit Industriel et Commercial London Branch, Deutsche Bank Luxembourg S.A., JPMorgan Chase Bank, N.A., London Branch, Mizuho Bank Europe N.V., and UniCredit Bank AG as original lenders, Wilmington Trust (London) Limited as facility agent (the "**New Facility Agent**"), and Wilmington Trust (London) Limited as security agent (the "**New Security Agent**") (the "**New Facilities Agreement**"). Under the New Facilities Agreement, a term loan facility of EUR 600 million (the "**New Term Loan Facility**") and a multicurrency revolving credit facility of EUR 350 million (the "**New Revolving Credit Facility**") will be made available to the Company and certain of its subsidiaries subject to certain conditions, including the admission of the Company's shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*).

The New Term Loan Facility and the New Revolving Credit Facility may be utilized by way of loans for the purpose of, among other things, directly or indirectly financing or refinancing the general corporate purposes and working capital requirements of the Group. The New Revolving Credit Facility may also be utilized by way of ancillary facilities and bank guarantees provided by the lenders of the New Revolving Credit Facility.

Each loan made under the New Term Loan Facility has a final maturity date which falls 60 months after the date of first drawdown (the "**First Utilization Date**") under the New Term Loan Facility. The interest period of a loan made under the New Term Loan Facility can be one, two, three, or six months or any such period as agreed by the New Facility Agent (or if greater than six months, all lenders participating in the relevant loan).

Each loan made under the New Revolving Credit Facility will be repayable on the last day of its interest period. The interest period of a loan made under the New Revolving Credit Facility can be one, two, three, or six months or any such period as agreed by the New Facility Agent (or if greater than six months, all lenders participating in the relevant loan). The final maturity date of the New Revolving Credit Facility is the date which falls 60 months after the First Utilization Date.

Interest will be payable on amounts drawn by way of loans under the New Term Loan Facility at a margin ranging between 1.75% and 2.75% per annum over EURIBOR (depending on the ratio of total net debt to consolidated EBITDA, as determined in accordance with the terms of the New Facilities Agreement). Until the date falling six months after the First Utilization Date, the opening margin for the New Term Loan Facility is fixed at 2.25% per annum.

Interest will be payable on amounts drawn by way of loans under the New Revolving Credit Facility at a margin ranging between 1.50% and 2.50% per annum over LIBOR or EURIBOR (as applicable) (depending on the ratio of total net debt to consolidated EBITDA, as determined in accordance with the terms of the New Facilities Agreement). Until the date falling six months after the First Utilization Date, the opening margin for the New Revolving Credit Facility is fixed at 2.00% per annum. In respect of all guarantee facilities and other similar or equivalent financial accommodations made available on a bilateral basis, the relevant margin shall be the applicable margin for the New Revolving Credit Facility less 0.75% per annum subject to a floor of 0.75%, per annum or as otherwise agreed with the relevant provider. Additionally, a commitment fee is payable on unutilized amounts under the New Revolving Credit Facility at a rate of 30% of the applicable margin for the New Revolving Credit Facility. Customary fees are payable to the New Facility Agent and the New Security Agent.

The New Facilities Agreement will be guaranteed by the guarantors thereto (being the Company, HENSOLDT Holding GmbH, and HENSOLDT Holding Germany GmbH as of the First Utilization Date).

The rights of the lenders under the New Facilities Agreement, will, subject to agreed security principles, be secured by security over the shares held by a guarantor or a borrower incorporated in Germany or France in another guarantor or borrower. Such security must be released if requested by a member of the Group provided certain conditions are met.

The New Facilities Agreement also contains customary prepayment, cancellation, and event of default provisions, customary representations and warranties (subject to certain exceptions and qualifications), and a financial covenant, including:

- if required by a lender, mandatory prepayment of all utilizations provided by that lender upon the sale of all or substantially all of the business and assets of the Group or a change of control;
- a financial covenant (tested twice annually) which requires that the ratio of total net debt to consolidated EBITDA (each calculated in accordance with the terms of the New Facilities Agreement), when tested, does not exceed 4.25:1;
- covenants that impose restrictions on the Group's ability to enter mergers, incur additional financial indebtedness, make asset disposals, grant security, or make a substantial change to the general nature of our business (in each case subject to certain exceptions);
- voluntary prepayment of loans or letters of credit (subject to minimum amounts and prior notice);
- events of default including non-payment, failure to comply with financial covenant (subject to equity cure provisions), breaches of representation and other obligations, insolvency and cross default (in relation to certain other financial indebtedness of the Group, subject to a EUR 20 million *de minimis* threshold), unlawfulness, invalidity, and repudiation of the finance documents, and material adverse effect (in each case subject to customary grace periods and thresholds); and
- certain ongoing financial information provisions.

10.20.1.2. Existing Financing Agreements

We have committed credit facilities in the form of the Senior Facilities Agreement (as defined below), comprising (i) a term loan facility (the "**Term Loan Facility**") amounting to EUR 920 million and (ii) a revolving credit facility (the "**Revolving Credit Facility**") amounting to EUR 200 million, which was drawn in full as a precautionary measure for the purpose of our Covid-19 risk management and is drawn in full as of the date of the Prospectus. These credit facilities are expected to be redeemed and replaced by the New Facilities Agreement following the admission of the Company's shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*).

We entered into the Senior Facilities Agreement originally on April 18, 2016, when HENSOLDT Holding GmbH (formerly Kite Holding Germany GmbH), HENSOLDT Holding Germany GmbH (formerly Square Holding Germany GmbH), and Hensoldt Holding France SAS (formerly Square Holding France SAS) entered into a senior facilities agreement with Wilmington Trust (London) Limited, as facility agent (the "**Facility Agent**") and security agent (the "**Security Agent**"), as well as a number of financial institutions (Crédit Agricole Corporate and Investment Bank Deutschland; COMMERZBANK; Deutsche Bank AG, London Branch; IKB Deutsche Industriebank AG; Mizuho Bank, Ltd. (formerly Mizuho Bank Nederland N.V.); and UniCredit Bank AG, London Branch), as arrangers, which was amended by an amendment letter dated August 1, 2016 and amended and restated by amendment and restatement agreements dated November 29, 2016, April 13, 2017, July 5, 2017, February 27, 2018, and November 21, 2018 (as amended and restated, the "**Senior Facilities Agreement**").

Claims under the Senior Facilities Agreement are secured by pledged shares of the Group entities HENSOLDT Holding Germany GmbH, HENSOLDT Sensors GmbH, HENSOLDT Optronics GmbH, and Hensoldt Holding France S.A.S., and additionally guaranteed by HENSOLDT UK Limited, KH Finance No. 2, KH Finance Ltd., and Kelvin Hughes Limited.

The Senior Facilities Agreement provides for the floating rate Term Loan Facility, with a maturity date on February 28, 2024, and the floating rate multicurrency Revolving Credit Facility, with a maturity date on February 28, 2023. The Revolving Credit Facility permits entering into bilateral ancillary facilities, as well as certain operating facilities.

Interest is payable on amounts drawn by way of loans under the Term Loan Facility at a margin ranging between 3.00% and 3.50% per annum over EURIBOR (depending on a senior secured leverage ratio as determined in accordance with the terms of the Senior Facilities Agreement). The interest period of a loan made under the Term Loan Facility can be one, two, three, or six months, or any such period as agreed by the Facility Agent (or if greater than six months, all lenders participating in the relevant loan) or such other period as is required to match a payment date under a hedging agreement or relevant payment date under the Senior Facilities Agreement. We have concluded interest rate swaps in order to hedge the risk resulting from the variable interest charge on the loans under the Term Loan Facility. Under these hedges, the variable interest charge on the loan is fully replaced with a fixed interest rate for the period from March 2019 to March 2022.

Interest is payable on amounts drawn by way of loans under the Revolving Credit Facility at a margin ranging between 3.50% and 2.75% per annum over LIBOR or EURIBOR (as applicable) (depending on the ratio of total net debt to consolidated EBITDA or a senior secured leverage ratio (as the case may be), each as determined in accordance with the terms of the Senior Facilities Agreement). The interest period of a loan made under the Revolving Credit Facility can be one, two, three, or six months, or any such period as agreed by the Facility Agent (or if greater than six months, all lenders participating in the relevant loan) or such other period as is required to match a payment date under a hedging agreement or relevant payment date under the Senior Facilities Agreement. In respect of all guarantee facilities and other similar or equivalent financial accommodations made available on a bilateral basis, the relevant margin shall be the applicable margin for the Revolving Credit Facility less 1.00%, or as otherwise agreed with the relevant provider. Additionally, a commitment fee is payable on unutilized amounts under the Revolving Credit Facility at a rate of 35% of the applicable margin. Customary fees are payable to the Facility Agent and the Security Agent.

According to the Senior Facilities Agreement, we are permitted to utilize the Term Loan Facility for, among other things, directly or indirectly refinancing indebtedness and financing or refinancing general corporate purposes and/or working capital requirements, including capital expenditures. We are permitted to use the Revolving Credit Facility for, among other things, directly or indirectly financing or refinancing general corporate purposes and/or working capital requirements, including capital expenditures.

The Senior Facilities Agreement also contains customary prepayment, cancellation, and default provisions, customary representations and warranties (subject to certain exceptions and qualifications), and a financial covenant, including:

- if required by a lender, mandatory prepayment of all utilizations provided by that lender upon the sale of all or substantially all of the business and assets of the Group or a change of control;
- a financial covenant (tested only if the Revolving Credit Facility is drawn by way of revolving loans equal to or greater than 40% of the total revolving commitments at 5 p.m. London time on the relevant quarterly testing date), which requires that the ratio of total net debt to consolidated EBITDA (each calculated in accordance with the terms of the Senior Facilities Agreement), when tested, does not exceed 6.50:1;
- covenants that impose restrictions on the Group's ability to incur additional financial indebtedness, grant security, make acquisitions and asset disposals, pay dividends and shareholder distributions, or make a substantial change to the general nature of the business of the Group (in each case subject to certain exceptions);
- voluntary prepayment of loans or letters of credit (subject to minimum amounts and prior notice);
- events of default including non-payment, failure to comply with financial covenants (subject to equity cure provisions) for the benefit of the Revolving Credit Facility lenders only, breaches of representation and other obligations, insolvency and cross default (in relation to certain other financial indebtedness of the Group, subject to a EUR 15 million *de minimis* threshold), unlawfulness, invalidity, and repudiation of the finance documents, and material adverse effect (in each case subject to customary grace periods and thresholds); and
- certain ongoing financial information provisions.

Certain restrictions and obligations on the Group under the Senior Facilities Agreement shall be suspended for so long as the Release Condition (as defined below) is satisfied, including the

restrictions on paying dividends and shareholder distributions, incurring indebtedness, granting security, and making acquisitions. In addition, even if the Release Condition is not satisfied, the Company is able to pay dividends and shareholder distributions for so long as no event of default (as defined in the Senior Facilities Agreement) is continuing and the relevant leverage ratio (calculated in accordance with the terms of the Senior Facilities Agreement) taking into account such payments is equal to or less than 3.00:1. If at any time after a Release Condition has been satisfied that Release Condition subsequently ceases to be satisfied and no other Release Condition is satisfied, any breach of the Senior Facilities Agreement or related finance documents that arises as a result of the obligations and restrictions referred to above ceasing to be suspended shall not (provided that it did not constitute an event of default under the Senior Facilities Agreement at the time the relevant event or occurrence took place) constitute, or be deemed to constitute, or result in, a breach of any representation, warranty, undertaking, or other term in the relevant finance documents or a default or an event of default.

"**Release Condition**" means any of the following conditions: (a) the ratio of total senior secured net debt to consolidated EBITDA (each calculated in accordance with the terms of the Senior Facilities Agreement) is equal to or less than 2.75:1; or (b) the long-term corporate credit rating of the Company (or, as the case may be, any affiliate of the Company given such a rating, excluding (A) any special purpose vehicle which is established by any member of the Group solely for the purpose of obtaining a rating such that the condition set out in this paragraph (b) is satisfied and (B) any other member of the Group which is ring-fenced from the principal business of the Group) is equal to or better than Baa3 or BBB- (as applicable) according to at least two of Moody's, Standard & Poor's, and Fitch.

In addition, certain of our subsidiaries have at their disposal lines of credit at a local level in a limited amount.

The Term Loan Facility and the Revolving Credit Facility were, as of June 30, 2020, and are, as of the date of the Prospectus, each drawn in full, *i.e.*, at their nominal amounts of EUR 920 million and EUR 200 million, respectively.

10.20.2. German State Special Security Agreement

On February 23, 2017, HENSOLDT Holding GmbH, HENSOLDT Holding Germany GmbH, HENSOLDT Optronics GmbH, and HENSOLDT Sensors GmbH, as well as the Selling Shareholder and certain of its holding companies, entered into an agreement with the Federal Republic of Germany relating to the security interests of the Federal Republic of Germany with respect to HENSOLDT Sensors GmbH and HENSOLDT Optronics GmbH (as amended and updated from time to time, the "**GSSA 2017**" (German State Special Security Agreement 2017)). The Company acceded to the GSSA 2017 with effect from the end of the day on November 29, 2019, when the Company became a shareholder of HENSOLDT Holding GmbH. On September 9, 2020, the parties to the GSSA 2017 entered into a new agreement, the "**GSSA 2020**" (and, together with the GSSA 2017, the "**GSSA**"), amending and replacing the GSSA 2017 in its entirety, which will enter into full force upon admission of the Company's shares to trading. With effectiveness of the GSSA 2020, the Selling Shareholder and certain of its holding companies will simultaneously cease to be parties to the GSSA and become parties to a separate security agreement entered into with the Federal Republic of Germany.

The GSSA 2017 was entered into by the parties based on the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*) permitting the BMWi to impose restrictive measures in order to protect security interests of the Federal Republic of Germany in connection with an acquisition by non-EU acquirers of companies operating in certain sensitive industry sectors and the GSSA 2020 was entered into on the basis of the framework agreed for an IPO in the GSSA 2017. Each GSSA grants the Federal Republic of Germany certain rights and imposes restrictions on the Group with respect to certain activities and shareholdings that concern material security interests of the Federal Republic of Germany (the "**Sensitive Activities**"), which comprise a substantial part of the Group's business in Germany. Certain Group entities directly engaged in Sensitive Activities, including, in particular, HENSOLDT Sensors GmbH and HENSOLDT Optronics GmbH, which are the Group's main operating entities in Germany, are referred to as the "**Sensitive Entities**". Subject to certain minor exceptions, the Sensitive Activities exclude foreign subsidiaries and participations and activities carried out abroad, as well as real estate special purpose vehicles. For the avoidance of doubt, the GSSA 2020 does not restrict the trading in the Company's shares or the rights of the Company's direct or indirect shareholders.

The specific rights of the Federal Republic of Germany and the restrictions on the Group under the GSSA include, among other things:

- information and consultation rights (on a regular basis, prior to material decisions, and upon demand) concerning Sensitive Activities, including regarding certain general business information and certain material matters concerning Sensitive Activities, such as:

  - certain material organizational or operational changes of a part of an operational unit or of a business area;

  - any transfer or encumbrance of shares of HENSOLDT Holding GmbH, HENSOLDT Holding Germany GmbH, or any of the Sensitive Entities and economically equivalent transactions, including the conclusion or amendment of intercompany agreements pursuant to Sections 291 et seq. of the German Stock Corporation Act (*Aktiengesetz*);

  - measures and transactions under the German Transformation Act (*Umwandlungsgesetz*) or comparable foreign laws, including mergers and demergers, or measures and transactions which are similar to these from an economic perspective;

  - any sale, transfer, or encumbrance of assets that are material for Sensitive Activities;

  - certain relocations of Sensitive Activities to a site outside Germany;

  - entering into, materially amending, or terminating cooperations, partnerships (other than in the context of normal customer, supplier, or reseller relationships), or joint ventures;

  - amendments to the articles of association of HENSOLDT Holding GmbH, HENSOLDT Holding Germany GmbH, or any of the Sensitive Entities;

  - the dissolution or liquidation of HENSOLDT Holding GmbH, HENSOLDT Holding Germany GmbH, or any of the Sensitive Entities;

  - the admission to trading, or application for admission to trading, of the shares (or certain other rights) of HENSOLDT Holding GmbH, HENSOLDT Holding Germany GmbH, or any of the Sensitive Activities; and

  - actions resulting in products that are part of the Sensitive Activities becoming subject to ITAR regulation or to significantly more restrictive ITAR regulation than before;

  such matters, the "**Material Matters**";

- certain rights for the Federal Republic of Germany to nominate two members of the supervisory board of HENSOLDT Holding GmbH under the GSSA 2017 and, under the GSSA 2020, to appoint, jointly with the Selling Shareholder, one Supervisory Board member with the right of the Federal Republic of Germany to solely appoint one additional Supervisory Board member if the Federal Republic of Germany directly or indirectly holds at least 25.1% of the Company´s share capital (see also "*15.3.1 General*")";

- a requirement for prior approval for the implementation of certain corporate and business measures relating to HENSOLDT Holding GmbH, HENSOLDT Holding Germany GmbH, or any of the Sensitive Entities to the extent they concern Material Matters, with the understanding that the Federal Republic of Germany will only withhold the approval as long as the relevant measure would (in the Federal Republic of Germany's sole discretion) affect its essential security interest;

- certain covenants regarding, among other things, the Group's financial position and investments in Sensitive Activities in accordance with the Group's finance and investment planning submitted to the Federal Republic of Germany; and

- rights of first refusal in case of a sale or transfer of Sensitive Entities or Sensitive Activities to third parties, as well as direct purchase rights in case, among other things, (i) the GSSA is terminated by the Group or (ii) Sensitive Activities are (without the approval of the Federal Republic of Germany) discontinued, relocated to a country other than Germany, or materially reduced.

In addition, compared to the GSSA 2017, certain provisions were added, amended, or were omitted entirely in the GSSA 2020. For example, (i) under the GSSA 2020, prior to a contemplated transfer outside the stock market of at least 5% of its own shares by the Company to a strategic investor, the Company shall inform and consult with the Federal Republic of Germany; (ii) the GSSA 2020 includes the conclusion or amendment of agreements regarding the exercise of voting rights pertaining to shares of HENSOLDT Holding GmbH, HENSOLDT Holding Germany GmbH, or any of the Sensitive Entities as an additional Material Matter; (iii) the Federal Republic of Germany has the right to appoint one independent member of the Supervisory Board jointly with the Selling Shareholder (as long as the Selling Shareholder remains a shareholder of the Company; once the Selling Shareholder ceases to be a shareholder of the Company, the Federal Republic of Germany will be entitled to appoint such member of the Supervisory Board alone) under the GSSA 2020, and if the Federal Republic of Germany directly or indirectly holds at least 25.1% of the shares of the Company, the right to appoint one additional member of the Supervisory Board, whereas the Federal Republic of Germany had the right to nominate two members of the supervisory board of HENSOLDT Holding GmbH (independently from the Selling Shareholder and the amount of its shareholding) under the GSSA 2017; (iv) under the GSSA 2020, the Federal Republic of Germany has additional shareholdings (or the right to acquire such shareholdings) of one share of each of HENSOLDT Holding GmbH, HENSOLDT Holding Germany GmbH (to be acquired by the Federal Republic of Germany once certain tax-related conditions are fulfilled but in any event no later than six months after completion of the Offering), HENSOLDT Sensors GmbH (to be acquired by the Federal Republic of Germany after completion of the Offering), HENSOLDT Optronics GmbH (to be acquired by the Federal Republic of Germany once certain tax-related conditions are fulfilled but in any event no later than six months after completion of the Offering), and future directly or indirectly wholly-owned subsidiaries of the Company located in Germany that qualify as Sensitive Entities, in each case granting certain veto rights (but no dividend rights, and the rights in case of a dissolution of the respective company shall be capped at the nominal amount of the respective share) to the Federal Republic of Germany as shareholder of the respective entity (such veto rights to cover (a) a disposal of shares of the relevant entity (excluding the realization of encumbrances and other collateral by banks financing the Group), (b) a direct or indirect disposal of shares of Sensitive Entities by the relevant entity (excluding the realization of encumbrances and other collateral by banks financing the Group), (c) measures under the German Transformation Act (*Umwandlungsgesetz*), (d) the conclusion or amendment of intercompany agreements pursuant to Sections 291 et seq. of the German Stock Corporation Act (*Aktiengesetz*) (excluding profit and loss transfer agreements of HENSOLDT Holding GmbH with the Company as parent entity, profit and loss pooling agreements of HENSOLDT Holding Germany GmbH with HENSOLDT Holding GmbH as parent entity, and domination and/or profit and loss pooling agreements of each of HENSOLDT Sensors GmbH and HENSOLDT Optronics GmbH or other direct or indirect subsidiaries of HENSOLDT Holding Germany GmbH with HENSOLDT Holding Germany GmbH as parent entity), and (e) comparable measures under foreign laws, as well as, with regard to the one share of each of HENSOLDT Sensors GmbH, HENSOLDT Optronics GmbH, and future wholly-owned Sensitive Entities, the Material Matters). With regard to Sensitive Entities which are located in Germany and not wholly-owned but directly or indirectly majority-owned by the Company, the Company shall consult with the Federal Republic of Germany on a potential minimal shareholding of the Federal Republic of Germany and, vis-à-vis the other shareholder(s), try to put the Federal Republic of Germany in a position to acquire a minimal shareholding in any such Sensitive Entity; (v) the GSSA 2020 contains no minimum holding period for the Selling Shareholder with respect to the Sensitive Activities (subject to an exemption for an IPO) and no restrictions on the distribution of dividends, which were included in the GSSA 2017 for HENSOLDT Holding GmbH; (vi) the GSSA 2020 provides that certain intra-group transfers and other measures between German Group entities and encumbrances exclusively to collateralize claims of banks financing the Group (including the realization of encumbrances and other collateral by these banks) as well as the conclusion or amendment of certain intercompany agreements pursuant to Sections 291 et seq. of the German Stock Corporation Act (*Aktiengesetz*) (namely profit and loss pooling agreements between the Company or HENSOLDT Holding GmbH (as parent entity) and direct or indirect domestic subsidiaries of the Company or HENSOLDT Holding GmbH and, once the Federal Republic of Germany holds a minimal shareholding in HENSOLDT Holding Germany GmbH, domination and/or profit and loss pooling agreements between HENSOLDT Holding Germany GmbH (as parent entity) and direct or indirect domestic subsidiaries of HENSOLDT Holding Germany GmbH (including Sensitive Entities)) do not constitute Material Matters and may be implemented without prior approval of the Federal Republic of Germany; and (vii) the GSSA 2020 specifies the right of the Federal Republic of Germany to amend the list of Sensitive Activities and/or Sensitive Entities to adapt to more advanced or new technologies or activities that concern material

security interests of the Federal Republic of Germany or to new procurement orders or funding given by the Federal Republic of Germany to the Group or to any change in the strategic considerations of the Federal Republic of Germany regarding the security and defense industry.

The GSSA 2020 may be terminated by any party with twelve months' notice, effective the earlier of (i) December 31, 2040 and (ii) the Federal Republic of Germany ceasing to have any material security interests in the Group (acknowledging that the Federal Republic of Germany has a prerogative with respect to this assessment).

In connection with the GSSA 2020, the Selling Shareholder and certain of its holding companies entered into a separate German State Special Security Agreement with the Federal Republic of Germany, which aims to protect the Federal Republic of Germany's security interests in certain entities and activities of the Group. Among other things, in connection with this agreement, the Federal Republic of Germany purchased one share of the Company from the Selling Shareholder and the parties agreed that the acquisition of such share will be effected at the earliest upon admission of the Company's shares to trading, subject to relevant internal ministry approval. In addition, the agreement provides for a right of the Federal Republic of Germany to acquire a strategic interest in the Company by increasing its shareholding in the Company, directly (or indirectly through any legal entity under the control (majority of more than 50%) of the Federal Republic of Germany, for example, Kreditanstalt für Wiederaufbau), to up to 25.1%, by purchasing from the Selling Shareholder a corresponding number of shares. Such right may be exercised (i) between October 1, 2020 and December 31, 2020, in which case the shares so acquired shall correspond to at least 10% of the Company's share capital at the time of completion of the acquisition, at a fixed price of EUR 600 million for 25.1% of the shares of the Company (such amount to be reduced in case of an acquisition of less than 25.1% of the Company's shares on a *pro rata* basis) and (ii) in case the Selling Shareholder intends to reduce its shareholding in the Company to less than 25.1% of the Company's share capital, in which case the Selling Shareholder shall submit an offer to the Federal Republic of Germany to purchase its remaining shares equal to up to 25.1%, which offer may be accepted within two months after receipt, at a price per share equal to the volume-weighted average trading price of the Company's shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) during the 45 trading days prior to such offer by the Selling Shareholder (this second mentioned right was already part of the GSSA 2017). Prior to the exercise of the first mentioned right, the Federal Republic of Germany is entitled to request and perform certain due diligence procedures with respect to the Company and the Group. In case of the exercise of each of the aforementioned rights, the closing of the acquisition of Company's shares would be subject to certain conditions, including regulatory approvals, and the Federal Republic of Germany would not be allowed to sell the shares so acquired for 36 months. In case the Federal Republic of Germany directly or indirectly holds at least 25.1% of the Company's share capital, the Articles of Association, in accordance with the GSSA 2020, provide for a right of the Federal Republic of Germany to solely appoint one additional Supervisory Board member (see also "*15.3.1 General*"). Except for such right to appoint one additional Supervisory Board member, the Federal Republic of Germany will not have any additional rights in case of an exercise of the acquisition rights. In addition, under the aforementioned security agreement, prior to a contemplated transfer outside the stock market of at least 10% of the shares of the Company by the Selling Shareholder or certain of its holding companies to a strategic investor, the Selling Shareholder shall inform and consult with the Federal Republic of Germany. Such security agreement may be terminated by any party with twelve months' notice with effect as of the end of the financial year of the Company, earliest with effect as of December 31, 2035.

10.20.3. Nexeya Share Purchase Agreement

Pursuant to a sale and purchase agreement dated May 3, 2019 (the "**Nexeya SPA**") between HENSOLDT Holding France S.A.S. (our French subsidiary) and Nexeya Invest S.A.S., among others, we agreed to acquire the entire share capital of Nexeya from Nexeya Invest S.A.S. The acquisition closed with effect from October 1, 2019. As a result of the acquisition, HENSOLDT Holding France S.A.S. now owns major parts of the activities that had previously been carried out by Nexeya and its affiliates, comprising test and integration solutions, parts of the mission management systems and power conversion solutions, as well as customer support.

On the closing date, HENSOLDT Holding France S.A.S. paid to Nexeya Invest S.A.S. a provisional purchase price of EUR 88.8 million, subject to certain post-closing adjustments and an additional earn-out consideration for Nexeya Invest S.A.S. with reference to Nexeya's EBITDA and revenue targets for the financial year ended June 30, 2019.

As per June 30, 2020, the further provisional purchase price was adjusted by EUR 4.0 million by way of a repayment from an escrow account.

The Nexeya SPA contains, among other things, customary representations and warranties, as well as certain non-compete restrictions. Such non-compete restrictions are generally (with certain exceptions) applicable for two years following the closing date (i) for Nexeya Invest S.A.S. (among others), with respect to any part of the Nexeya business worldwide, and (ii) for us, with respect to certain sensitive activities for French national security reasons.

10.21. Legal and Arbitration Proceedings

10.21.1. Overview

As part of our ordinary business activities or the acquisition or divestiture of businesses and/or assets, companies of the Group are, and will likely continue to be, involved in legal and administrative disputes and proceedings. Such disputes and proceedings have in the past, and will likely in the future, relate to, among other things, contractual claims by or against business partners, employment matters, and regulatory compliance.

It is impossible to determine or predict the outcome of any pending or threatened disputes or proceedings. We nevertheless believe that, other than the proceedings described below, no actual or threatened governmental, legal, or arbitration proceedings (including any proceedings which are pending or threatened of which the Company is aware) during the last twelve months may have, or have had in the recent past, a material effect on our financial position or profitability.

10.21.2. Customer Dispute

We are in a dispute with ADS relating to a contract dated February 28, 2017 between ADS and HENSOLDT Optronics GmbH for the supply of NightOwl cameras (see "*10.5.4.2. Ground Based Systems*") to ADS. The cameras were intended to be integrated into a border protection system that ADS had been contracted to supply to a country in the Middle East.

Until July 2019, we delivered approximately three quarters of the total number of NightOwl cameras and ADS paid us approximately EUR 30 million, equaling approximately three quarters of the total purchase price. Following discussions of a number of allegedly open complaints that ADS raised under the contract, ADS declared the immediate termination of the contract in July 2019, particularly citing alleged systematic failures and quality issues in the NightOwl camera systems and the alleged insufficient form and content of the associated manuals, and indicated that it might, among other things, request refund of the purchase price already paid to us plus further costs and expenses. We rejected the termination as unwarranted, affirming our view that ADS' complaints are without merits or have since been remedied, and expressed our continued willingness to fulfill all our contractual obligations.

In January 2020, ADS filed a request for arbitration with the German Arbitration Institute (*Deutsche Institution für Schiedsgerichtsbarkeit e.V.*, DIS) against HENSOLDT Optronics GmbH as respondent. ADS has asked the arbitral tribunal to order HENSOLDT Optronics GmbH to pay to ADS approximately EUR 31 million plus interest at 5 percentage points over the applicable German base rate from July 16, 2019, and to declare HENSOLDT Optronics GmbH liable to ADS for any future damages resulting from the alleged breaches of contract. In May 2020, HENSOLDT Optronics GmbH filed a statement of defence and counterclaim for specific performance, *i.e.*, payment under the contract of approximately EUR 11 million plus interest by ADS upon delivery of the remaining NightOwl cameras and associated spare parts as well as the performance of maintenance services by HENSOLDT Optronics GmbH. The arbitral tribunal has granted ADS until end of September 2020 to file its reply. HENSOLDT Optronics GmbH is expected to be able to file a rejoinder until the end of February 2021. Hearings have been scheduled for May 2021.

11. REGULATORY ENVIRONMENT

11.1. Regulatory Overview

Our operations and the products that we use and manufacture are subject to numerous laws, rules, and regulations at international, EU, and national levels, in particular in the fields of procurement, pricing, secrecy protection, export control, foreign trade, anti-corruption and -bribery, health and safety, environmental protection, as well as product safety and liability.

Since our business primarily comprises the production and distribution of defense and security-related products, we are subject to procurement laws and regulations and depend on political decisions on governments' defense spending. In Germany, for example, projects above a certain monetary threshold are subject to the approval of the parliamentary defense committee (*Verteidigungsausschuss*). Our business contacts with government customers also result in the imposition of special secrecy obligations which allow us under certain conditions to exchange classified information with these customers.

Due to our product portfolio, which includes to a large extent military equipment, we are subject to international, European, and national export control and foreign trade laws and regulations. In this context, we must also comply with embargoes and trade sanctions, which impose restrictive measures against certain countries, organizations, groups, non-state entities, and individuals, and which require us to conduct a thorough assessment of our customers' background and supply chains.

We are subject to anti-corruption and bribery laws, which are one of the main drivers for our compliance efforts (see "*10.13. Compliance*").

In addition, we are subject to a number of health, safety, and environmental protection laws and regulations. In Germany, these laws and regulations include, for example, the Federal Soil Protection Act (*Bundes-Bodenschutzgesetz*), the Water Resources Act (*Wasserhaushaltsgesetz*), and Regulation (EC) No 1907/2006 on Registration, Evaluation, Authorization and Restriction of Chemicals (REACH).

Our products must meet certain product safety standards in all jurisdictions where we deliver them, which include, in Germany, the Product Safety Act (*Produktsicherheitsgesetz*) and the Product Liability Act (*Produkthaftungsgesetz*). Some of our products for the aviation sector are subject to special product safety requirements and approvals.

Due to the sensitive nature of our business and product portfolio, national investment control regimes may be applicable, which might restrict the ability of foreign acquirers to invest in the Company.

11.2. Contracts with Governments

11.2.1. Applicable Procurement Laws and Regulations

We generate the vast majority of our revenue from governments' defense and security-related projects, whereby procurements of the German armed forces (*Bundeswehr*) are of particular importance for the success of our business. The funding of such contracts is subject to procurement law, which is determined by international, European, and national rules and legislations. At the international level, Germany is bound by the public procurement provisions of the Agreement on Government Procurement (*Übereinkommen über das öffentliche Beschaffungswesen*). At the European level, Germany is subject to Directive 2009/43/EC and Directive 2009/81/EC implementing the so-called "defense package" of the European Union, as well as Directive 2014/24/EC on public procurement. The defense package is the first procurement law regime that was created particularly for the defense and security sectors and serves the purpose of enhancing transparency and openness in defense markets between EU countries. Germany has implemented the international and European rules and regulations into national procurement law, particularly in form of the German Act against Restrictions of Competition (*Gesetz gegen Wettbewerbsbeschränkungen*) and the German Defense Procurement Regulation (*Verteidigungsvergabeverordnung*). In addition, the BAAINBw often applies supplemental terms and conditions to its contracts (such as ABEI, ABBV, VOL/B, ZVB/BMVg). In 2020, the BAAINBw redrafted its supplemental terms and conditions for orders below EUR 25 million. In addition, it is currently redrafting its supplemental terms and conditions for orders regarding developments. Similar regulatory frameworks apply to us in the other jurisdictions in which we operate.

Public procurement law generally requires public entities, sectorial contracting entities, and concession grantors to award contracts and concessions in a transparent and non-discriminatory tender procedure, depending on certain thresholds, either on the national or on the European level. Tender obligations also apply to material amendments to existing contracts. In case of violations of public procurement law requirements, the underlying contract may be null and void. In addition, competitors may claim damages in case of such violations, in particular against the public contracting entity.

11.2.2. Approvals and Pricing Regulations

Our sales to governments are generally subject to procurement approval requirements by the respective country's parliament or other stakeholders. While similar provisions also apply to our operations in other jurisdictions, the following paragraphs summarize the situation in Germany, which is the most important market for us.

In Germany, the BAAINBw is the competent authority for the equipment of the German armed forces (*Bundeswehr*) with efficient and safe materiel. This includes procurement of defense materiel and awarding corresponding contracts.

Procurement projects of particular importance for the German security and defense strategy, as well as all procurements with a cost volume of EUR 25 million or higher must be submitted to the parliamentary defense committee (*Verteidigungsausschuss*) for approval. In these cases, according to parliamentary practice, even procurement projects that have been included in the federal budget will not be executed without the approval of the parliamentary defense committee and other competent bodies.

In Germany, a specific public price law is applicable for procurement processes of public institutions in addition to public procurement regulations. Regulation PR No. 30/53 on Pricing in Public Contracts determines the permissible prices for goods and services supplied or to be supplied under public contracts. As a general rule, market prices (*Marktpreise*) shall be given preference over cost prices (*Selbstkostenpreise*).

Only if there is no sufficient competition and, thus, no market that could form a market price, cost prices apply that are based on our reasonable costs incurred or expected to be incurred, with details for the determination of cost prices being set out in the Guidelines for Pricing on the Basis of Costs (*Leitsätze für die Preisermittlung auf Grund von Selbstkosten*). We often sell our products based on cost prices. However, even though cost prices generally allow to take into account the reasonable production costs only (including administrative costs), there is room to negotiate a profit margin, which is calculated based on the so-called "Bonn formula" (*Bonner Formel*). This formula applies in Germany to the armaments sector in general and our products in particular and allows us to include, for instance, imputed costs and other price factors in the calculation of our product prices. For our business, the application of the Bonn formula generally means that the more assets and the more personnel we deploy for the performance of a contract, the higher is the profit margin. Furthermore, the profit margin differs according to the kind of contract (for example, the rate of profits for development contracts is higher than for procurement contracts, which is higher than the rate of profits for maintenance contracts).

11.2.3. Secrecy Obligations

As we sell our products mainly to government customers, we may have access to classified documents and thus are subject to special secrecy obligations. Furthermore, our sensitive defense products require special protection of our business and products against unauthorized interference from third parties, manipulation, and sabotage.

11.2.3.1. Public Secrecy Obligations in Germany

In order to ensure a sufficient level of protection of secrecy and of our products, some of our officers and employees are regularly subject to a security screening process governed by the German Security Screening Act (*Sicherheitsüberprüfungsgesetz*). Upon completion of the security screening process, the German Federal Ministry of Economic Affairs and Energy (*Bundesministerium für Wirtschaft und Energie*, "**BMWi**") as the competent authority may issue a security clearance certificate (*Verschlusssachenermächtigung*) for those officers and employees. This certificate provides the legal basis for the employees' access to certain levels of classified information and regulates specific obligations with regard to secrecy protection and sabotage prevention.

Furthermore, we have been included in the security clearance scheme for companies (*Geheimschutzbetreuung*) of the BMWi. The security clearance scheme is a contractual relationship under public law between Germany, represented by the BMWi, and us, which concerns the support and control of the Group in all security issues and the necessary security measures. Under the security clearance scheme, we are required to comply with specific secrecy protection obligations as set out in a confidentiality manual (*Geheimschutzhandbuch*) of the BMWi and as further regulated by a security order (*Sicherheitsbescheid*). Specific secrecy protection obligations include, in particular, the obligation to appoint a security officer (*Sicherheitsbeauftragter*), whom the BMWi accepts and introduces into his duties. Furthermore, we are required to install and uphold a safe infrastructure to process and store classified documents. Non-compliance with our specific secrecy protection obligations could lead the BMWi to suspend or revoke the security clearance order (in whole or in part).

11.2.3.2. Public Secrecy Obligations in France

As part of our activities, our subsidiaries in France may hold contracts requiring access to or holding of classified information that is under the national defense secret.

Under the French Defense Code and the General Interministerial Instruction No 1300 on the protection of national defense secrets (approved by the Prime Minister's order dated November 30, 2011), any individual or legal entity must be previously accredited to perform such contracts. The authorities entitled to grant such clearances are: (i) the Prime minister for Top Secret (*Très secret défense*) clearances and (ii) the ministers for Secret (*Secret défense*) or Confidential (*Confidentiel défense*) clearances. However, as from July 1, 2021, these three levels will be brought down to two: Top Secret (*Très secret*) and Secret (*Secret*). Furthermore, the ministers will be entitled to grant Top Secret clearances following a procedure determined by the Prime minister. The services in charge of carrying out investigations in this respect are: (i) the *Direction du renseignement et de la sécurité de la defense* within the Ministry of Defense (for military matters) and (ii) the *Direction générale de la sécurité intérieure* within the Ministry of Interior (for civil matters). The competent authorities may refuse the security clearance if the applicant is "vulnerable" for national defense and security (meaning that he/she constitutes a threat to secret or is exposed to a risk of blackmail or pressure that could jeopardize the interests of the French State). The validity period of the clearance cannot exceed (i) five years for Top Secret level accreditations, (ii) seven years for Secret level accreditations, and (iii) ten years for Confidential level accreditations. A non-accredited person who has access to classified information or holds such information may be subject to a fine and imprisonment. In addition, any violation or non-observance of security measures by the contract holder, even in cases resulting from carelessness or negligence, may lead to the termination of the contract to his/her detriment and withdrawal of the company's facility security clearance to access classified information.

Contracts involving holding of classified information require that the relevant company's facilities must be capable to ensure the security of such information. The competent authorities responsible for delivering the facility security clearance (*avis d'aptitude*) are the *Direction du renseignement et de la sécurité de la defense* (for military matters) and the *Direction générale de la sécurité intérieure* (for civil matters). They may request upgrade works to the company's facilities to be performed. Furthermore, information systems containing classified information must be accredited prior to being set up. There are two types of accreditations: (i) accreditations of security devices (*agrément des dispositifs de sécurité*), which are granted by the national agency for the security of information systems (*Agence nationale de la sécurité des systèmes d'information*) and (ii) accreditations of security system (*homologation de sécurité*), which are granted by the approval authorities (*autorités d'homologation*). If the facilities or the information systems do not ensure adequate protection of classified information, a company could be subject to contractual sanctions which may extend to the rescission of the contract. Moreover, an accredited person that negligently permits access of a non-accredited person to classified information may be subject to a fine and imprisonment.

11.2.4. State Aid

We regularly enter into development contracts in which public authorities task us with specific R&D services. We need to provide the results of our R&D to the public authorities, whereby we remain owner of the IP rights. However, the public authorities receive licenses to use such IP rights. Under certain circumstances, the export of such IP rights, or export of products in which such IP rights are used, requires approval of the respective public authorities.

Under certain conditions, particularly if the development contracts are not in line with standard market conditions, such contracts can qualify as public grants. Such public grants would have to be notified by the granting authority and approved by the European Commission in the light of the common market rules. Failure to comply with the notification requirement may result in an obligation to repay the grant.

11.3. Export Controls

11.3.1. Legal framework

Within the European Union's internal market, the principle of free movement of goods applies, which does not, however, apply to goods and services that are listed as military items under applicable export control laws. When importing and exporting goods to non-EU countries, we have to comply with national and European, as well as international export control laws and customs regulations.

At the EU level, the regulatory framework concerning customs is the Union Customs Code (Regulation (EU) No 952/2013), with the powers of the customs authorities being further set out in the national laws of the Member States. In Germany, details are regulated in the German Customs Administration Act (*Zollverwaltungsgesetz*), according to which customs controls may consist of, among other things, examining goods, verifying the accuracy and completeness of the information given in a declaration or notification, and the existence, authenticity, accuracy, and validity of documents, inspecting means of transport, luggage, and other goods carried by or on persons, as well as carrying out official enquiries, and other similar acts.

As we sell our products to customers worldwide and given that our products are to a large extent export controlled, these goods and services are subject to export control regulations of the country in which our relevant affiliate is located. In addition, we procure goods from suppliers worldwide, who might also be subject to export restrictions. Such export restrictions from suppliers could also impose further legal requirements on us when we provide goods and services to our customers. In Germany, exporting companies have to comply with, in particular, European and German export control regulations, as well as the U.S. re-export regulations (for example, the ITAR/EAR), applicable depending on (i) the kind of product and the purpose for which the product has been developed, (ii) the country of destination, (iii) the intended use of the exported goods, and (iv) as part of the U.S. re-export regulations, the classification status of the receiving company. Export licenses for German export controlled products are granted by the Federal Office for Economic Affairs and Export Control (*Bundesamt für Wirtschaft und Ausfuhrkontrolle*, "**BAFA**"). Applicable legislation includes the German Foreign Trade and Payments Act (*Außenwirtschaftsgesetz*), the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*), and European Council Regulation No 428/2009 setting up a Community regime for the control of exports, brokering, and transit of dual-use items ("**Dual-Use Regulation**").

In Germany, depending on the kind of goods and services, the purpose for which the goods have been developed, the country of destination, and the intended use, exports can be subject to license requirements or control measures by the BAFA. Authorizations are mandatory for the export of goods and services covered by the German Export List (*Ausfuhrliste*, "**AL**"; annex to the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*)) and the Dual-Use Regulation. Export restrictions might also apply for the trafficking and brokering of export-controlled goods and services. As we are operating our business in the defense, security, and aerospace sectors, almost all of our products and services are subject to license requirements under Section 8 of the German Foreign Trade and Payments Act (*Außenwirtschaftsgesetz*) and Section 8 of the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*) in connection with the AL.

11.3.2. Military Goods and Services

11.3.2.1. Export from Germany

In Germany, the export of military goods and services generally requires an export license. The German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*) lists products in Part I Section A of the AL which are subject to an export license pursuant to Section 8(1) no. 1 of the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*). Part I Section A of the AL focusses on weapons and armaments, but also includes electronic equipment, software, and technology when specifically designed for military use. Our product range currently comprises items

such as radars, fire control, surveillance and warning equipment and related systems, test and alignment and countermeasure equipment and related services that qualify as military goods and services captured by Part I Section A of the AL.

By contrast, the products we sell are not subject to license requirements under the German War Weapons Control Act (*Gesetz über die Kontrolle von Kriegswaffen*). However, our products are often included in integrated products or platforms of our customers and business partners, who themselves may be obliged to comply with the license requirements under the German War Weapons Control Act (*Gesetz über die Kontrolle von Kriegswaffen*) or other applicable laws in order to export their products. In addition, we work with certain equipment on our premises that is subject to the German War Weapons Control Act (*Gesetz über die Kontrolle von Kriegswaffen*) and similar laws, and thus are subject to certain provisions of these laws as well.

11.3.2.2. Export from France

Our subsidiaries in France export products that may fall within the scope of the French regulation of the export of war material and similar equipment.

In accordance with the French Defense Code and the Ministerial Order of June 27, 2012, exporting war materials and similar equipment outside the EU is subject to a prior administrative authorization called "export license". Several types of export licenses may be granted: (i) the general export license (*licence générale d'exportation*) which allows exporters, who fulfill certain conditions, to ship to one or more categories of recipients, war materials and equipment, without any limitation regarding quantity or amount; (ii) the global export license (*licence globale d'exportation*) which allows, upon request, an exporter to ship war materials and similar equipment to one or more identified recipients, for a limited period of time, without any limitation regarding quantity or amount. It is granted for a limited validity period and can be renewed by tacit agreement; (iii) the individual export license (*licence individuelle d'exportation*) which allows, upon request, an exporter to ship, on one or more occasions, war materials and similar equipment to one recipient with a limit regarding quantity or amount and a limited validity period. Export licenses may include additional conditions or restrictions regarding the ultimate use of those materials. Such licenses are granted by the *Direction générale de l'armement* within the Ministry of Defense.

11.3.3. Dual-Use Items

EU and German export control laws restrict the export of products, services, and technologies designed for non-military purposes but which are utilized in military applications or can contribute to the proliferation of weapons of mass destruction ("**dual-use items**"). Some of our products qualify as dual-use items.

The export of dual-use items from Member States is harmonized and mainly governed by European law, in particular the Dual-Use Regulation. The Dual-Use Regulation includes an annex with a detailed list of dual-use items (Annex I). The product range of listed dual-use items is wide and includes, among other things, electronics (Category 3), sensors and lasers (Category 6), navigation and avionics (Category 7), marine (Category 8), or aerospace and propulsion (Category 10). An export license is required for all listed dual-use items (Art. 3(1) Dual-Use Regulation). Furthermore, in specific cases an export license may be required for non-listed dual-use items (Art. 4 Dual-Use Regulation).

Under German law, the export of dual-use items is also restricted. Part I Section B of the AL contains dual-use items that require an export license pursuant to Section 8(1) no. 2 of the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*). Part I Section B of the AL does only supplement Annex I of the Dual-Use Regulation and is therefore considerably less extensive. If our products are already listed in Annex I of the Dual-Use Regulation, Part I Section B of the AL does not have an independent meaning.

German law contains a catch-all-clause for non-listed dual-use items in Section 9 of the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*) (similar to Art. 4 Dual-Use Regulation). According to this provision, an export license is required for dual-use items if the exporter has been informed by the BAFA that the dual-use items are or may be intended to be used in a facility for civil nuclear purposes and if the country of destination is Algeria, Iran, Iraq, Israel, Jordan, Libya, North Korea, Pakistan, or Syria. Further, the exporter is obliged to inform the BAFA if it has knowledge that the country of destination is one of the abovementioned countries and the exported dual-use items

are intended to be used in a facility for nuclear purposes (Section 9(2) of the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*)).

11.4. Embargoes and Trade Sanctions

11.4.1. Overview

Nation states like France, Germany, the United Kingdom, and the United States, as well as supranational organizations like the EU and the United Nations, impose sanctions or other restrictive measures against countries/territories, organizations, groups, non-state entities, and individuals who infringe upon internationally accepted behavior and norms or otherwise pose national security or foreign policy risks. This includes list-based sanctions against those who have, for example, been identified as being involved in weapons proliferation, as terrorists, as supporters of terrorist organizations, as violators of human rights, or as being involved in corruption and bribery. Such country/territory- and list-based measures are more commonly known as trade sanctions or embargoes.

Trade sanctions take the form of comprehensive embargoes (total embargoes), partial embargoes, such as arms, trade, or financial embargoes, or embargoes targeted against specific individuals, entities, groups, and organizations contained in lists (list-based sanctions). Financial embargoes usually prohibit placing assets of any kind at the disposal of sanctioned parties or providing them with financial services of any kind.

11.4.2. EU Legislation

EU trade sanctions have a broad scope. They apply (i) within the territory of the Member States, (ii) to any person inside or outside the territory of the EU who is a national of a Member State, (iii) to any legal person, entity or body which is incorporated or constituted under the law of a Member State whether acting inside or outside the EU, and (iv) to any legal person, entity, or body in respect of any business done in whole or in part within the EU.

Our commitments in terms of sanctions and embargoes mainly (but not exclusively) derive from Council Regulation (EC) No 2580/2001. This regulation is directed against certain persons and entities for the purpose of combating terrorism. It aims to prevent and prohibit the financing of terrorist acts by prohibiting that funds, other financial assets, and economic resources are made available, directly or indirectly, to, or for the benefit of, a natural or legal person, group, or entity included in the list of restricted parties, or by prohibiting financial or other related services from being rendered for the benefit of restricted parties.

Besides the embargoes against certain persons and entities, there are a number of embargoes in place against countries, such as Iraq, Libya, or Russia. The embargoes limit the freedom of foreign trade with the embargoed countries. They also prohibit making available funds, other financial assets, and economic resources, directly or indirectly, to, or for the benefit of, a natural or legal person, group or entity included in the list of restricted parties of that embargoed country, or by prohibiting financial or other related services from being rendered for the benefit of restricted parties of that embargoed country.

The given examples reflect the current legal situation only, which is, however, subject to frequent changes as sanctions lists are updated on a regular basis.

11.4.3. U.S. Legislation

U.S. trade sanctions apply primarily to U.S persons. The term "U.S. person" includes (i) individual U.S. citizens and lawful permanent residents, (ii) all companies and other legal entities organized under U.S. law, including their branch offices located outside the United States, and (iii) persons present in the United States. In the case of the Cuba and Iran sanctions programs, the U.S. sanctions also apply to non U.S.-entities owned or controlled by U.S. persons.

Besides country or territory-based and sectoral sanctions (which, for example, target certain sectors of the Russian economy), the U.S. government also imposes list-based sanctions against certain entities and individuals, including through the U.S. Office of Foreign Asset Control's List of Specially Designated Nationals and Blocked Persons. The obligation to screen U.S. sanctions lists may also

follow from contracts with suppliers, credit facilities, or loan agreements that require compliance with U.S. sanctions or screening against U.S. sanctions lists.

U.S. sanctions may also have an extraterritorial effect and apply even to non-“U.S. persons” as defined above (so called “secondary sanctions”), if such entity or individual participates in certain activities for which such sanctions may be imposed. Further, non-U.S. persons and entities that cause a U.S. person to violate U.S. sanctions also violate the U.S. sanctions and risk civil and criminal penalties under applicable U.S. law.

11.5. Anti-Corruption and Anti-Bribery

Under German criminal law, we must adhere to rules against anti-corruption and -bribery involving public officials (Sections 332, 334 of the German Criminal Code (*Strafgesetzbuch*)) or employees or business representatives of the private sector (Section 299 of the German Criminal Code (*Strafgesetzbuch*)), as well as rules against the taking and giving of bribes meant as an incentive to violating one’s official duties (Sections 331, 333 of the German Criminal Code (*Strafgesetzbuch*)). These provisions may under certain conditions also apply to circumstances that occur solely or partly on foreign territory.

Certain parts of our operations are also subject to foreign anti-corruption and anti-bribery laws in addition to German regulations. These measures include, for certain parts of our business, the U.S. Foreign Corrupt Practices Act, the UK Bribery Act, and French anti-corruption laws.

11.6. Health, Safety, and Environment

11.6.1. Health and Safety

We are subject to health and safety laws, rules, and regulations, which are largely based on European and national legal standards. We review our work safety requirements on a regular basis and aim at improving the relevant workplace conditions and operations to reduce the risks of injuries to a minimum. We are aware of the impact that work has on health, safety and the environment. We are committed to control and mitigate this impact, for instance, by reducing the water, energy consumption and carbon dioxide emissions in our manufacturing processes and by offering various health and safety initiatives at our sites. We also applied voluntarily for various accreditations for our managing processes, such as the international occupational safety and environmental management standard ISO 45001 and ISO 14001. These standards confirm that we anticipate and avoid risks for consumers, make employees aware of workplace risks and how to reduce accidents, and train them in environmentally friendly practices (for example, reducing waste and hazardous substances). See also “*10.17. Health and Safety, Corporate Social Responsibility*”.

11.6.2. Environment

Our operations are subject to various obligations and requirements relating to the protection of the environment, depending on the location of our production facilities. In Germany, applicable laws include, for instance, the Water Resources Act (*Wasserhaushaltsgesetz*), the Closed Substance Cycle Waste Management Act (*Kreislaufwirtschaftsgesetz*) and the Federal Immissions Control Act (*Bundes-Immissionsschutzgesetz*) including its related ordinances.

We have obtained several environmental permits for our business, for example a permit under the Water Resources Act (*Wasserhaushaltsgesetz*) and for the construction and operation of a waste water plant and the permanent operation of a waste and container storage facility. Moreover, for our transmitters, we have obtained permits to use test radio frequencies. Compliance with the permit conditions is being monitored by our HSE department.

We are subject to legislation regarding the identification and reduction of adverse health and safety consequences caused by chemicals or hazardous substances. For example, we undertake various measures to comply with Regulation (EC) No 1907/2006 (“**REACH Regulation**”), which result in restrictions and numerous requirements with respect to the access to, or the use of, chemicals required for our manufacturing processes. Several chromates we use qualify under the REACH Regulation as substances of very high concern and consequently have been added to the REACH Regulation authorization list. We have joined efforts with other industry stakeholders to pursue further authorization for the use of chromates. In addition, we reduce the usage of chromate and cadmium in

our products, platforms and systems. However, complete elimination is only possible where alternatives to the use of chromates are found, which requires intensive research supported by industry stakeholders.

11.7. Product Safety and Liability

We are subject to provisions on product safety in all countries and jurisdictions where we deliver our products and could therefore be held liable in cases concerning damage caused by defective products manufactured by us. As a principle, each product we deliver leaves the production site with a product safety record (*Produktsicherheitsakte*) stating compliance with all applicable product safety laws.

In Germany, our general obligations concerning product safety and liability follow from the Product Safety Act (*Produktsicherheitsgesetz*) and the Product Liability Act (*Produkthaftungsgesetz*), unless any specific laws and regulations apply. The Product Safety Act (*Produktsicherheitsgesetz*) and Product Liability Act (*Produkthaftungsgesetz*) transpose Directive 2001/95/EC on general product safety and Directive 85/374/EEC concerning liability for defective products into national law. In order to achieve a higher level of safety for consumer products, the market surveillance mechanisms provided for in Directive 2001/95/EC were reinforced as regards products presenting a serious risk in accordance with the principles established by Regulation (EC) No 765/2008 setting out the requirements for accreditation and market surveillance relating to the marketing of products. Parts of our business are also regulated by civil and military airworthiness laws and regulations which is why we hold several aviation related approvals under the authority of the European Aviation Safety Agency (EASA), the Federal Aviation Office (*Luftfahrt-Bundesamt*) and the German Military Aviation Authority (*Luftfahrtamt der Bundeswehr*).

We may only make products available on the market if their intended or foreseeable use does not put health and safety of persons at risk. If a defective product causes a person's death, injury to the body, damage to health, or damage to an item of property, we are obliged to compensate the injured person for the respective damage under certain circumstances. A product is defective if it does not provide for the safety which one is entitled to expect, taking into account all circumstances, in particular (i) its presentation, (ii) the use to which it could reasonably be expected that it would be put, and (iii) the time when it was put into circulation. A product is, however, not defective according to the Product Liability Act (*Produkthaftungsgesetz*) for the sole reason that a better product is subsequently put into circulation. In addition to compliance with the safety requirements, manufacturers must provide consumers with the necessary information in order to assess a product's inherent risks and take necessary measures to avoid such threats (for example, withdraw products from the market, inform consumers, and recall products).

Furthermore, liability claims for defective products could arise from contractual liabilities and general civil tort law. The German Civil Code (*Bürgerliches Gesetzbuch*) obliges the manufacturer of a product to observe and put in place adequate safety precautions. These consequences intend to prevent that defective products cause personal injury or damage. In particular, the manufacturer must avoid faults relating to the design or manufacture of the product. Furthermore, the manufacturer must instruct users on how the product is intended to be used. For products that are already on the market, the manufacturer must monitor how its products are used and must inform the users about potential harmful uses which the manufacturer originally did not anticipate. If the manufacturer fails to comply with its obligations, it is liable for the occurred damage. While potential claimants must prove that a product is defective and that this caused personal injury or damage, the manufacturer is obliged to prove that it has fulfilled its duties relating to design, manufacture, and monitoring of the product, as well as regarding information of the users.

11.8. Other Laws and Regulations

11.8.1. Competition Law

We are subject to various competition and antitrust laws. Competition law in the broader sense includes all legal provisions that concern the protection of a diverse and free competition. Antitrust law, in particular, aims to protect free competition. National and supranational authorities that monitor compliance with competition rules may initiate investigations and proceedings into alleged infringements. Violations of competition and antitrust laws can have various consequences, including the nullity of agreements, fines, absorption of benefits, and civil claims for damages. Authorities may

impose limitations or conditions regarding acquisitions and certain business practices if we were found to have obtained a dominant position in a certain market area or to be otherwise non-compliant with competition and antitrust regulation.

In addition, certain of our acquisitions, cooperations and partnerships may from time to time be subject to merger control laws and regulations.

11.8.2. Protection of Trade Secrets

In addition to classified information from governmental sources (see "*11.2.3. Secrecy Obligations*"), we are also obliged to protect trade secrets and implement appropriate safeguards.

In Germany, the Act on the Protection of Trade Secrets (*Geschäftsgeheimnisgesetz*), which transposes Directive (EU) 2016/943 on the protection of undisclosed know-how and business information into national law, requires companies to put in place reasonable steps for the protection of their trade secrets, such as defining responsibilities for the protection of trade secrets, restricting access to confidential information, implementing password and virus protection, encrypting data, concluding confidentiality agreements, and conducting employee trainings. The establishment of such security measures is therefore crucial for us, as per definition only information that is subject to security measures is protected under the Act on the Protection of Trade Secrets (*Geschäftsgeheimnisgesetz*) against unauthorized access and trade secrets infringements by third parties. In addition, management would be exposed to a liability risk if it has not undertaken reasonable steps to protect the company's trade secrets.

11.8.3. Data Protection

When processing personal data, we are subject to the GDPR and the respective implementation legislation in the national laws of the Member States, which is in Germany the Federal Data Protection Act (*Bundesdatenschutzgesetz*). Both the GDPR and the Federal Data Protection Act (*Bundesdatenschutzgesetz*) are applicable since May 25, 2018. The GDPR has significantly changed the legal framework for data protection in Europe and triggered additional compliance efforts and costs for German companies in general. We have implemented different measures in order to achieve compliance (including, but not limited to, adjustments of internal processes, safeguarding of internal and external data transfers, entering into data protection contracts, and monitoring by our legal and compliance team) and are further developing our data protection systems and procedures. A violation of obligations under the GDPR may constitute an administrative offense, which can result in fines or investigative measures imposed by the competent data protection authority.

11.8.4. Supply Chain Compliance

On March 5, 2020, the German parliament adopted the Mineral Raw Material Due Diligence Act (*Mineralische-Rohstoffe-Sorgfaltspflichten-Gesetz*) to implement Regulation (EU) 2017/821 laying down supply chain due diligence obligations for European Union importers of tin, tantalum and tungsten, their ores, and gold originating from conflict-affected and high-risk areas. From 2021, importers will be subject to comprehensive organizational, verification, information, and cooperation obligations, which are intended to improve the guarantee and control of compliance along the supply chain in trade with conflict minerals and metals.

In addition, the German government announced in mid-July 2020 that a Supply Chain Act (*Lieferkettengesetz*) is intended to be passed before the end of the current legislative period in September 2021. The proposed Supply Chain Act would oblige companies to ensure protection of human rights and minimum social standards in their supply chains. While details of the Supply Chain Act have not yet been disclosed, it is generally expected that it will require companies with more than 500 employees to examine whether their own production and procurement activities have an adverse effect on internationally recognized human rights and such companies would have to take appropriate preventive and remedial measures as part of their duty of care. According to the current state of the discussion, the responsibility of companies is supposed to depend on the degree to which they are able to exert influence. In addition, it is currently discussed that a company would not be liable for impairments that could not be foreseen or avoided by applying reasonable care. Companies would be able to exculpate themselves in particular if they join and implement an officially recognized industry standard ("safe harbor"). In this case, civil liability would only apply if deliberate or grossly negligent conduct contributed to a human rights violation.

11.9. Foreign Investment Control

Due to the nature of the business in which we operate, the foreign investment control regimes of certain jurisdictions apply to the Company and its subsidiaries, including the respective regulatory framework of Germany and France, and potentially those of other jurisdictions.

11.9.1. German Foreign Investment Regime

German foreign trade law may require foreign investors to obtain government approval for the acquisition of shares of the Company if the acquirer directly or indirectly holds at least 10% of the voting rights of the Company following the acquisition. The applicable German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*) distinguishes between two different sets of clearance proceedings to be conducted by the BMWi.

First, the BMWi examines within the so-called sector-specific examination (Sections 60 et seqq. of the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*)) whether essential security interests of Germany are endangered if a foreign investor acquires a domestic company or a direct or indirect participation in a domestic company. However, such examination only applies to domestic companies that operate their respective business in security-sensitive areas. This includes domestic companies that (i) manufacture or develop goods within the meaning of Part B of the War Weapons List, (ii) manufacture or develop specially designed engines or gears to drive battle tanks or other armored military tracked vehicles, (iii) manufacture products with IT security functions to process classified state information or components essential to the IT security function of such products or have manufactured such products and still dispose of the technology, if the overall product was licensed with the knowledge of the company by the Federal IT Security Agency, or (iv) manufacture or develop certain enumerated goods subject to Part I Section A of the German Export List. Some of the products we sell are subject to positions of Part I Section A of the German Export List; in particular, they fall under item numbers 0004, 0005, 0006, 0011, 0015, 0017, 0021 and 0022. Consequently, foreign investors who intend to acquire directly 10% or more of the voting rights in the Company must notify the BMWi in writing about the contemplated acquisition. The same applies to indirect acquisitions. Thus, all foreign investors upstream of a direct acquirer or holder of shares of the Company are relevant for the foreign investment control procedure, provided that the relevant foreign investor holds at least 10% of the voting rights in the respective investment vehicle and provided further that all other investment vehicles (if any) downstream of the respective investment vehicle in which the foreign investor holds or acquires at least 10% of the voting rights also hold or acquire at least 10% of the voting rights in the respective next downstream investment vehicle down to the direct acquirer or holder of shares of the Company and the direct acquirer or holder of shares of the Company holds at least 10% of the Company's voting rights, i.e., there must be a holding of at least 10% of the voting rights at each level of the shareholding chain. When calculating the amount of voting rights, the voting rights of third parties with whom the foreign investor has concluded an agreement on the joint exercise of voting rights are attributable to the foreign investor. The notification needs to cite the acquisition, the acquirer, and the domestic company to be acquired and outline the fields of business in which the acquirer and the domestic company to be acquired are active. The BMWi then assesses whether the acquisition endangers essential interests of national security, which also depends on the identity and background of the interested buyer. In cases where the BMWi determines a threat, the acquisition might be subject to restrictions or could even be prohibited. Clearance by the BMWi qualifies as a statutory closing condition for all transactions that are subject to sector-specific investment control proceedings, *i.e.*, completion of the direct or indirect acquisition of at least 10% of the Company's voting rights by a foreign investor can only occur after clearance by the BMWi has been obtained.

Second, in case the sector-specific investment control regime does not apply, the BMWi may still prohibit or restrict the acquisition by a foreign investor which is resident or based outside the European Union (*Unionsfremder*) if it endangers the public order or security of Germany (cross-sectoral examination, Section 55 of the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*)). The cross-sectoral examination applies to, for instance, the acquisition of at least 10% of the voting rights of target companies that operate a critical infrastructure within the meaning of the Act on the Federal Office for Information Security (*Gesetz über das Bundesamt für Sicherheit in der Informationstechnik*), which acquisitions must be notified to the BMWi upon signing of a binding agreement, or to acquisitions of at least 25% of the voting rights of target companies if the relevant acquisition otherwise poses a threat to public order or security, which could, for example, be the case if the acquisition affects "fundamental interests of society"; the latter acquisitions are not

subject to mandatory notification to the BMWi. In cases of cross-sectoral examination by the BMWi, the BMWi may initiate investigations within two months after becoming aware of the conclusion of the contract, but not later than five years after the conclusion of the respective contract (Section 55(3) of the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*)). Accordingly, if the BMWi did not obtain knowledge of the transaction, namely because the acquirer did not notify the transaction and apply for a certificate of non-objection, legal certainty as to the successful completion of the acquisition could be obtained no earlier than five years after entering into the sale and purchase agreement. If an objection is found, the BMWi can prohibit the direct acquirer from making an acquisition within the meaning of Section 55 of the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*) within four months of the receipt of the complete application or issue instructions in order to ensure the public order or security of Germany (Section 59(1) of the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*)).

In all cases, a foreign acquirer of a domestic target company applying for foreign investment control clearance either under the sector-specific or under the cross-sectoral investment control regime is required to disclose its identity. For such purposes, not only the direct acquirer, but also the indirect acquirers (*i.e.*, any entity upstream of a direct acquirer which holds at least 10% of the voting rights in the respective downstream investment vehicle) needs to be disclosed.

On June 18, 2020, the German parliament adopted a draft law to amend the German Foreign Trade and Payments Act (*Außenwirtschaftsgesetz*) and at the same time implemented Regulation (EU) 2019/452 establishing a framework for the screening of foreign direct investments into the European Union, which came into force on July 17, 2020. The German government also announced that it will amend the German Foreign Trade and Payments Ordinance (*Außenwirtschaftsverordnung*) to reflect required changes under Regulation (EU) 2019/452, in particular by including “critical technologies” in the group of sensitive industries that are protected by investment control procedures. While Regulation (EU) 2019/452 does not establish a harmonized European investment control procedure, it requires Member States to coordinate their investment control proceedings among each other and with the EU Commission and to take into account negative effects of foreign direct investments on other Member States in the context of their national investment control proceedings. Furthermore, the new investment control regime has lowered the threshold for cross-sectoral investment control proceedings from a concrete threat to public security and order to the mere existence of likely effects to public security and order. On a procedural level, the new regime provides that clearance by the BMWi qualifies as a statutory closing condition for all transactions that are subject to a (sector-specific or cross-sectoral) investment control proceeding and which are subject to mandatory notification. Furthermore, the new regime prohibits, *inter alia*, (i) exercising any voting rights in the target, (ii) receiving claims for profit distributions associated with the acquisition, and/or (iii) providing or otherwise disclosing company-related information to the acquirer (provided that such information relates to company divisions or corporate assets that are subject to the investment control proceeding), in each case prior to clearance by the BMWi.

11.9.2. French Foreign Investment Regime

Our subsidiaries in France carry out activities which may fall within the scope of the French foreign investment regime. Under French law, certain foreign investments in business sectors deemed to be sensitive (which means posing a potential risk to public order, public safety, or national defense interests) require prior authorization from the Minister for the Economy.

The prior authorization procedure is set out in the French Monetary and Financial Code. Its scope varies depending on the nationality of the investor, the nature of the investment, and the business sector of the target company. For EU and non-EU investors, prior authorization may be required if the investment results in the investor: (i) acquiring control, within the meaning of Article L. 233-3 of the French Commercial Code, of an entity located in France or (ii) acquiring all or part of a business division of a company which of an entity located in France. In addition, non-EU investors may be required to seek the prior authorization of the Minister for the Economy if the investment results in the acquisition of over 25% of the voting rights of a French entity or, until December 31, 2020, 10% of the voting rights of a French listed company. The list of sensitive sectors includes notably: (i) the production or trade of weapons, cryptology, interception of correspondence, activities performed by companies holding national defense secrets, gambling (except casinos) and processing, transmission or hosting of sensitive data, (ii) equipment, products or services essential to safeguarding the integrity and continuity of energy, water, transport services, space operations, networks and electronic

communication services, public health, food safety, political or general press publication, and (iii) research and development activities intended to be implemented within the framework of the business sectors mentioned in (i) and (ii) and relating to critical technologies or dual-use items and technologies as listed in Annex I of the Dual-Use Regulation.

When a foreign investment is subject to clearance by the Minister for the Economy, the transaction cannot be completed without such authorization. The procedure for examination of applications is carried out by the *Direction générale du Trésor* within the Ministry for the Economy in relation with other governmental agencies depending on the sector(s) concerned. As from the date on which the filing is considered as being complete, the Minister for the Economy has 30 business days to complete an initial review during a Phase I. At the end of this Phase I, the Minister for the Economy may either clear the foreign investment or commence a 45-business-day investigation phase (or Phase II). If no answer is received by the end of any of these phases, the authorization is deemed to have been refused.

When the Minister for the Economy considers that the investment could threaten national interests, he/she shall seek to identify the conditions that would avoid such a threat in order to be able to approve the investment. In practice, these conditions take the form of commitments given by the investor. They are negotiated between the Ministry for the Economy and the investor during Phase II and are set out in a commitment letter attached to the authorization. These commitments typically pursue the objectives of continuing the company's activities and industrial capacities on the French territory, protecting the company's industry, research, and development capacities and ensuring performance of the company's contractual obligations relating to public safety or national defense. In the absence of any other possible solution, the Minister for the Economy shall refuse the authorization.

If an investment has been completed without prior authorization, the Minister for the Economy shall issue an injunction ordering the foreign investor (possibly under penalty) to: (i) file an application for authorization, (ii) restore the situation preceding its investment at its own expense, and/or (iii) modify the investment. The Minister for the Economy may also take the precautionary measures that he/she considers necessary such as (i) suspending the voting rights attached to the shares whose ownership by the investor should have been subject to prior authorization, (ii) prohibiting or limiting the distribution of dividends or remuneration attached to such shares, and (iii) suspending, restricting, or temporarily prohibiting the transfer of all or part of the assets related to the sensitive activities.

In case of non-compliance with the commitment letter attached to the authorization, the Minister for the Economy may (i) withdraw its initial authorization and (ii) issue an injunction ordering (possibly under penalty) the investor to comply with its commitments or implement measures in lieu of the breached commitments. The Minister for the Economy may also take the precautionary measures described above.

The completion of an investment without prior authorization, or the non-compliance with the commitments, could give rise to the application of criminal sanctions such as imprisonment and penalties amounting to up to the highest amount between twice the value of the irregular investment, 10% of the amount of the net annual turnover of the company that carries out the sensitive activities, and EUR 5 million for legal entities or EUR 1 million for individuals.

12. GENERAL INFORMATION ON THE COMPANY

12.1. Incorporation, Entry in the Commercial Register, Name

The Company was formed as a German limited liability company (*Gesellschaft mit beschränkter Haftung*) under the laws of Germany by articles of association dated September 2019. Its legal name was Blitz 19-320 GmbH with its registered office in Munich, registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Munich, Germany under registration number HRB 252143. It was acquired by Square Lux Holding II S.à r.l. on October 28, 2019 and, subsequently, the extraordinary shareholders' meeting resolved to change the Company's legal name to HENSOLDT GmbH and its registered office to Taufkirchen, Germany.

On August 11, 2020, the extraordinary shareholders' meeting resolved to change the Company's legal form to a German stock corporation (*Aktiengesellschaft*) under the legal name HENSOLDT AG. The changes in legal form and name were registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Munich, Germany on August 17, 2020, under registration number HRB 258711. All changes were effected in accordance with the applicable provisions of the German Transformation Act (*Umwandlungsgesetz*).

The legal name of the Company is HENSOLDT AG. The Company and the Group have adopted a one-brand strategy and generally operate under the commercial name "HENSOLDT".

12.2. Domicile, Legal Form, Legislation, Registered Office, LEI

The Company is a German stock corporation (*Aktiengesellschaft*), incorporated in Germany and governed by the laws of Germany. It is registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Munich, Germany under registration number HRB 258711.

The Company's registered office and business address is Willy-Messerschmitt-Straße 3, 82024 Taufkirchen, Germany (telephone: +49 89 51518 0). The Company's website is www.hensoldt.net. Information contained on the Company's website, or any website mentioned in the Prospectus, is not incorporated by reference into the Prospectus and does not form part of the Prospectus.

The Company's LEI is 894500686FYLLZD3M624.

12.3. Financial Year, Duration, Corporate Purpose

The Company's financial year is the calendar year. The Company was established for an unlimited period of time.

Pursuant to Section 2 of the Articles of Association, the object of the Company is to acquire, hold, sell, and manage, directly or indirectly (through other holding entities), participations in companies engaged worldwide in the development and production as well as operation and sale of electronic systems, optronic products and software solutions for military and non-military use, and in the provision of related services as well as to manage the group of such companies. The object of the Company is furthermore to provide management, consultancy, and other services to subsidiaries or affiliated companies. The Company may also engage itself directly in the aforementioned business segments. The Company may also realize its object indirectly in whole or in part.

12.4. Group Structure and Information on Significant Subsidiaries

The Company is the parent company of the other entities of the Group. It performs the typical tasks of a holding company that does not conduct any business operations itself, such as the task of strategic company development. The business operations of the Group are conducted exclusively in directly and indirectly owned subsidiaries.

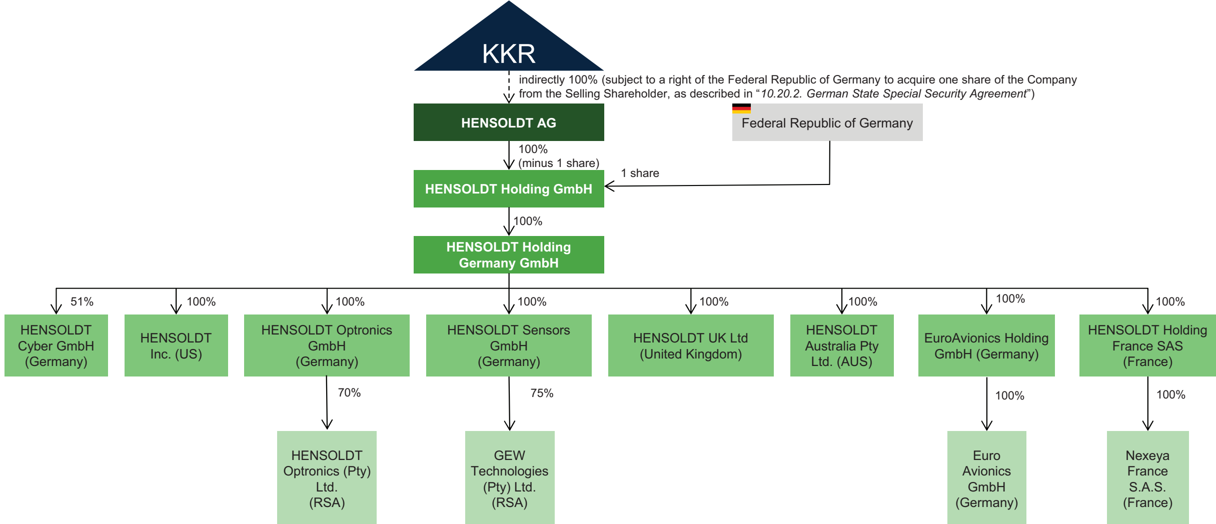
In March 2016, ADS signed a sale and purchase agreement with the Selling Shareholder and HENSOLDT Holding Germany GmbH, among others, for 100% of the shares of HENSOLDT Sensors GmbH (formerly Airbus DS Electronics and Border Security GmbH) and HENSOLDT Optronics GmbH (formerly Airbus DS Optronics GmbH), including their respective subsidiaries. With legal and economic

effect as of the end of February 2017, HENSOLDT Holding GmbH, via its subsidiary HENSOLDT Holding Germany GmbH, acquired 100% of the shares of HENSOLDT Sensors GmbH and HENSOLDT Optronics GmbH. Prior to the acquisition, part of the Orlando business had been carved out into those separate entities, and their respective subsidiaries, to allow separation from the Airbus business. The carve-out had been effected by way of hive-down under the laws of Germany and France, respectively. In addition, certain ancillary agreements (for example, service level agreements) were put in place on an interim basis to ensure the stand-alone operational capacity of the Orlando business. Initially, ADS held a 25.1% share of HENSOLDT Holding GmbH to ensure a smooth separation of the Orlando business from ADS and its affiliates. In June 2018, these shares were acquired by HENSOLDT Holding GmbH from ADS and held as treasury shares until cancellation of these shares in November 2019. Furthermore, with effect from April 26, 2018, we acquired 100% of the shares of HENSOLDT France S.A.S. from Airbus Defence and Space S.A.S. In December 2019, we signed a purchase agreement for the acquisition of the outstanding 30% minority share in HENSOLDT Optronics (Pty) Ltd. However, as of the date of the Prospectus, it is unclear if and when the acquisition will be consummated.

Prior to a corporate reorganization of the Group in November 2019, HENSOLDT Holding GmbH, registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Munich, Germany, under HRB 232418, was the German holding company of the Group. The share capital of HENSOLDT Holding GmbH amounts to EUR 25,000.00. Prior to the abovementioned corporate reorganization, the Selling Shareholder held 18,724 shares in the nominal amount of EUR 1.00 each and the Federal Republic of Germany held one share in the nominal amount of EUR 1.00, which, according to the articles of association of HENSOLDT Holding GmbH, was not entitled to dividend rights and the portion of any liquidation proceeds associated with this share was limited to the nominal amount of this share, in each case, as long as the Federal Republic of Germany held this share. Furthermore, 6,275 shares, each in the nominal amount of EUR 1.00, previously held by HENSOLDT Holding GmbH as treasury shares had been canceled by shareholder resolution dated November 15, 2019 without decreasing the share capital.

On November 29, 2019, the Selling Shareholder contributed 99.9% of the outstanding shares of HENSOLDT Holding GmbH, *i.e.*, all shares of HENSOLDT Holding GmbH which were at that time held by the Selling Shareholder, to the Company; see also "*13. Major Shareholders*". With effect immediately prior to this contribution, the Selling Shareholder contributed to HENSOLDT Holding GmbH all claims under two shareholder loans granted to HENSOLDT Holding GmbH, see also "*16. Transactions and Legal Relationships with Related Parties*".

The following chart provides an overview (in simplified form) of the direct and indirect shareholdings of the Company as of the date of the Prospectus, taking into account the relevant successive interests (*durchgerechneter Beteiligungsanteil*) (subject to certain minimum shareholdings held by, or to be acquired by, the Federal Republic of Germany, as specified in the table below the chart, including one share of the Company to be acquired by the Federal Republic of Germany, see "*10.20.2. German State Special Security Agreement*"):



The following table presents an overview of our significant subsidiaries as of the date of the Prospectus:

Legal name	Registered seat	Direct or indirect Interest
EuroAvionics GmbH	Pforzheim, Germany	100%
GEW Technologies (Pty) Ltd	Brummeria (Pretoria), South Africa	75%
HENSOLDT Holding Germany GmbH	Taufkirchen, Germany	100%(1)
HENSOLDT Holding GmbH	Taufkirchen, Germany	100%(2)
HENSOLDT Optronics (Pty) Ltd	Irene (Centurion), South Africa	70%(3)
HENSOLDT Optronics GmbH	Oberkochen, Germany	100%(1)
HENSOLDT Sensors GmbH	Taufkirchen, Germany	100%(4)
HENSOLDT UK Limited	Enfield, United Kingdom	100%
Nexeya France S.A.S.	Paris, France	100%

(1) The Federal Republic of Germany has the right to acquire one share upon admission of the Company's shares to trading, subject to certain conditions, see "*10.20.2. German State Special Security Agreement*".

(2) Save for one share held by the Federal Republic of Germany.

(3) In December 2019, we signed a purchase agreement for the acquisition of the outstanding 30% minority share in HENSOLDT Optronics (Pty) Ltd. However, as of the date of the Prospectus, it is unclear if and when the acquisition will be consummated

(4) The Federal Republic of Germany is expected to acquire one share upon admission of the Company's shares to trading, see "*10.20.2. German State Special Security Agreement*".

For additional information on the Company's direct and indirect shareholdings as of December 31, 2019, see Note 6 to the Audited Consolidated Financial Statements 2019.

12.5. Auditors

The Company appointed KPMG, as (i) the statutory auditor of its unconsolidated annual financial statements to be prepared in accordance with the German Commercial Code (*Handelsgesetzbuch*) as of and for the financial year ending December 31, 2020 and (ii) the auditor of its consolidated financial statements to be prepared in accordance with IFRS as of and for the financial year ending December 31, 2020.

The Company, at that time still HENSOLDT GmbH, appointed KPMG as (i) the statutory auditor of its unconsolidated annual financial statements as of and for the financial year ended December 31, 2019, and (ii) the auditor of its consolidated financial statements as of and for the financial year ended December 31, 2019. KPMG issued an unqualified auditor's report (*uneingeschränkter Bestätigungsvermerk des unabhängigen Abschlussprüfers*) on these two financial statements.

HENSOLDT Holding GmbH appointed KPMG as the auditor of its consolidated financial statements prepared in accordance with IFRS as of and for the financial years ended December 31, 2018 and 2017. KPMG has issued an unqualified independent auditor's report (*uneingeschränkter Bestätigungsvermerk des unabhängigen Abschlussprüfers*) on these two financial statements.

KPMG is a member of the German Chamber of Public Accountants (*deutsche Wirtschaftsprüferkammer*), Rauchstrasse 26, 10787 Berlin, Germany. See also "*2.7. Note Regarding the Presentation of Certain Financial Information*".

12.6. Announcements, Paying Agent

In accordance with the Articles of Association, the announcements of the Company are exclusively published in the German Federal Gazette (*Bundesanzeiger*), unless otherwise required by law.

In accordance with the Prospectus Regulation, announcements in connection with the approval of the Prospectus or any supplements thereto will be published in the form of publication provided for in the Prospectus, in particular through publication on the Company's website (www.hensoldt.net).

The paying agent is DB. The mailing address of the paying agent is: Deutsche Bank Aktiengesellschaft, Taunusanlage 12, 60325 Frankfurt am Main, Germany.

13. MAJOR SHAREHOLDERS

13.1. Major Shareholders

Prior to the implementation of the Offering, the entire share capital of, and all voting rights in, the Company, is held by the Selling Shareholder, Square Lux Holding II S.à r.l., a limited liability company (*société à responsabilité limitée*) under the laws of Luxembourg, registered with the Commercial and Company Register (*Registre de Commerce et des Sociétés*) of Luxembourg under no. B 202695 and with registered office in 2 Rue Edward Steichen, 2540 Luxembourg.

The Selling Shareholder is majority-owned by KKR Square Aggregator L.P. and its subsidiaries. KKR Square Aggregator L.P. is a holding company owned by KKR. The voting rights held by the Selling Shareholder are attributed to KKR Management LLP and KKR SP Limited, through various entities pursuant to Section 34 of the German Securities Trading Act (*Wertpapierhandelsgesetz*) (see footnote 1 to the table below).

In connection with an agreement between the Selling Shareholder and the Federal Republic of Germany, which aims to protect the Federal Republic of Germany's security interests in certain entities and activities of the Group, the Federal Republic of Germany has purchased one share of the Company from the Selling Shareholder and the parties have agreed that the acquisition of such share will be effected at the earliest upon admission of the Company's shares to trading, subject to relevant internal ministry approval. In addition, the Selling Shareholder has granted a right to the Federal Republic of Germany to acquire a strategic interest in the Company by increasing its shareholding in the Company to up to 25.1% by purchasing shares of the Company from the Selling Shareholder. For details, see "*10.20.2. German State Special Security Agreement*".

Based on the abovementioned information, as of the date of the Prospectus, the following shareholders directly or indirectly have an interest in the Company's capital and voting rights (the "**Major Shareholders**"). The following table also shows their expected shareholdings after completion of the Offering and exercise of the Greenshoe Option, assuming a placement of 21,428,571 Primary Base Shares and 7,142,857 Secondary Base Shares at the mid-point of the Price Range, full placement of the Additional Shares, and full excercise of the Greenshoe Option:

	Approximate Beneficial (Indirect) Ownership in %		
		Upon Completion of the Offering	
Name of Shareholder	**Prior to the Offering**	**(No Exercise of the Upsize Option or the Greenshoe Option)**	**(Full Exercise of the Upsize Option and the Greenshoe Option)**
Selling Shareholder(1)(2)(3)	100.0	71.8	60.2
Federal Republic of Germany(2)	—	—	—
Free float(3)	—	28.2	39.8
Total	**100.0**	**100.0**	**100.0**

(1) Shares directly held by Square Lux Holding II S.à r.l. (Selling Shareholder). The voting rights in the Company held by the Selling Shareholder are attributed through the following entities pursuant to Section 34 of the German Securities Trading Act (*Wertpapierhandelsgesetz*) to (i) KKR Management LLP, as Series I preferred stockholder of KKR & Co. Inc., through KKR & Co. Inc., KKR Group Holdings Corp., KKR Group Partnership L.P., KKR Europe IV Limited, KKR Associates Europe IV L.P., KKR European Fund IV L.P., KKR Square Aggregator GP Limited, KKR Square Aggregator L.P., Square Lux TopCo S.à r.l., Square Lux MidCo 1 S.à r.l., Square Lux Midco 1 & Co S.C.A., Square Lux Holding I S.à r.l., and the Selling Shareholder, as well as to (ii) KKR SP Limited through KKR Associates Europe IV L.P., KKR European Fund IV L.P., KKR Square Aggregator GP Limited, KKR Square Aggregator L.P., Square Lux TopCo S.à r.l., Square Lux MidCo 1 S.à r.l., Square Lux Midco 1 & Co S.C.A., Square Lux Holding I S.à r.l., and the Selling Shareholder.

(2) In connection with an agreement between the Selling Shareholder and the Federal Republic of Germany, which aims to protect the Federal Republic of Germany's security interests in certain entities and activities of the Group, the Federal Republic of Germany has purchased one share of the Company from the Selling Shareholder and the parties have agreed that the acquisition of such share will be effected at the earliest upon admission of the Company's shares to trading, subject to relevant internal ministry approval. In addition, the Selling Shareholder has granted a right to the Federal Republic of Germany to acquire a strategic interest in the Company by increasing its shareholding in the Company to up to 25.1% by purchasing shares of the Company from the Selling Shareholder. For details, see "*10.20.2. German State Special Security Agreement*".

(3) The shareholding of the Selling Shareholder and, correspondingly, the free float upon completion of the Offering depend on the Offer Price, which determines the number of Offer Shares that will be placed in connection with the Offering, see "*4.1. Proceeds and Costs of the Offering and the Listing*".

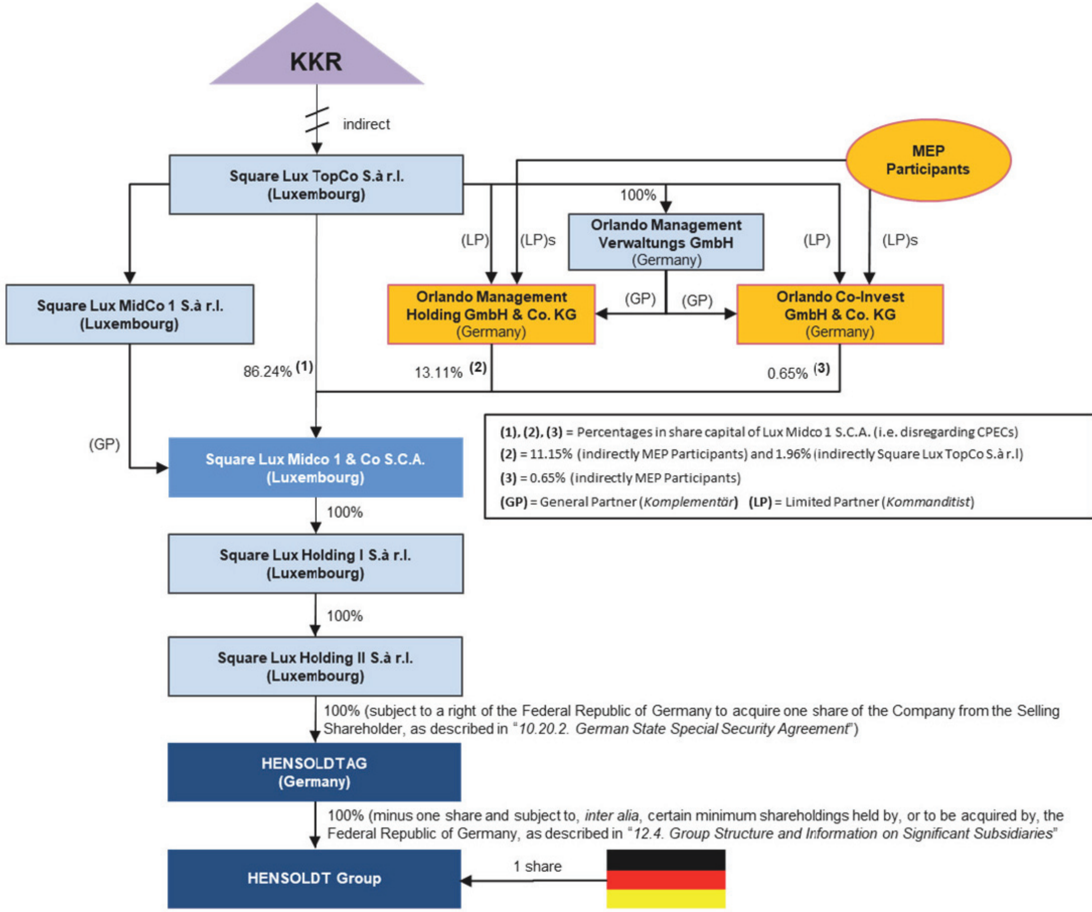
13.2. Controlling Interest

As of the date of the Prospectus, the Selling Shareholder holds the entire share capital of and all voting rights in the Company, and therefore holds a controlling interest in the Company.

Following completion of the Offering and exercise of the Greenshoe Option, assuming a placement of 25,000,000 Primary Base Shares and 8,333,333 Secondary Base Shares (at the low end of the Price Range), full placement of the Additional Shares, and full exercise of the Greenshoe Option, the Selling Shareholder is expected to hold approximately 56.4% of the Company's share capital.

13.3. Indirect Shareholders and Management Equity Participation

The chart set forth below provides an overview (in simplified form) of the Company's shareholder structure as of the date of the Prospectus, in particular including the Selling Shareholder and Orlando Management Holding GmbH & Co. KG, Munich, Germany ("**MEP Ord KG**") and Orlando Co-Invest GmbH & Co. KG, Munich, Germany ("**MEP Co-Invest KG**"). MEP Ord KG and MEP Co-Invest KG are the entities through which the members of the Management Board as well as certain employees of the Group have invested in Square Lux Midco 1 & Co S.C.A., Luxembourg ("**Lux Midco 1 S.C.A.**") and thereby indirectly in the Group (see "*15.4.1. Management Equity Program*"). For the indirect shareholding structure above Square Lux TopCo S.à r.l., see "*13.1. Major Shareholders*".



Lux Midco 1 S.C.A. has issued limited shares as well as interest-bearing convertible equity certificates ("**CPECs**"). In its capacity as general partner, Square Lux MidCo 1 S.à r.l. holds one unlimited share in Lux Midco 1 S.C.A. As of the date of the Prospectus, MEP Ord KG holds approximately 13.11% of the limited shares in Lux Midco 1 S.C.A. and MEP Co-Invest KG holds approximately 0.65% of the limited shares in Lux Midco 1 S.C.A. as well as approximately 0.75% of the CPECs issued by Lux Midco 1 S.C.A. The remainder of the limited shares in Lux Midco 1 S.C.A. as well as the remainder of the CPECs issued by Lux Midco 1 S.C.A. are held by Square Lux TopCo S.à r.l. Orlando Management Verwaltungs GmbH, Munich, Germany, is a wholly-owned subsidiary of Square Lux TopCo S.à r.l., Luxembourg, and the general partner of MEP Ord KG and MEP Co-Invest KG with no equity interest in each of MEP Ord KG and MEP Co-Invest KG. Square Lux TopCo S.à r.l. is a limited partner of each of MEP Ord KG and MEP Co-Invest KG.

As of the date of the Prospectus, 36 participants, including the members of the Management Board as well as certain other employees of the Group, have indirectly invested in the Company by becoming limited partners (*Kommanditisten*) of MEP Ord KG and/or MEP Co-Invest KG and have invested in the aggregate over time a mid to high single-digit EUR million amount through (i) MEP Ord KG representing approximately 11.15% of the limited shares in Lux Midco 1 S.C.A. and/or (ii) MEP Co-Invest KG for rights representing approximately 0.65% of the limited shares in Lux Midco 1 S.C.A. as well as approximately 0.75% of the CPECs issued by Lux Midco 1 S.C.A. Approximately 1.96% of the limited shares in Lux Midco 1 S.C.A. are indirectly held by Square Lux TopCo S.à r.l. through MEP Ord KG.

13.4. Participation Programs

As of the date of the Prospectus, we do not have any management or employee participation programs except for the existing MEP, see "*15.4. Management Participation Programs*".

14. INFORMATION ON THE SHARE CAPITAL OF THE COMPANY AND APPLICABLE REGULATIONS

14.1. Share Capital and Shares

As of the date of the Prospectus, the share capital of the Company amounts to EUR 80,000,000.00 and is divided into 80,000,000 ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) representing a proportionate amount of the share capital of EUR 1.00 each. The share capital is fully paid up.

As of the date of the Prospectus, the Company and its subsidiaries hold no shares of the Company.

Each of the Company's shares entitles the shareholder to one vote at the shareholders' meeting of the Company. There are no restrictions on voting rights and the shares carry full dividend entitlements.

14.2. Development of the Share Capital since Incorporation

The Company was incorporated as a shelf company in the form of a German limited liability company (*Gesellschaft mit beschränkter Haftung*) by articles of association dated September 2019 under the laws of Germany with a share capital of EUR 25,000.00. Its legal name was Blitz 19-320 GmbH.

On November 29, 2019, the shareholders' meeting of the Company resolved to increase the Company's share capital from EUR 25,000.00 by EUR 9,975,000.00 to EUR 10,000,000.00 against contribution in kind of 681 shares of HENSOLDT Holding GmbH then held by the Selling Shareholder (booked into the Company's subscribed capital and capital reserve pursuant to Section 272(2) no. 1 of the German Commercial Code (*Handelsgesetzbuch*)). The remaining 18,043 shares of HENSOLDT Holding GmbH then held by the Selling Shareholder were transferred as an additional contribution in kind of the Selling Shareholder to the capital reserve of the Company (Section 272(2) no. 4 of the German Commercial Code (*Handelsgesetzbuch*)).

On August 4, 2020, the shareholders' meeting of the Company resolved to increase the Company's share capital from EUR 10,000,000.00 by EUR 70,000,000.00 to EUR 80,000,000.00 from the Company's reserves. The change was registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Munich, Germany on August 6, 2020.

On August 11, 2020, the shareholders' meeting of the Company resolved to change the Company's legal form to a German stock corporation (*Aktiengesellschaft*) under the legal name HENSOLDT AG. The changes in legal form and name were registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Munich, Germany on August 17, 2020 under registration number HRB 258711.

On September 3, 2020, the shareholders' meeting of the Company resolved to increase the Company's share capital from EUR 80,000,000.00 by up to EUR 80,000,000.00 to up to EUR 160,000,000.00 against cash contributions through the issuance of up to 80,000,000 ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*), each representing a proportionate amount of the share capital of EUR 1.00, for purposes of the issuance of the Primary Base Shares to be placed in connection with the Offering, excluding the existing shareholders' subscription rights. The capital increase was registered with the commercial register (*Handelsregister*) on September 10, 2020. On the basis of such resolution of the extraordinary shareholders' meeting of the Company, on September 24, 2020, the Management Board and the Supervisory Board are expected to resolve on the number of Primary Base Shares to be issued. The implementation of the capital increase regarding the Primary Base Shares to be issued is expected to be registered with the commercial register (*Handelsregister*) on or around September 24, 2020.

Following consummation of the capital increase, the Company's share capital will reflect the number of Primary Base Shares to be issued and amount to up to EUR 105,000,000.00, divided into up to 105,000,000 ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*), each representing a proportionate amount of the share capital of EUR 1.00. The share capital will be fully paid up.

The following table sets out the increases in the Company's share capital from the founding of the Company to the date of the Prospectus:

Date of shareholder resolution to increase the share capital	Nominal amount of capital increase (in EUR)	Resulting issued share capital (in EUR)	Date of entry in the Commercial Register
November 29, 2019	9,975,000.00	10,000,000.00	December 5, 2019
August 4, 2020	70,000,000.00	80,000,000.00	August 6, 2020
September 3, 2020	Up to 25,000,000.00	Up to 105,000,000.00	September 24, 2020*

* Expected date of registration of the implementation of the capital increase with the commercial register (*Handelsregister*).

14.3. Authorized Capital

As of the date of the Prospectus, the Company has an authorized capital pursuant to Section 4(3) of the Articles of Association in conjunction with Sections 202 et seqq. of the German Stock Corporation Act (*Aktiengesetz*). Pursuant to these Sections, the Management Board is authorized, subject to the consent of the Supervisory Board, to increase the share capital of the Company on or before August 11, 2025, on one or more occasions, by in total up to EUR 36,000,000.00 through the issuance of up to 36,000,000 new bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) in return for contributions in cash or in kind (the "**Authorized Capital**"). In doing so, the Management Board may determine that the new shares carry profit participation entitlements in a way that departs from Section 60 of the German Stock Corporation Act (*Aktiengesetz*).

The Management Board is furthermore authorized, in each case subject to the Supervisory Board's approval, to exclude the subscription rights of shareholders one or multiple times in each of the following cases:

- to the extent necessary in order to even out fractional amounts in the case of capital increases against cash contributions or contributions in kind;
- to the extent necessary to grant subscription rights to the new bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) to holders or creditors of option or conversion rights granted or obligations imposed by the Company or by its direct or indirect subsidiaries in the scope to which they would be entitled after exercising the option or conversion rights or after fulfilling the option or conversion obligation as shareholders;
- insofar as the capital increase takes place against contributions in kind, in particular in the case of acquisitions 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) of the German Stock Corporation Act (*Aktiengesetz*); or
- in the case of capital increases against cash contributions, if the subscription price for which the new shares are issued does not significantly fall short of the market price at the time of final determination of the amount for which the shares are issued, which should be as close as possible to the placement of the bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) (simplified exclusion of subscription rights in accordance with Section 186(3) sentence 4 of the German Stock Corporation Act (*Aktiengesetz*)). The shares issued under exclusion of the subscription right in accordance with Section 186(3) sentence 4 of the German Stock Corporation Act (*Aktiengesetz*) may not exceed 10% of the share capital existing at the time when the resolution is adopted at the shareholders' meeting or – if the value is lower – when the resolution regarding the initial exercise of authorized capital is adopted. This upper limit of 10 % of capital stock shall be reduced by the prorated amount of the capital stock attributable to those shares issued or sold during the period of effectiveness of this authorization under the exclusion of the subscription right in direct or analogous application of Section 186(3) sentence 4 of the German Stock Corporation Act (*Aktiengesetz*). Furthermore, this limit is decreased by shares that have been or must 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 of the German Stock Corporation Act (*Aktiengesetz*) during the period of effectiveness of this authorization.

In accordance with Section 186(5) of the German Stock Corporation Act (*Aktiengesetz*), 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 (*Kreditwesengesetz*) with the obligation to offer them to the shareholders for subscription (indirect subscription right).

The Management Board is further authorized, subject to the approval of the Supervisory Board, to determine the further details regarding the capital increase and the conditions for the issuance of shares. The Supervisory Board is authorized to amend the wording of Section 4 of the Articles of Association following the performance, in whole or in part, of a capital increase under the Authorized Capital.

14.4. Conditional Capital

As of the date of the Prospectus, the Company has a conditional share capital pursuant to Section 4(4) of the Articles of Association in conjunction with Sections 192 et seqq. of the German Stock Corporation Act (*Aktiengesetz*). Pursuant to these Sections, the share capital of the Company may be increased, subject to certain conditions, by in total up to EUR 16,000,000.00 by issuing up to 16,000,000 new bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) (the "**Conditional Capital**").

The sole purpose of the Conditional Capital is to grant new shares to the holders or creditors of convertible or option bonds entitled to convert, or holders of convertible or option bonds required to convert, the bonds, participation rights, and/or participating bonds (or combinations of these instruments), which would be issued on the basis of the authorization resolution of the extraordinary shareholders' meeting of August 18, 2020 by the Company or by a subordinated Group company on or before August 11, 2025 in return for contributions in cash or in kind.

The conditional capital increase would be carried out only to the extent bonds are issued that are structured with option or conversion rights or with option or conversion obligations, only in accordance with the authorization resolution of the extraordinary shareholders' meeting of August 18, 2020, and only insofar as option or conversion rights are exercised, or holders of bonds required to convert the bonds exercise an option to fulfill their obligation to convert the bonds, or the Company exercises an option to grant no-par value shares of the Company in full or in part in lieu of payment of the monetary amount that is due. The conditional capital increase would not be carried out if a cash settlement is granted or treasury shares, shares from authorized capital or shares from another listed company are used to settle the bonds. The new shares would be issued at the option or conversion price to be determined in each case in accordance with the authorization resolution described under "*14.5. Authorization to Issue Convertible Bonds and Option Bonds*".

The newly issued shares would participate in the profit of the Company from the beginning of the financial year in which they are created. To the extent permissible by law, the Management Board is entitled, subject to the approval of the Supervisory Board, to deviate from this provision and from Section 60(2) sentence 3 of the German Stock Corporation Act (*Aktiengesetz*) and to determine an entitlement to profit participation for a financial year that has already ended.

The Management Board is authorized, subject to the approval of the Supervisory Board, to determine the remaining details for any such conditional capital increase. The Supervisory Board is authorized to amend the wording of Section 4 of the Articles of Association in accordance with the respective utilization of the Conditional Capital.

14.5. Authorization to Issue Convertible Bonds and Option Bonds

On August 18, 2020, the extraordinary shareholders' meeting of the Company authorized the Management Board, subject to the approval of the Supervisory Board, to issue once or several times in return for a contribution in cash or in kind, on or before August 11, 2025, bearer or registered convertible bonds and/or option bonds, participation rights, or participating bonds, or combinations of these instruments (together referred to hereinafter as the "**bonds**") for an aggregate nominal amount of up to EUR 500 million, with or without a definite maturity date, and to impose option obligations on the holders or creditors (together referred to hereinafter as the "**holders**") of option bonds, option participation rights, or option participating bonds, or to grant conversion rights or impose conversion

obligations, into bearer shares (*Inhaberaktien*) of the Company with an aggregate proportionate amount of the share capital of the Company of up to EUR 16,000,000.00, in accordance with the respective bond conditions.

The bonds may be denominated in Euro or in the legal currency of an OECD country provided the equivalent amounts to those stated above in Euro are not exceeded. The bonds can also be issued by a subordinated Group company. In this case, the Management Board is authorized, subject to the approval of the Supervisory Board, to guarantee the bonds on behalf of the Company and to grant or impose on holders of the bonds conversion or option rights or obligations for new bearer shares (*Inhaberaktien*) with no-par value (*Stückaktien*) of the Company.

Shareholders are generally granted a subscription right to the bonds. If shareholders are not granted a direct subscription right, the statutory subscription right will be granted to shareholders in such a manner that the bonds will be issued to a credit institution, a financial institution, or a syndicate of such credit or financial institutions, subject to the obligation to offer the bonds to shareholders for subscription. If the bonds are issued by a subordinated Group company, the Company must ensure that the Company's shareholders are granted subscription rights in line with the above sentence.

However, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude the shareholders' subscription right for fractional amounts resulting from the subscription ratio and also to exclude the shareholders' subscription right to the extent necessary to grant holders of bonds with option or conversion rights or with option or conversion obligations that have been issued by the Company or by a subordinated Group company before a right to subscribe for new bonds to the extent to which they would be entitled to as shareholders after exercising their option or conversion rights or, as the case may be, after fulfillment of their option or conversion obligations.

The Management Board is further authorized, subject to the approval of the Supervisory Board, to exclude the shareholders' subscription right in its entirety for bonds issued against cash payment and with option or conversion rights or option or conversion obligations, if the Management Board, after due examination, comes to the conclusion that the issue price of the bond is not significantly lower than the hypothetical market price of the bond as determined in accordance with generally accepted, especially financial mathematical, methods. However, this authorization to exclude the subscription right only applies to bonds with option or conversion rights or option or conversion obligations for shares with a proportionate amount of the capital stock which may not exceed 10% of the capital stock at the time when the authorization becomes effective or – if the value is lower – at the time when the authorization is exercised. The aforementioned 10%-limit includes shares that were issued or sold with an exclusion of subscription rights directly or indirectly pursuant to Section 186(3) sentence 4 of the German Stock Corporation Act (*Aktiengesetz*) during the term of the authorization up to the time of issuance of bonds with option or conversion rights or option or conversion obligations with an exclusion of subscription rights pursuant to Section 186(3) sentence 4 of the German Stock Corporation Act (*Aktiengesetz*).

If participation rights or participating bonds are issued without an option or conversion right or an option or conversion obligation, the Management Board is authorized, subject to the approval of the Supervisory Board, to exclude the shareholders' subscription right in its entirety if these participation rights or participating bonds are structured in a way similar to bonds, *i.e.*, they do not provide for any shareholder rights in the Company nor do they grant any share in the liquidation proceeds, and the amount of interest rate is not calculated on the basis of net income, net retained profit, or dividends. In addition, the interest rate and the issue price of profit participation rights or participating bonds must correspond to the market conditions prevailing at the time of issuance.

The Management Board is further authorized, subject to the approval of the Supervisory Board, to exclude the shareholders' subscription right in its entirety for bonds issued against contribution in kind and with option or conversion rights or option or conversion obligations, in particular in the case of acquisitions of companies, parts of companies, participations in companies, or other assets including rights and receivables, or in the context of mergers.

In the event that option bonds are issued, one or more options are to be attached to each bond (such bond, a "**partial bond**") that entitle the holder to subscribe to bearer shares (*Inhaberaktien*) of the Company with no par value (*Stückaktien*) under the bond conditions that are determined by the Management Board. For option bonds issued by the Company and denominated in Euros, the bond

conditions may stipulate that the option price can also be settled by the transfer of partial bonds and, as the case may be, an additional cash payment. The proportionate amount of the capital stock attributable to the shares to be issued for each partial bond may not exceed the nominal value of the partial bond. If there are fractional amounts of shares, it can be stipulated that these fractions can be added together, in accordance with the bond conditions, and in return for an additional cash payment, as the case may be, for the purpose of acquiring whole shares. The same applies when options are attached to a profit participation right or a participating bond.

In the case that convertible bonds are issued, the holders of the partial bonds are granted the right to convert their partial bonds into bearer shares (*Inhaberaktien*) of the Company with no par value (*Stückaktien*) in accordance with the convertible bond conditions as determined by the Management Board. The conversion ratio is determined by dividing the nominal value, or the partial bond's issue price if that is below the nominal value, by the conversion price that has been set for a bearer share (*Inhaberaktie*) of the Company with no par value (*Stückaktie*) and can be rounded up or down to a whole number. Furthermore, it can be stipulated that an additional cash payment has to be made for non-convertible fractional amounts and that these are to be consolidated or otherwise compensated. The convertible bond conditions may stipulate that the conversion ratio is variable and that the conversion price will be calculated (subject to the minimum price as determined below) within a predetermined range, depending on the performance of the Company's share during the term of the bond. The same shall apply for convertible participation rights and convertible participating bonds.

The option or conversion price, as determined for a share of the Company must be – except for cases in which an option or conversion obligation or a right to delivery of shares is provided for – equivalent to at least 80% of the volume-weighted average closing price of the Company's shares on the electronic trading system on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) during the last ten trading days before the day of the Management Board's resolution on the issuance of the bond or – if a subscription right is granted – at least 80% of the volume-weighted average price of the Company's shares on the electronic trading system of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) during the subscription period, except for the days during the subscription period that are required for the timely announcement of the option or conversion price pursuant to Section 186(2) sentence 2 of the German Stock Corporation Act (*Aktiengesetz*). Section 9(1) and Section 199 of the German Stock Corporation Act (*Aktiengesetz*) remain unaffected.

The bond conditions may also provide for a conversion obligation or option obligation at the end of the term (or at another point in time) or for the right of the Company to grant holders of the bonds, upon the final maturity of the bond to which option or conversion rights or obligations are attached (including maturity due to termination), in whole or in part, shares of the Company or shares of another listed company in lieu of payment of the cash amount due. In these cases, the option or conversion price can, under the more detailed terms of the bond conditions, be equivalent to the volume-weighted average closing price of the Company's shares on the electronic trading system of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) during the ten trading days before or after the final maturity date, even if this average price is below the minimum price stated above. The proportionate amount of the capital stock of the Company's shares to be issued upon conversion or exercise of the option may not exceed the nominal value of the bonds. Section 9(1) and Section 199 of the German Stock Corporation Act (*Aktiengesetz*) remain unaffected.

The authorization also includes the possibility that the more detailed terms of the bond conditions can under certain circumstances provide for protection against dilution or adjustment mechanisms, provided that such adjustments are not already stipulated by law. Measures for protection against dilution and adjustment mechanisms can be provided for, in particular, if the Company's capital changes during the term of the bonds (for example due to a capital increase or decrease, or a share split), but also in connection with dividend payments, the issuance of further convertible or option bonds, as well as in case of extraordinary events that occur during the term of the bonds or the option bonds (for example, a change of control). The measures for protection against dilution and adjustment can be provided for, in particular, by granting subscription rights, changing the conversion or option price, and changing or granting cash components. Section 9(1) and Section 199 of the German Stock Corporation Act (*Aktiengesetz*) remain unaffected.

The bond conditions may also stipulate that the bond that carries option or conversion rights can be converted at the Company's discretion into new shares from authorized capital or into existing shares of the Company or into shares of another listed company, instead of being converted into new shares

from conditional capital, or that the option right can be fulfilled by delivering such shares or that an option obligation can be settled with the delivery of such shares. The bond conditions can also stipulate that the Company has the right to pay a cash amount instead of granting new shares in the event of a conversion or the exercise of an option.

The Management Board is authorized, subject to the approval of the Supervisory Board, to further specify the details of the issuance and structure of the bonds, in particular with regard to the interest rate, issue price, term and denomination, provisions for protection against dilution, the option or conversion period, and, within the aforementioned framework, the option and conversion price, or to specify such details in agreement with the corporate bodies of the Group company issuing the option or convertible bond.

14.6. Authorization to Acquire Treasury Shares

As of the date of the Prospectus, the Company does not hold any treasury shares, nor does a third party hold any shares of the Company on behalf of, or for the account of, the Company.

The Company may not acquire its own shares unless authorized by the shareholders' meeting or in other very limited circumstances as set out in the German Stock Corporation Act (*Aktiengesetz*). Shareholders may not grant a share repurchase authorization that is valid for more than five years. The rules of the German Stock Corporation Act (*Aktiengesetz*) generally limit repurchases to 10% of the share capital and re-sales must generally be made either on a stock exchange, in a manner that treats all shareholders equally or in accordance with the rules that apply to subscription rights relating to a capital increase.

The Company's shareholders' meeting held on August 18, 2020 authorized the Company to acquire for any purpose permissible, on or before August 11, 2025, treasury shares of up to a total maximum of 10% of the share capital existing at the time of the adoption of the resolution or – in the event that this amount is the lower one – when the authorization is exercised. The authorization can be exercised individually or jointly, by the Company or also by one of its subordinated Group companies, or by third parties on behalf of the Company or on behalf of its subordinated Group companies. The authorization to acquire and use own shares can be exercised in whole or in part, once or multiple times.

The shares acquired based on this authorization, together with other shares of the Company which are in the possession of the Company or are attributable to it pursuant to Sections 71d and 71e of the German Stock Corporation Act (*Aktiengesetz*), may at no time exceed 10% of the Company's share capital. At the discretion of the Management Board, the acquisition may be conducted (i) through a stock exchange or (ii) by means of a public offer directed at all shareholders or a public solicitation to submit offers ("**Acquisition Offer**").

- If the acquisition is conducted through a stock exchange, the consideration paid by the Company for each of the Company's shares (not including incidental acquisition costs) cannot be more than 10% higher or lower than the price of the Company's shares, as determined by the opening auction on the trading date, in the Xetra trading system (or a comparable successor system) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*).

- If the acquisition is made via an Acquisition Offer, the purchase or sales price offered, or the maximum amount of the purchase or sales price range per share (without incidental purchasing costs), cannot be more than 10% higher or lower than the average of the closing auction price in the Xetra trading system (or a comparable successor system) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) over the three stock trading days before the date of the public announcement of the Acquisition Offer. If there is significant deviation from the relevant price after publication of a purchase offer, the offer can be adjusted. In this case, the average price over the three stock trading days before the date of publication of any adjustment will be the reference figure; the 10% limit must be applied to this amount. If the purchase offer is oversubscribed, or in the event of a request to submit a sales offer, if multiple identical offers are submitted but not all can be accepted, acceptance must be based on the ratio of shares tendered (tendering ratios). In addition, share numbers can be rounded down to avoid fractional shares.

The authorization can be exercised for any legally permissible purpose, particularly in pursuit of one of more of the purposes set out below, under exclusion of the subscription rights of the shareholders as

set out below, and can be exercised individually or jointly, by the Company or a subordinated Group company, or by third parties on behalf of the Company or on behalf of any subordinated Group company:

- The Management Board is authorized, with the consent of the Supervisory Board, to sell shares acquired under the above authorization in another manner than via the stock exchange or by submitting an offer to all shareholders, provided that the sale is made for cash and at a price that is not significantly lower than the stock exchange price of the Company's shares at the time of sale (simplified exclusion of subscription rights under Section 186(3) sentence 4 of the German Stock Corporation Act (*Aktiengesetz*)). The shares sold pursuant to this authorization cannot exceed 10% of the share capital, neither at the time the resolution was adopted at the annual shareholders' meeting nor when this authorization is exercised. The limit of 10% of capital stock shall be reduced by the pro-rated amount of the capital stock attributable to those shares issued during the period of effectiveness of this authorization under the exclusion of the subscription right in direct or analogous application of Section 186(3) sentence 4 of the German Stock Corporation Act (*Aktiengesetz*). Furthermore, this limit is reduced by shares that have been or can be issued in order to satisfy option or conversion rights, if the bonds were granted or imposed under exclusion of the subscription right in accordance with Section 186(3) sentence 4 of the German Stock Corporation Act (*Aktiengesetz*) during the period of effectiveness of this authorization.

- The Management Board is authorized, with the consent of the Supervisory Board, to transfer the shares acquired under the above authorization to third parties for contribution in kind, particularly for the acquisition of companies, parts of companies, or interests in companies or for business combinations, as well as for the acquisition of other assets, including rights and claims.

- The Management Board is authorized, with the consent of the Supervisory Board, to use the shares acquired under the above authorization to meet obligations under conversion or option rights or conversion obligations under convertible or option bonds issued by the Company or a subordinated Group company, or under participation rights or participation bonds (or combinations of these instruments) that grant a conversion right or option right or stipulate a conversion or option obligation.

- The Management Board is authorized, with the consent of the Supervisory Board, to use the shares acquired under the above authorization in order to grant holders of convertible or option bonds issued by the Company or a subordinated Group company, or under participation rights or participation bonds (or combinations of these instruments) that grant a conversion right or option right or stipulate a conversion obligation or option obligation, shares in the amount they would be entitled to after exercising the conversion or option right, or to which they would have a subscription right after fulfillment of the conversion or option obligation.

- The Board of Management is authorized to offer the shares acquired under the above authorization to persons who are or were employed by the Company or one of its affiliated companies for purchase (employee shares).

In addition, in the event of a sale of shares with an offer to all shareholders, the Management Board can exclude the subscription right of the shareholders for fractional amounts with the consent of the Supervisory Board.

The Management Board is authorized to redeem the shares acquired under the above authorization without further resolution by the shareholders' meeting. The redemption will result in a reduction of capital in principle. By way of exception, the Management Board can stipulate that the share capital remains unchanged and instead the redemption will result in an increase of the remaining shares' proportion of the share capital under Section 8(3) of the German Stock Corporation Act (*Aktiengesetz*). In this case, the Management Board is authorized to change the definition of the number of shares in the Articles of Association.

In each case, the Management Board must inform the shareholders' meeting about the utilization of the above authorizations, in particular about the reasons for and the purpose of the acquisition of treasury shares, the number of treasury shares acquired and the amount of the share capital attributable to them, the portion of the share capital represented by them and the equivalent value of the shares.

14.7. General Provisions Governing a Liquidation of the Company

Besides liquidation as a result of insolvency proceedings, the Company may be liquidated by a resolution of the shareholders' meeting to dissolve the Company followed by a liquidation procedure. The resolution of the shareholders' meeting requires a simple majority of the votes cast, as well as a majority of at least three quarters of the share capital represented at the time the resolution is adopted. Pursuant to the German Stock Corporation Act (*Aktiengesetz*), in the event of liquidation, the assets remaining after all Company liabilities have been satisfied are distributed among the shareholders in proportion to their interest in the Company's share capital. Certain restrictions, in particular restrictions for the benefit of creditors, must be observed.

14.8. General Provisions Governing Changes in the Share Capital

Under the German Stock Corporation Act (*Aktiengesetz*), a German stock corporation (*Aktiengesellschaft*) requires a resolution of the shareholders' meeting to be adopted by a majority of the votes cast, as well as a majority of at least 75% of the share capital represented at the time the resolution is adopted, to increase its share capital. However, Section 16(2) of the Articles of Association provides that resolutions of the shareholders' meeting shall be adopted by a simple majority of the valid votes cast, unless a higher majority is required by mandatory law or by the Articles of Association. Insofar as the law requires a capital majority in addition to a majority of votes for resolutions of the Company's shareholders' meeting, a simple majority of the share capital represented shall be sufficient to the extent legally permissible. Accordingly, certain capital measures that do not mandatorily require a majority of at least 75% of the share capital represented at the vote, such as capital increases from the Company's own funds, may be adopted by a simple majority.

Shareholders can also create authorized capital. This requires a resolution adopted by a majority of the votes cast, as well as a majority of at least 75% of the share capital represented when the resolution is adopted, and subject to the approval of the Supervisory Board, authorizing the Management Board to issue shares up to a certain amount within a maximum period of five years. The total amount of the authorized capital created by the shareholders' meeting may not exceed 50% of the share capital existing at the time of the resolution. For details on the Company's authorized capital see "*14.3. Authorized Capital*".

In addition, shareholders can create conditional capital by a resolution adopted by a majority of the votes cast, as well as a majority of at least 75% of the share capital represented at the time the resolution is adopted, but only for the purposes of issuing (i) conversion or subscription rights to holders of convertible bonds, (ii) shares as consideration in a merger with another company, or (iii) subscription rights to employees or members of management of the Company or an affiliated company. The total amount of conditional capital may not exceed 10% of the share capital at the time the resolution is adopted in cases where it is created to issue shares to managers and employees, and may not exceed 50% in all other cases. For details on the Company's conditions capital see "*14.4. Conditional Capital*".

The shareholders' meeting may also resolve to decrease the share capital of the Company. Resolutions to decrease share capital require a simple majority of the votes cast, as well as a majority of at least 75% of the share capital represented at the time the resolution is adopted.

14.9. General Provisions on Preemptive Rights

According to Section 186 of the German Stock Corporation Act (*Aktiengesetz*), all shareholders have preemptive rights, which correspond to their existing proportionate participation in the company's share capital and relate to the issuance of new shares issued in the context of a capital increase. The same applies with regard to convertible bonds, bonds with warrants, profit participation rights and participation bonds. In general, preemptive rights are freely transferable and may be traded on German stock exchanges for a prescribed period before the deadline for subscription expires. The preemptive rights of the Company's shareholders may be excluded upon resolution by the shareholders' meeting with a majority of the votes cast and a concurrent majority of at least 75% of the share capital represented at the time of the resolution. Such an exclusion of preemptive rights further requires a report by the Management Board setting forth the reasons why the Company's interest in excluding the preemptive rights outweighs the interest of the shareholders in retaining their preemptive rights. Under

the German Stock Corporation Act (*Aktiengesetz*), the exclusion of preemptive rights with respect to the issuance of new shares is deemed permissible, in particular if the Company increases its share capital against cash payment, with the amount of the capital increase not exceeding 10% of the existing share capital, and the issue price of the new shares being issued is not materially lower than the stock exchange price of the Company's existing shares.

14.10. Squeeze-Out of Minority Shareholders

According to Sections 327a et seqq. of the German Stock Corporation Act (*Aktiengesetz*), which govern the so-called "squeeze-out" of minority shareholders or "squeeze-out under stock corporation law", the shareholders' meeting of a stock corporation (*Aktiengesellschaft*) may resolve, upon request of a shareholder holding at least 95% of the share capital (majority shareholder), that the shares held by the remaining minority shareholders be transferred to the majority shareholder against payment of an adequate cash compensation. The amount of cash compensation to be granted to the minority shareholders must reflect the situation of the company at the time the resolution is adopted by the shareholders' meeting. The true value of the company determines the amount of cash compensation, which is generally calculated using the capitalized earnings method (*Ertragswertmethode*). The minority shareholders are entitled to initiate valuation proceedings (*Spruchverfahren*), in the course of which the fairness (*Angemessenheit*) of the cash compensation is reviewed.

If the majority shareholder of the stock corporation is itself a stock corporation (*Aktiengesellschaft*), a partnership limited by shares (*Kommanditgesellschaft auf Aktien*), or a European company (*Societas Europaea*), in each case having its registered office in Germany, a squeeze-out in accordance with Sections 327a et seqq. of the German Stock Corporation Act (*Aktiengesetz*) may be effectuated under certain circumstances and according to the German Transformation Act (*Umwandlungsgesetz*) providing for this so-called "squeeze-out under transformation law", in order to facilitate an upstream merger of the stock corporation (*Aktiengesellschaft*) into the majority shareholder. Pursuant to Section 62 of the German Transformation Act (*Umwandlungsgesetz)* the majority shareholder holding at least 90% of the share capital is able to request the shareholders' meeting to approve the squeeze-out within three months of the conclusion of the merger agreement. The procedure for the squeeze-out is essentially identical to the squeeze-out under stock corporation law described above, including the minority shareholders' right to have the fairness (*Angemessenheit*) of the cash compensation reviewed.

In addition, according to Sections 39a and 39b of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*), providing for a so-called "squeeze-out under takeover law", an offeror holding at least 95% of the voting share capital of the target company (as defined in the German Securities Acquisition and Takeover Act) after a takeover or mandatory public offer, may within three months of the expiry of the deadline for acceptance of the offer, request the transfer of the remaining voting shares to it by court order against payment of an adequate compensation. A resolution adopted by the shareholders' meeting is not required. To this end, the compensation guaranteed as part of the takeover or mandatory public offer is deemed adequate if, on the basis of the offering, the bidder has acquired shares amounting to at least 90% of the share capital affected by the offering. The nature of the compensation must be the same as the consideration paid under the takeover bid or mandatory offer; a cash alternative must be offered in any event.

Furthermore, according to Section 39c of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*), the shareholders of a target company who have not accepted the offering can accept it within a further three months after the acceptance period of the takeover or mandatory public offer has expired ("sell-out"), if the offeror has the right to file an application for the transfer of the outstanding voting shares in accordance with Section 39a of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*).

The provisions for a squeeze-out under stock corporation law cease to apply once an offeror has petitioned for a squeeze-out under takeover law, and only apply again when these proceedings have been completed.

The German Stock Corporation Act (*Aktiengesetz*) further provides for what is called the integration of stock corporations (*Eingliederung*). Pursuant to the provisions of Sections 319 et seqq. of the German Stock Corporation Act (*Aktiengesetz*), the shareholders' meeting of a stock corporation may resolve the integration of a company, provided that the future principal company (*Hauptgesellschaft*) is a

German stock corporation (*Aktiengesellschaft*) and holds at least 95% of the shares of the company to be integrated. The shareholders of the integrated company are entitled to an adequate compensation that must generally be granted in the form of shares of the principal company. The amount of compensation is to be determined by the so-called merger value ratio (*Verschmelzungswertrelation*) between the companies, *i.e.*, the exchange ratio, which would have to be considered adequate in the event of a merger of the two companies. If the principal company is a controlled company (*i.e.*, a legally separate company over which another company is able to exert, directly or indirectly, a controlling influence), the shareholders of the integrated company may also request an adequate cash compensation instead of compensation in form of shares of the principal company.

14.11. Mandatory Takeover Bids

Upon admission of the Company's shares to trading on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), the Company is subject to the provisions of the German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*), according to which every person whose share of voting rights reaches or exceeds 30% of the voting shares of the Company must publish this fact, including the percentage of its voting rights, within seven calendar days by publication on the internet and through electronic media for disseminating financial information. Subsequently, such person must submit a mandatory public tender offer to all shareholders of the Company, unless an exemption from this obligation has been granted by BaFin. The German Securities Acquisition and Takeover Act (*Wertpapiererwerbs- und Übernahmegesetz*) contains provisions relating to the attribution and aggregation of voting rights in order to ensure that the shares are attributed to the person actually controlling the voting rights attached thereto. If a person fails to give notice of reaching or exceeding the 30% threshold or fails to submit a mandatory public tender offer, such person is barred from exercising shareholder rights (including voting rights and, in certain cases, the right to collect dividends and liquidation proceeds) for the duration of non-compliance. In addition, a fine may be imposed in connection with such non-compliance.

14.12. Disclosure Requirements for Shareholdings and Other Instruments

Upon admission of the Company's shares to trading on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), the Company is subject to the provisions of the German Securities Trading Act (*Wertpapierhandelsgesetz*). Pursuant to Section 33 of the German Securities Trading Act (*Wertpapierhandelsgesetz*), anyone who acquires, sells, or whose shareholding in any other way reaches, exceeds, or falls below 3%, 5%, 10%, 15%, 20%, 25%, 30%, 50%, or 75% of the voting rights in an issuer whose home country (*Herkunftsstaat*) is Germany and whose shares are admitted to trading on an organized market must without undue delay, and no later than within four trading days of such occurrence, notify the issuer and BaFin at the same time. The notice period commences at the time that the person or entity subject to the notification requirement (*Meldepflichtiger*) has knowledge or, in consideration of the circumstances, should have had knowledge that his or her voting rights reach, exceed or fall below the aforementioned thresholds. The German Securities Trading Act (*Wertpapierhandelsgesetz*) contains a conclusive presumption that the person or entity subject to the notification requirement (*Meldepflichtiger*) has knowledge two trading days after such an event occurs. Moreover, a person or entity is deemed to already hold shares as of the point in time such person or entity has an unconditional and due claim of transfer related to such shares pursuant to Section 33 paragraph 3 of the German Securities Trading Act (*Wertpapierhandelsgesetz*). In the case that a threshold has been reached or crossed due to a change in the total number of voting rights, the notification period starts at the time the person or entity subject to the notification requirement has knowledge about such change, or upon the publication of the revised total number of voting rights by the Company, at the latest. The notice period might commence at a later time only in case the voting rights reach, exceed, or fall below the thresholds as a result of a change affecting all voting rights. In such cases the notification requirement is set off by the establishment of an obligation to transfer such ownership immediately (*ohne zeitliche Verzögerung*).

For purposes of the notification requirements, Section 34 of the German Securities Trading Act (*Wertpapierhandelsgesetz*) contains various rules of attribution (*Zurechnung*) regarding voting rights of certain persons associated with the shareholder or acting together with the shareholder. For example, shares held by a subsidiary (as defined in Section 35 of the German Securities Trading Act (*Wertpapierhandelsgesetz*)) are attributed to the parent company or shares held by a third company for the account of another company are attributed to the latter. Furthermore, any kind of cooperation and/

or acting in concert among shareholders that is intended to effect a permanent and material change in the business strategy of the Company can result in an attribution of voting rights. Although such cooperation and/or acting in concert does not necessarily have to specifically concern the exercise of voting rights, coordinating in individual cases is not considered as acting in concert and will not trigger the attribution of voting rights.

Section 38 of the German Securities Trading Act (*Wertpapierhandelsgesetz*) provides for similar obligations to notify the Company and BaFin for reaching, exceeding, or falling below the abovementioned thresholds (except for the 3% threshold) that apply to direct and indirect holders of certain instruments other than shares, that grant upon maturity an unconditional right to acquire already issued voting shares of the Company, a discretionary right to acquire such shares, or instruments that refer to such shares and have a similar economic effect. Pursuant to Section 38(2) of the German Securities Trading Act (*Wertpapierhandelsgesetz)* such instruments include, among other things, transferable securities, options, futures, swaps, forward rate agreements, and contracts for difference. The number of voting rights relevant for the notification requirement will generally be calculated by reference to the full nominal amount of shares underlying the instrument except where the instrument provides exclusively for a cash settlement. Details for such calculations are laid down in the Commission Delegated Regulation (EU) 2015/761 supplementing Directive 2004/109/EC with regard to certain regulatory technical standards on major holdings.

If any of the aforementioned reporting obligations are triggered, the notifying person or entity is required to complete the notification form set forth as an annex to the German Securities Trading Reporting Regulation (*Wertpapierhandelsanzeigeverordnung*). The notice can be submitted either in German or in English via an electronical portal, in writing, or via fax. The notice must include, irrespective of the event triggering the notification: (i) the number of voting rights and the share in total voting rights, (ii) the number of financial instruments and the share in total financial instruments, (iii) the aggregate number of voting rights and financial instruments and the share in total voting rights and financial instruments, in each case held by or attributed to the notifying person or entity. In addition, the notice must include certain attribution details, such as, among other things, the first name and surname of the notifying individual or the legal name, seat and state of a notifying entity, the event triggering the notification, the date on which the threshold was reached or crossed and, if voting rights or instruments are attributed.

As a domestic issuer, the Company must publish such notices without undue delay, but no later than within three trading days after their receipt, via media outlets or outlets where it can be assumed that the notice will be disseminated in the EU and the non-EU parties to the agreement on the EEA (so-called "*Medienbündel*"). The Company must also transmit the notice to BaFin, specifying the time of publication and the media used, as well as to the German Company Register (*Unternehmensregister*) for storage.

There are certain exceptions to the notification requirements. For example, a company is exempt from its notification obligation if its parent company, or if its parent company is itself a subsidiary, the parent's parent company, has filed a group notification pursuant to Section 37(1) of the German Securities Trading Act (*Wertpapierhandelsgesetz*). Furthermore, pursuant to Section 36(1) of the German Securities Trading Act (*Wertpapierhandelsgesetz*), shares or financial instruments held for trading by a credit institution or a credit securities services company with a registered seat in the EU, or in a non-Member State that is a party to the Agreement in the EEA, are not taken into account for determining the notification obligation or proportion of voting rights held, provided it is ensured that the voting rights held by them are not exercised, and that they amount to no more than 5% of the voting shares, or do not grant the right to purchase more than 5% of the voting shares, or do not have a similar economic effect.

The notification requirement under Section 33 of the German Securities Trading Act (*Wertpapierhandelsgesetz*) applies *mutatis mutandis* to holders of voting rights within the meaning of Section 33 and instruments within the meaning of Section 38. Notifiable holdings pursuant to Sections 33 and 38 of the German Securities Trading Act (*Wertpapierhandelsgesetz*) must be aggregated, leading to a notification obligation for an aggregate total of voting rights above a 5% threshold pursuant to Section 39 held by a single issuer.

Furthermore, pursuant to Section 43 of the German Securities Trading Act (*Wertpapierhandelsgesetz*) a person obliged to notify (*Meldepflichtiger*) who reaches or exceeds the threshold of 10% of the voting

rights, or a higher threshold, is obligated to notify the issuer within 20 trading days regarding the objective being pursued through the acquisition of voting rights, as well as regarding the source of the funds used for the purchase. Changes in those objectives must also be reported within 20 trading days. An issuer may stipulate in its articles of association that the aforementioned disclosure requirement does not apply. In calculating whether the 10% threshold has been reached or exceeded, the attribution rules mentioned above apply.

In case the disclosure requirements described above are not met, shareholder rights (including voting rights and, in certain cases, the right to collect dividends and liquidation proceeds) are – subject to certain exceptions – suspended for the duration of non-compliance. If the failure to comply with the disclosure requirements specifically relates to the share of voting rights and is the result of a willful or grossly negligent conduct, the suspension period with regard to voting rights is extended by six months after the person obliged to notify (*Meldepflichtiger*) files the required notification. In addition, a fine may be imposed if a required notification is not at all, incorrectly or incompletely made, or not made in the right manner or in a timely fashion. BaFin has also the right to publish decisions on sanctions and measures with regard to violations of the disclosure obligations and persons responsible for such violations.

14.13. Disclosure of Managers' Transactions

Pursuant to Art. 19 of the Market Abuse Regulation, persons discharging managerial responsibilities ("**Executives**") shall notify the Company and BaFin of every transaction conducted on their own account relating to the shares or debt instruments of the Company or to derivatives or other financial instruments linked thereto (so-called "managers' transactions"). The same applies to persons closely associated with Executives. Transactions that must be notified shall also include, among other things, the pledging or lending of financial instruments, transactions undertaken by any person professionally arranging or executing transactions on behalf of an Executive or a closely associated person, including where discretion is exercised, and transactions made under a life insurance policy. The notification requirement shall apply to any subsequent transaction once a total amount of EUR 20,000 has been reached within a calendar year. Notification shall be made promptly and no later than three business days after the date of the transaction.

For the purposes of the Market Abuse Regulation, Executive means a person within the Company who is a member of the administrative, management or supervisory body of the Company or a senior executive who is not such member but who has regular access to inside information relating directly or indirectly to the Company and who has power to take managerial decisions affecting the future developments and business prospects of the Company. A person closely associated with an Executive means a spouse, a registered civil partner (*eingetragener Lebenspartner*), a dependent child, as well as a relative who has shared the same household for at least one year on the date of the transaction concerned. A person closely associated also includes a legal person, trust, or partnership, the managerial responsibilities of which are discharged by an Executive of the Company or by another person closely associated with him. Finally, the term includes a legal person, trust, or partnership, which is directly or indirectly controlled by an Executive of the Company or by another person, which is set up for the benefit of such a person, or the economic interests of which are substantially equivalent to those of such a person.

The Company shall ensure that the information of which it is notified is promptly made public. In any case, it shall be made public no later than three business days after the transaction in a manner which enables fast access to this information on a non-discriminatory basis in accordance with European Securities and Markets Authority's implementing technical standards. Furthermore, according to the German Securities Trading Act (*Wertpapierhandelsgesetz*), the Company shall without undue delay transmit the information to the German Company Register (*Unternehmensregister*) and notify BaFin. Non-compliance with the notification requirements may result in a fine.

14.14. Post-Admission Disclosure Requirements/EU Short Selling Regulation

As a result of the intended admission of the Company's shares to trading on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), the Company will for the first time be subject to the legal disclosure requirements for stock corporations listed in Germany under the German Stock Corporation Act (*Aktiengesetz*). These include, in particular, the

disclosure of an audited report of the remuneration paid to members of the Management Board and Supervisory Board (*Vergütungsbericht*) and the disclosure of transactions with related parties, which requirements were added to the German Stock Corporation Act (*Aktiengesetz*) with the Act on the Implementation of the Shareholder Rights Directive II (*ARUG II*) based on the Directive (EU) 2017/828 (Shareholder Rights Directive II). Furthermore, the Company will be subject to the disclosure requirements under the German Securities Trading Act (*Wertpapierhandelsgesetz*) and under the Market Abuse Regulation, including, among others, periodic financial reporting (disclosure of annual and half-year financial reports), regular calls with securities and industry analysts, and other required disclosures. The Company will also be obliged under the Listing Rules of the Frankfurt Stock Exchange (*Börsenordnung für die Frankfurter Wertpapierbörse*), as amended from time to time, to publish quarterly statements (unless the Company prepares quarterly financial reports), as the Company's shares are intended to be listed on the sub-segment with additional post-admission obligations (Prime Standard) of the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*).

Pursuant to Art. 17 of the Market Abuse Regulation, the Company shall inform the public as soon as possible of inside information (as defined below) which directly concerns the Company (so called ad-hoc obligations). In such case the Company shall also, prior to informing the public, inform BaFin and the management of the trading venues and facilities (*Geschäftsführungen der Handelsplätze*) where financial instruments of the Company have been admitted to trading or been included in such trading, and, after publication, without undue delay transmit the information to the German Company Register (*Unternehmensregister*).

Inside information comprises, among others, any information of a precise nature, which has not been made public, relating, directly or indirectly, to one or more issuers or to one or more financial instruments, and which, if it were made public, would be likely to have a significant effect on the prices of those financial instruments or on the price of related derivative financial instruments.

The Company may, on its own responsibility, delay disclosure of inside information if (i) immediate disclosure is likely to prejudice the legitimate interests of the Company, (ii) delay of disclosure is not likely to mislead the public, and (iii) the Company is able to ensure that the inside information will remain confidential. In such case, the Company shall also inform BaFin that disclosure of the information was delayed and shall provide a written explanation of how the conditions set out in the preceding sentence were met, immediately after the inside information is disclosed to the public. Where disclosure of inside information has been delayed and the confidentiality of that inside information is no longer ensured, the Company shall disclose such inside information to the public as soon as possible.

15. GOVERNING BODIES

15.1. Overview

The governing bodies of the Company are the Management Board, the Supervisory Board, and the shareholders' meeting. The responsibilities and powers of these corporate bodies are determined by the German Stock Corporation Act (*Aktiengesetz*), the German Co-Determination Act (*Mitbestimmungsgesetz*), the Articles of Association (*Satzung*), and the rules of procedure for the Management Board and the Supervisory Board.

The Management Board conducts the business of the Company in accordance with relevant applicable laws, the Articles of Association of the Company, and the rules of procedure of the Management Board and the Supervisory Board. The Management Board represents the Company when dealing with third parties. The members of the Management Board are appointed by the Supervisory Board and the Supervisory Board is also entitled to remove any members of the Management Board under certain circumstances. German law generally prohibits concurrent memberships of the management board and the supervisory board in a stock corporation.

The Management Board must ensure that appropriate risk management and risk control mechanisms are established and maintained within the Company, its subsidiaries and affiliates. This is to ensure that developments endangering the existence of the Company can be identified at an early stage. The Management Board is also required to report any material issues in relation to business transactions and any material developments regarding the business to the Supervisory Board. It has to report on the course of business, in particular revenue, and the situation of the Company and its subsidiaries and joint ventures at least on a quarterly basis. The Management Board is further required to report any planned business policies and other fundamental issues concerning corporate planning (including financial, investment, and staff planning) to the Supervisory Board once a year; material deviations of the actual developments from previously reported goals, including the reasons for any such deviations, must also be addressed. The chairman of the Supervisory Board shall be in regular contact with the Management Board, in particular, with the chairman of the Management Board, in order to discuss with the chairman of the Management Board issues of strategy, business development, the risk situation, risk management, and compliance. In the meeting of the Supervisory Board in which the annual financial statements of the Company are discussed, the Management Board must also report on the profitability of the Company, especially in relation to return on equity. As a general rule, the Management Board is required to report in a timely manner events which could have a material effect on the Company and transactions which could be of material importance, especially in relation to the Company's profitability or liquidity. This is to ensure that the Supervisory Board is able to assess such transactions prior to any action being taken. The Management Board is required to report any other important events to the chairman of the Supervisory Board without undue delay; this includes events at any affiliated company of which the Management Board has become aware and which could potentially have a material impact on the Company. Moreover, any member of the Supervisory Board may at any time demand a report to the Supervisory Board about the affairs of the Company. In addition, the Management Board and the Supervisory Board shall, once the Company becomes a listed company, report annually in the annual report on the corporate governance of the Company and explain any deviations from the recommendations of the German Corporate Governance Code (*Deutscher Corporate Governance Kodex*), which was adopted by a governmental commission on the German Corporate Governance Code on February 26, 2002 and currently applies in the version dated December 16, 2019 (the "**Code**").

The Supervisory Board advises and oversees the Management Board's management of the Company, but is itself not entitled to manage the Company. However, if a position on the Management Board is vacant, the Supervisory Board may delegate the responsibilities attaching to this position to one of its own members for a limited period of time. Such appointment shall not exceed a period of one year and the designated person's membership of the Supervisory Board is suspended while serving on the Management Board.

The Articles of Association of the Company may designate the types of transactions that may only be made with the approval of the Supervisory Board. In addition, the Supervisory Board may itself require that certain types of transactions are subject to its consent. Matters subject to the prior consent of the

Supervisory Board or a committee of the Supervisory Board pursuant to the internal rules of procedure of the Management Board and the Supervisory Board include, among other things:

- the determination of periodic strategy and business planning and the annual capital expenditure plan, including material changes to the planned capital expenditure;
- mergers, spin-offs or similar measures of a Group company;
- the sale of all assets or all of the material assets of a Group company;
- the acquisition by a Group company of interests in companies or of parts of companies (asset deals) above a threshold of EUR 75 million;
- changes to the legal form of a Group company and material changes to the corporate governance regime of any of the Company's subsidiaries;
- material changes to the scope of activities of a Group company or the discontinuation of existing production sites, fields of business, establishments or a branch office of a Group company;
- material changes to the business practices of the Group in respect of industrial and occupational health and safety;
- the conclusion of other legal transactions outside the ordinary course of business or of fundamental importance to a Group company and transactions or measures of a Group company not concluded at arm's length;
- transactions with a value of more than EUR 25,000 between Group companies on the one hand and members of the Management Board or managing directors of Group companies or persons or companies related to a member of the Management Board or a managing director of a Group company on the other hand, as well as the granting of certain loans, advance payments, or guarantees to members of the Company's management (including members of the Management Board);
- the conclusion of or changes to material Group shop agreements and other material Group-wide employee-related agreements with trade unions or employee representatives, as well as the approval of any restructuring measures that would result in notices of termination being issued to more than 100 employees of the Group;
- the making of a binding offer or conclusion of a customer or supplier contract by a Group company if the order value exceeds a threshold of EUR 250 million;
- the acquisition, sale, or encumbrance by the Group of real property and comparable rights in excess of EUR 1 million;
- certain financing measures, as well as the assumption of suretyships, guarantees, or any similar liability by a Group company, in each case above a threshold of EUR 25 million; and
- the conclusion of agreements with external sales representatives or other external marketing agents with performance-based fees.

The members of the Management Board and the Supervisory Board owe fiduciary duties to the Company, *i.e.*, a duty of loyalty, a duty of legality, and a duty of care. The members of these corporate bodies must perform their duties taking into account a broad range of interests, especially those pertaining to the Company, its shareholders, employees, and creditors. The shareholders' right to equal treatment and equal access to information must also be taken into account. If members of the Management Board or the Supervisory Board breach their duties, they may be liable individually, or jointly and severally with other members of the Management Board or the Supervisory Board, as the case may be, to the Company for compensatory damages.

Under German law, a shareholder generally cannot take direct action against a member of the management board or the supervisory board of a German stock corporation (*Aktiengesellschaft*) with its registered office in Germany if the shareholder suspects that such member or members have violated their duties towards the company. Thus, under German law, generally only the Company has

the right to pursue claims for damages against a member of the Management Board or the Supervisory Board. The Management Board represents the Company in relation to claims brought against members of the Supervisory Board and, in turn, the Supervisory Board represents the Company in relation to claims brought against members of the Management Board. Pursuant to a decision by the German Federal Court of Justice (*Bundesgerichtshof*), the Supervisory Board is required to pursue damages claims that are likely to be successful against members of the Management Board, unless significant interests of the Company either take precedence over or are of equal importance to any such claim.

If the governing body authorized to represent the Company decides against pursuing a claim, claims for damages can be pursued by the shareholders following a resolution (by a simple majority of the votes cast) by the shareholders' meeting. The shareholders' meeting can also appoint a special representative (*besonderer Vertreter*) to pursue such claims. Based on the resolution of the shareholders' meeting to claim damages, shareholders with a combined shareholding of 10% or more of the entire share capital or holders of shares with an aggregate nominal value of EUR 1 million may also apply to the competent court for the appointment of a special representative, such decision being subject to the court's discretion.

Furthermore, the shareholders' meeting can, by a simple majority resolution, appoint a special auditor (*Sonderprüfer*) to review any measures, in particular in relation to management. If the shareholders' meeting rejects a motion to appoint a special auditor, the court must appoint a special auditor at the request of shareholders who hold shares representing at least 1% of the share capital or shares with an aggregate nominal value of at least EUR 100,000 if the facts justify the suspicion of irregularities or that gross violations of the law or the Articles of Association have been committed. If the shareholders' meeting appoints a special auditor, the court must appoint a different special auditor at the request of shareholders who hold shares representing at least 1% of the share capital or shares with an aggregate nominal value of at least EUR 100,000 if this is deemed necessary with respect to the person who has been appointed as special auditor. Shareholders and shareholder associations can use the shareholder forum of the German Federal Gazette (*Bundesanzeiger*), which is available through the German Company Register's (*Unternehmensregister*) website, to call upon other shareholders to jointly, or through third-party representation, request a special audit, appoint a special auditor, demand that a shareholders' meeting is convened, or exercise their voting rights in a shareholders' meeting. If there is evidence leading to the strong suspicion that the Company has incurred damages through irregularities or gross violations of the law or the Articles of Association, shareholders whose shareholding constitutes at least 1% of the share capital or who hold shares with an aggregate nominal value of at least EUR 100,000 may request with a court to be allowed to bring a claim for damages of the Company in their own name but on behalf of the Company against members of governing bodies, subject to certain procedural requirements. Such claims, however, become inadmissible if the Company itself files a claim for damages.

The Company may only waive or settle claims for compensation against members of the Management Board or the Supervisory Board three years after the claim has arisen and only if (a) the shareholders resolve to do so in a shareholders' meeting by a simple majority resolution and (b) a quorum of the shareholders, together holding shares which represent at least 10% of the share capital, does not object to this in the minutes of the meeting.

Under German law, individual shareholders and any other persons are prohibited from intentionally using their influence within the Company to cause a member of the Management Board or the Supervisory Board to engage in conduct that could be damaging to the Company. A shareholder controlling the Company may not use its influence to persuade the Company to act against the Company's interests unless there is a domination agreement (*Beherrschungsvertrag*) between such shareholder and the Company in place and the influence exerted is within the limits of certain statutory mandatory provisions or any damages are compensated. Anyone intentionally exercising influence to cause a member of the Management Board or the Supervisory Board, an authorized signatory (*Prokurist*), or a general representative (*Handlungsbevollmächtigter*) to act to the detriment of the Company or its shareholders is required to compensate the Company and its shareholders for any damages resulting from such behavior. In addition, in this context, the members of the Management Board and the Supervisory Board are jointly and severally liable if their actions or omissions amount to a violation of their duty of care.

15.2. Management Board

15.2.1. General

Section 6 of the Articles of Association of the Company specifies that the Management Board shall consist of at least two members. The specific number of members of the Management Board is determined by the Supervisory Board. The Supervisory Board appoints the members of the Management Board for a maximum period of five years and may reappoint members. The Supervisory Board may revoke such appointment prior to the expiration of the term of office for cause (*wichtiger Grund*), for example, a gross breach of duties or if the shareholders' meeting expresses a lack of confidence in the respective member of the Management Board. For the proportion of women on the Management Board, the Supervisory Board has set a target of 25% by 2025. The Supervisory Board can appoint a member of the Management Board as the chairman of the Management Board and another member as the vice-chairman of the Management Board. Pursuant to the rules of procedure of the Management Board adopted by the Supervisory Board on August 11, 2020, the Management Board has a quorum if at least two third of its members, but in any case at least two members, are present or participate in the vote. Members who participate by telephone or video conference or other electronic means of communication are also considered to be participating. The Management Board shall only discuss and take decisions pertaining to the area of responsibility of an absent member with the consent of such member, except in cases of emergency. The Management Board adopts resolutions unanimously wherever possible. If this is not possible, a resolution shall be adopted by simple majority of the votes cast unless otherwise provided for by law or by the Articles of Association or by the rules of procedure of the Management Board. In case of a tie, the chairman of the Management Board shall have a casting vote if the Management Board has more than two members.

Pursuant to Section 7 of the Articles of Association, when dealing with third parties, the Company is represented by two members of the Management Board acting jointly or by one member of the Management Board acting jointly with an authorized signatory (*Prokurist*). Each member of the Management Board may be released by the Supervisory Board from the restrictions of entering into a legal transaction in the name of the principal with himself as an agent of a third party according to Section 181, 2nd alternative of the German Civil Code (*Bürgerliches Gesetzbuch*), unless the law specifies otherwise; Section 112 of the German Stock Corporation Act (*Aktiengesetz*) remains unaffected.

15.2.2. Current Members of the Management Board

The Management Board currently consists of three members. The names and main responsibilities of the current members of the Management Board are as follows:

Name	Born	Member Since*	Appointed Until	Responsibilities
Thomas Müller	1958	2017	2024	Chairman of the Management Board and Chief Executive Officer (CEO)
Axel Salzmann	1958	2017	2024	Chief Financial Officer (CFO)
Peter Fieser	1960	2017	2024	Chief Human Resources Officer (CHRO)

* Reflects first appointment as a managing director of HENSOLDT Holding GmbH.

The termination date of the service agreement for each member of the Management Board (September 30, 2024) corresponds with the respective term in the office.

All members of the Management Board may be reached at the Company's offices at Willy-Messerschmitt-Straße 3, 82024 Taufkirchen, Germany (telephone: +49 89 51518 0).

Below are summaries of the curricula vitae of the current members of the Management Board, with indications of their principal activities outside the Company to the extent that those are significant with respect to the Company. For more information, see also "*15.5. Certain Information Regarding the Members of the Management Board and the Supervisory Board, Conflicts of Interest*".

15.2.2.1. Thomas Müller – Brief Biography

Born in 1958, Mr. Müller started his professional career in 1977 in the German armed forces (*Bundeswehr*) and obtained a degree in economics and business administration from the University of the German armed forces (*Bundeswehr*) in Hamburg. He left the German armed forces (*Bundeswehr*)

as a captain in 1991. From 1991 to 2000, Mr. Müller held various management functions at the German aerospace and defense company Deutsche Aerospace AG (DASA), in particular DASA Defence and Civil Systems and DASA Missiles and Air Defence Systems. After the merger of DASA into the European Aeronautic, Defence and Space Company (EADS), Mr. Müller served as CFO of EADS Systems & Defence Electronics from 2000 to 2003. From 2003 until 2012, Mr. Müller was CFO and member of the executive committee of Astrium GmbH, a wholly owned subsidiary of EADS specializing in civil and military space systems. In 2013, Mr. Müller became head of Astrium's satellite products business division and was also responsible for the industrial implementation of a products globalization strategy as director of Astrium until 2014. In 2014, Mr. Müller transferred to Airbus in order to manage the defense electronics unit within Airbus' defense and space division. Subsequently, in 2015, Mr. Müller was appointed managing director and in 2016 CEO of Airbus DS Electronics and Border Security GmbH (after the separation of Airbus, he continued being the CEO now of HENSOLDT Holding GmbH in March 2017). Since 2020, Mr. Müller is the chairman of the Management Board of HENSOLDT AG, where he acts as CEO (prior to the change of the Company's legal form: managing director and CEO of HENSOLDT GmbH). Mr. Müller is also a member of the supervisory board of the following Group companies: HENSOLDT Optronics GmbH, and HENSOLDT Sensors GmbH.

The following table shows the positions that Mr. Müller holds or has held as a member of a management, administrative, or other supervisory body, or senior management, in companies or as a partner in partnerships outside the Group in the last five years, as well as select positions Thomas Müller currently holds in companies within the Group:

Positions held in companies and partnerships outside the Group within the last five years	**Selected positions held in companies and partnerships within the Group within the last five years**
• Managing director of Airbus DS Electronics and Border Security GmbH (subsequently HENSOLDT Sensors GmbH) (until 2017)	• Chairman of the Management Board and CEO of HENSOLDT AG* • Managing director of HENSOLDT Holding GmbH* • Managing director of HENSOLDT Holding Germany GmbH* • Member of the supervisory board of HENSOLDT Optronics GmbH* • Member of the supervisory board of HENSOLDT Sensors GmbH*

* Position is currently held.

15.2.2.2. Axel Salzmann – Brief Biography

Born in 1958, Mr. Salzmann holds a degree in industrial engineering from the University of Hamburg. Mr. Salzmann started his professional career in 1987 at Philips where he held several positions until 2001. In 1994, he was appointed CFO and HR manager of Philips' department for electronic household appliances. In 1996, he was appointed vice president, CFO. In 2002, Mr. Salzmann transferred to O2 Germany, where he was CFO and acted in parallel as deputy CEO until 2007. From 2008 until 2015, Mr. Salzmann was CFO of ProSiebenSat.1 Media AG. During this period, among other things, the acquisition of the online video store Maxdome from United Internet (December 2010), the acquisition of a majority stake in the U.S. production company Fuse (September 2011), and the acquisition of a majority stake in the British film and television company Endor (March 2012) took place. In 2015, Mr. Salzmann moved to Bilfinger SE, where he acted as CFO until 2017. In this position, he was responsible for the areas of group controlling, finance, investor relations, legal and regulatory affairs, and administration. In 2017, Mr. Salzmann joined the Group and was appointed CFO and managing director of HENSOLDT Holding GmbH. Since 2020, Mr. Salzman is a member of the Management Board of HENSOLDT AG, where he acts as CFO (prior to the change of the Company's legal form: managing director and CFO of HENSOLDT GmbH). Mr. Salzmann is also managing director of the following Group companies: HENSOLDT Holding Germany GmbH, HENSOLDT Optronics GmbH, and HENSOLDT Sensors GmbH. From 2015 until 2020, he was a member of the supervisory board of HUGO BOSS AG, and since 2019, he has been a member of the supervisory board of TeamViewer AG.

The following table shows the positions that Mr. Salzmann holds or has held as a member of a management, administrative, or other supervisory body or senior management in companies or as a partner in partnerships outside the Group in the last five years, as well as select positions Mr. Salzmann currently holds in companies within the Group:

Positions Held in Companies and Partnerships outside the Group within the last Five Years	Select Positions Held in Companies and Partnerships within the Group within the last Five Years
• Member of the supervisory board of TeamViewer AG* • Member of the supervisory board of HUGO BOSS AG (until 2020) • CFO of Bilfinger SE (until 2017) • CFO of ProSiebenSat.1 Media AG (until 2015)	• Member of the Management Board and CFO of HENSOLDT AG* • Managing director of HENSOLDT Holding GmbH* • Managing director of HENSOLDT Holding Germany GmbH* • Managing director of HENSOLDT Optronics GmbH* • Managing director of HENSOLDT Sensors GmbH*

* Position is currently held.

15.2.2.3. Peter Fieser – Brief Biography

Born in 1960, Mr. Fieser obtained a degree in business administration from the University of Applied Sciences Augsburg. Mr. Fieser started his professional career in 1986 at MTU Friedrichshafen, a manufacturing company for diesel engines and propulsion systems. From 2000 until 2003, Mr. Fieser served as head of general services at Aircabin. From 2003 until 2005, Mr. Fieser was vice president HR of EADS Deutschland responsible for integrated sensor systems, and subsequently, from 2005 until 2008, Mr. Fieser held the same position at EADS Secure Networks in Paris, France. From 2008 until 2015, Mr. Fieser was, among others, head of human resources at EADS Deutschland responsible for the defense electronics business unit, as well as senior vice president in the Cassidian division of EADS. In 2015, Mr. Fieser was appointed managing director and chief human resources officer ("**CHRO**") at Airbus DS Electronics and Border Security GmbH (after the separation from Airbus now operating as HENSOLDT Sensors GmbH). Since February 2017, Mr. Fieser is CHRO and managing director of HENSOLDT Holding GmbH. Since 2020, Mr. Fieser is a member of the Management Board of HENSOLDT AG, where he acts as CHRO (prior to the change of the Company's legal form: managing director and CHRO of HENSOLDT GmbH). Mr. Fieser is also managing director of the Group company HENSOLDT Holding Germany GmbH and a member of the supervisory board of HENSOLDT Optronics GmbH. In addition, he is managing director of Orlando Management Verwaltungs GmbH.

The following table shows the positions that Mr. Fieser holds or has held as a member of a management, administrative, or other supervisory body or senior management in companies or as a partner in partnerships outside the Group in the last five years, as well as select positions Mr. Fieser currently holds in companies within the Group:

Positions Held in Companies and Partnerships outside the Group within the last Five Years	Select Positions Held in Companies and Partnerships within the Group within the last Five Years
• Managing director and CHRO of Airbus DS Electronics and Border Security GmbH (until 2017) • Managing director of Orlando Management Verwaltungs GmbH*	• Member of the Management Board and CHRO of HENSOLDT AG* • Managing director of HENSOLDT Holding GmbH* • Managing director of HENSOLDT Holding Germany GmbH* • Managing director of HENSOLDT Sensors GmbH* • Member of the supervisory board of HENSOLDT Optronics GmbH*

* Position is currently held.

15.2.3. Remuneration and Benefits; Share Ownership

15.2.3.1. Remuneration in the Financial Year Ended December 31, 2019

In the periods under review, HENSOLDT AG was not yet formed. HENSOLDT GmbH has not disclosed the individual compensation for each member of its management board. In the financial year ended December 31, 2019, the total remuneration paid by the Group to the members of the Management Board and, until November 29, 2019, certain additional managers (including fixed and variable components as well as benefits in kind) amounted to EUR 5.4 million in the aggregate.

15.2.3.2. Remuneration System and Benefits

The current remuneration of the members of the Management Board is based on their service agreements that became effective upon their appointment as members of the Management Board on August 11, 2020. In order to assess whether the specific total remuneration of the members of the Management Board is in line with usual levels compared to other enterprises, the Supervisory Board has determined certain companies listed in the MDAX on the regulated market of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) that are comparable as to size, country and field of business, as appropriate peer group (namely Brenntag AG, Dürr AG, Fraport AG, GEA Group AG, Knorr-Bremse AG, MTU Aero Engines AG, Nemetschek SE, OSRAM Licht AG, RATIONAL AG, Siltronic AG, Software AG, TeamViewer AG, and Varta AG).

15.2.3.2.1. Annual Base Salary and Variable Remuneration

Under their service agreements, members of the Management Board are entitled to a fixed base salary and, starting as of the financial year 2021, variable compensation. The variable compensation consists of variable short-term incentive compensation (the "**STI**") and variable long-term incentive compensation ("**LTI**"). The members of the Management Board continue to be entitled to certain benefits under their current pension plan, which existed already under their contracts with HENSOLDT Holding GmbH, and other supplemental benefits (as described below in more detail). Under the service agreements, the following compensation and benefit components have been agreed (all figures are gross amounts):

(in EUR, per year)	Fixed base salary	STI[1]	LTI[1]	Pension contributions/ other benefits[2]	Total
All members of the Management Board	1.6 million	1.35 million	1.65 million	max. 1.8 million	**6.4 million**[3]

(1) For the STI and LTI, the aggregate target amounts are mentioned based on an assumed achievement of the underlying targets for the STI or LTI, as the case may be, of 100%.
(2) The amount of pension contributions and other benefits is the maximum amount to which the board members are entitled.
(3) This number assumes 100% achievement of the variable compensation (STI/LTI) and includes the absolute maximum amount of pension contribution and other benefits. The total remuneration, therefore, may in fact be higher or lower than such number. The absolute total maximum remuneration for all board members amounts to EUR 9.3 million (in case all variable compensation elements would be achieved at maximum level and all other benefits would be paid at maximum level).

Under the STI, the members of the Management Board are entitled to receive an annual bonus based on three financial parameters, namely free cash flow, EBITDA (earnings before interest, taxes, depreciation and amortization), and consolidated revenue (each as defined in the respective annex to the service agreements). The STI amount paid to each member of the Management Board depends on the factor of target achievement with respect to each of these parameters (each parameter weighted 1/3 for the purpose of determining the STI amount). The annual pay-out is capped at 150% of the STI target amount.

Under the LTI, the members of the Management Board are granted annual tranches of performance stock units ("**PSUs**") for a performance period of four years per tranche. The number of PSUs to be granted to each member of the Management Board per annum corresponds to (i) the target EUR value of the LTI as defined in the service agreements, divided by (ii) the average share price of the Company in Xetra-trading during the last 60 trading days after the commencement of the respective performance period. The number of PSUs vested to the respective member of the Management Board at the end of the four-year period is based on the achievement of certain parameters, namely the parameter relative total shareholder return, the financial parameter Order Intake, and the two ESG (environmental, social, and governance) parameters diversity and climate impact (each ESG parameter is defined with targets in the respective annex to the service agreements in detail). Achievement of the relevant targets is measured over a period of four years before the scheduled vesting of the PSUs and cash payout of the respective bonus component. Each of the relevant targets is capped at 150%. To calculate the number of PSUs to be vested at the end of the four-year period the parameters are weighted as follows: 40% relative total shareholder return, 30% Order Intake, 15% diversity, and 15% climate impact. To determine the final long-term variable compensation claims of the members of the Management Board at the end of each performance period, the number of vested PSUs after such period is multiplied by the average share price of the Company in Xetra-trading during the last 60 trading days before the end

of the relevant performance period. The LTI is paid in cash and the payout amount is in any case capped at 200% of the LTI target amount.

The service agreements of the members of the Management Board also provide for a claw-back of a portion of the STI amount and LTI amount in case of occurrence of certain material claw-back events concerning performance and compliance. Further, they provide for customary good leaver/bad leaver clauses.

The service agreements do not contain any special clauses for a change-of-control scenario.

15.2.3.2.1. Pension Contribution and Other Supplemental Benefits

In addition to their compensation, under their respective service agreements, the members of the Management Board are entitled to a company car for business and private use (with the Company covering the benefits in kind for the distance between place of residence and work place as well as car operating costs, including fuel costs), a driver service for certain business use, as well as coverage of health insurance up to a certain amount and health preventive measures, limited continuation of fixed compensation payment as survivor benefit, reimbursement of rent for a double household, partially home flights to main residence, reimbursement of a term life insurance up to a certain amount, accident insurance, and D&O insurance for financial damages.

Members of the Management Board participate in the Group's defined benefits pension plan.

15.2.3.3. Share Ownership Guidelines (SOG)

The service agreements of the members of the Management Board include share ownership guidelines. Under these guidelines, each member of the Management Board is obliged to invest in shares of the Company over a period of four years. The amount to be invested is set at 150% of the fixed annual compensation for the CEO, 120% of the fixed annual compensation for the CFO, and 100% of the fixed annual compensation for the CHRO. The minimum number of shares to be acquired is determined by the average share price of the Company in Xetra-trading on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) during the first 125 trading days after the initial listing of the Company's shares. Shares acquired under the share ownership guidelines must be held in full until the termination of the respective member's position on the Management Board and also after termination of office. Following such termination, up to 50% of the shares held under the share ownership guidelines may be sold per year. If the members of the Management Board do not sell 50% of their shares or sell less, they are free to sell such shortfall at any time.

15.2.3.4. Non-Compete

During the term of their service agreement and for a period of one year following its termination, the members of the Management Board are subject to certain non-compete obligations, including a prohibition from working (as an employee, in a freelance or advisory capacity, or through certain investments, except for participations of less than 5% of the share capital and voting rights) for a company that is a competitor of the Company. The post-contractual non-compete obligations entail an obligation of the Company to pay a non-compete compensation to members of the Management Board for the duration of the post-contractual non-compete period. The compensation is to be paid in monthly installments and amounts to 50% of the contractual fixed compensation that the member of the Management Board received prior to the end of the service agreement. A potential remuneration by third parties is to be set off against the compensation payments as from a certain amount; the same applies if the member of the management board should receive a severance payment in case of an early termination of the service agreement. The Company can waive its right under the non-compete clause with the effect that the obligation to pay a non-compete compensation ceases three months after receipt by the member of the Management Board of the declaration of waiver.

15.2.3.5. Severance Payment

In the event of a mutual termination of the service agreement prior to the end of the term of the respective service agreement, the respective member of the Management Board will be entitled to a severance payment unless the termination is based on cause within the meaning of Section 626 of the German Civil Code (*Bürgerliches Gesetzbuch*) or the member of the Management Board quits his office without cause. The severance payment amounts to up to two times the annual remuneration (*Jahresvergütung*) which is defined as the fixed remuneration per year as well as the annual STI target

for the last business year before the termination. The severance payment is granted *pro rata* if the remaining term of the service agreement is less than two years at the time of termination. Claims under the LTI to which the member of the Management Board is entitled remain unaffected by the severance payment. All claims under the LTI are void if the termination is based on cause within the meaning of Section 626 of the German Civil Code (*Bürgerliches Gesetzbuch*), the member of the Management Board quits his office without cause, or, in case of a termination agreement or garden leave, the Company could have terminated the service agreement based on cause within the meaning of Section 626 of the German Civil Code (*Bürgerliches Gesetzbuch*).

15.2.3.6. Shareholdings of the Members of the Management Board in the Company

The members of the Management Board currently indirectly hold shares of the Company via MEP Ord KG, Lux Midco 1 S.C.A., Square Lux Holding I S.à r.l. and the Selling Shareholder (see "*15.4.1. Management Equity Program*"). On a look-through basis their shareholdings are as follows as of the date of the Prospectus:

Name	Percentage of limited shares in Lux Midco 1 S.C.A. held by the respective member of the Management Board through MEP Ord KG in relation to all limited shares issued by Lux Midco 1 S.C.A. (rounded)[1]
Thomas Müller . . .	1.84%
Axel Salzmann . . .	1.58%
Peter Fieser	0.79%

(1) This calculation assumes that the CPECs that have been issued by Lux Midco 1 S.C.A. will not be converted into limited shares issued by Lux Midco 1 S.C.A. Based on this assumption, the percentage of the shareholding of the respective member of the Management Board through MEP Ord KG in Lux Midco 1 S.C.A. corresponds to the percentage the respective member of the Management Board indirectly holds, on a look-through basis, in the total share capital of the Company (prior to the implementation of the Offering). Such shareholding does not, however, correspond to the economic participation of the members of the Management Board in the Company because the members of the Management Board do not hold CPECs issued by Lux Midco 1 S.C.A., which CPECs will need to be repaid in full prior to any payment on limited shares issued by Lux Midco 1 S.C.A. (see "*15.4.1. Management Equity Program*").

15.3. Supervisory Board

15.3.1. General

Pursuant to Section 8 of the Articles of Association and in accordance with the requirements of German law, the Supervisory Board consists of twelve members. Six members are appointed by the shareholders. The other six members representing the employees are appointed in accordance with the provisions of the German Co-Determination Act (*Mitbestimmungsgesetz*). For the proportion of women on the Supervisory Board, the Supervisory Board has set a target of 30% by 2025. According to Section 8(2) of the Articles of Association, as soon as and for as long as the Federal Republic of Germany remains a shareholder of the Company, one of the six members to be appointed to the Supervisory Board by the shareholders is appointed by the Federal Republic of Germany acting as shareholder, and, as long as the Selling Shareholder remains a shareholder in the Company, such member of the Supervisory Board is jointly appointed by the Selling Shareholder and the Federal Republic of Germany, without a vote of the shareholders' meeting of the Company being required. Such appointed member of the Supervisory Board shall, as long as the appointment right of Selling Shareholder exists, be independent from the Selling Shareholder and, as long as the appointment right of the Federal Republic of Germany exists, be independent from the Federal Republic of Germany, in a sense that the appointed member of the Supervisory Board shall neither be a member of the executive board or an employee of the Selling Shareholder or of any of its direct or indirect controlling shareholders, nor an official or employee of the Federal Republic of Germany, another local authority (*Gebietskörperschaft*), or a public law institution (*öffentlich-rechtliche Anstalt*). In case the Federal Republic of Germany directly or indirectly holds at least 25.1% of the Company's share capital, the Articles of Association provide for a right of the Federal Republic of Germany to solely appoint one additional Supervisory Board member. Unless the shareholders' meeting has set a shorter term of office, the term of office of each Supervisory Board member appointed by the shareholders, as well as the term of each substitute member, expires at the end of the annual shareholders' meeting ratifying the activities of the Supervisory Board for the fourth financial year following the commencement of the member's term of office, not including the financial year in which the term commences. Members may be re-elected.

If a Supervisory Board member resigns from office before the end of his or her term, a successor will be elected for the remainder of such leaving member's term of office unless the shareholders' meeting determines a different time period of appointment. A substitute member can be elected simultaneously with the appointment of a member of the Supervisory Board; the substitute member will in this case automatically replace the member if the member resigns prior to the expiration of his or her term of office. The appointment of such a member expires at the earlier of the appointment of a successor or the expiration of the term of office for which the member was elected. The election of substitute members for the members of the Supervisory Board representing the employees is governed by the German Co-Determination Act (*Mitbestimmungsgesetz*).

As of the date of the Prospectus, the members of the Supervisory Board representing the employees have been appointed by court, pursuant to Section 104 of the German Stock Corporation Act (*Aktiengesetz*), following initiation of the so-called status proceedings (*Statusverfahren*) pursuant to Sections 97 et seqq. of the German Stock Corporation Act (*Aktiengesetz*).

The Supervisory Board elects a chairman and a vice-chairman from among its members at a meeting held following the general shareholders' meeting in which the Supervisory Board members are newly appointed. The election follows the provisions of the German Co-Determination Act (*Mitbestimmungsgesetz*).The terms of office of the chairman and the vice-chairman correspond to the terms of their appointment as members of the Supervisory Board unless a shorter term of office is determined at the time of their election. If the chairman or the vice-chairman resigns from his or her position prior to the expiration of the respective term of office, the Supervisory Board must elect a substitute from among its members for the remaining term of office of the leaving chairman or vice-chairman. The election of the chairman and vice-chairman of the Supervisory Board was carried out in the Supervisory Board's constitutive meeting on August 11, 2020.

The members and substitute members of the Supervisory Board can resign at any time upon giving four weeks' prior written notice to the chairman of the Supervisory Board or the Management Board. The chairman of the Supervisory Board (or, in case of resignation of the chairman, the vice-chairman) may consent to a shorter notice period or waive the notice period. A resignation for cause is possible with immediate effect.

The chairman of the Supervisory Board is responsible for convening the meetings of the Supervisory Board with at least two weeks' notice; the day on which the invitation is sent and the day on which the meeting takes place are not counted for purposes of calculating the notice period. The notice period may be shortened in urgent cases. Notice of meetings may be given in writing, electronically, in text form, orally, or by phone. According to the Articles of Association, if the chairman permits, individual members of the Supervisory Board may participate in meetings by way of a telephone or video conference or by way of a comparable audio and/or video transmission. The chairman acts as chair of the meetings of the Supervisory Board. Members unable to participate in a meeting can participate in the adoption of a resolution if another member presents a written vote on their behalf. Resolutions may be adopted outside meetings orally, in writing, electronically or otherwise in text form (including a combination of these forms), or by means of a telephone or video conference, provided the chairman of the Supervisory Board so determines

In accordance with the Articles of Association, the Supervisory Board has a quorum if at least half of the members of the Supervisory Board participate in the adoption of a resolution. A member who (i) is absent and not participating by telephone or electronic means of communication (in particular, video conference) but who submits a vote as mentioned above or (ii) abstains from voting, is deemed to have participated in the adoption of a resolution. Unless otherwise required by law or the Articles of Association, resolutions are adopted by simple majority of the members participating in the vote. An abstention is not deemed to be a vote. In the event of a tie, if a re-vote on the same subject matter again results in a tie, the chairman is granted a casting vote. Such voting powers are not granted to the vice-chairman.

The chairman of the Supervisory Board may adjourn the adoption of certain or all items on the agenda of a meeting if the number of shareholder and employee representatives participating in the adoption is not equal or if there is another material reason to adjourn. The chairman shall not be entitled to adjourn the same agenda item again in the following meeting of the Supervisory Board.

15.3.2. Committees

Pursuant to the Articles of Association, the Supervisory Board may establish committees and may further delegate to such committees the authority to make decisions on behalf of the Supervisory

Board to the extent legally permissible. In addition to the mediation committee (*Vermittlungsausschuss*) that must be established pursuant to Section 27(3) of the German Co-Determination Act (*Mitbestimmungsgesetz*) (the "**Mediation Committee**"), the Supervisory Board has, in accordance with its rules of procedure, established a presidential committee (the "**Presidential Committee**", *Präsidium*), a compliance committee (the "**Compliance Committee**", *Complianceausschuss*), an audit committee (the "**Audit Committee**", *Prüfungsausschuss*), a related party transactions committee ("**Related Party Transactions Committee**"), and a nomination committee ("**Nomination Committee**"). In addition, the Supervisory Board has established an IPO committee ("**IPO Committee**") in connection with the Offering. Pursuant to its rules of procedure, the Supervisory Board may establish additional committees. To the extent legally permissible, decision-making authority may be delegated to committees.

In accordance with Section 27(3) of the German Co-Determination Act (*Mitbestimmungsgesetz*) and pursuant to the rules of procedure of the Supervisory Board, the Mediation Committee shall consist of the chairman of the Supervisory Board, the vice-chairman of the Supervisory Board, one employee representative (elected by the employee representatives on the Supervisory Board) and one shareholder representative (elected by a majority vote of the shareholder representatives on the Supervisory Board). As of the date of the Prospectus, the Mediation Committee consists of Johannes P. Huth, Armin Maier-Junker, Christian Ollig, and Jürgen Bühl.

The Presidential Committee shall consist of the chairman of the Supervisory Board (who also chairs the Presidential Committee), the vice-chairman of the Supervisory Board, and two additional members elected by the Supervisory Board from among its members (one shareholder representative and one employee representative). As of the date of the Prospectus, the Presidential Committee consists of Johannes P. Huth, Armin Maier-Junker, Prof. Dr. h.c. Wolfgang Ischinger, and Jürgen Bühl.

The Presidential Committee is responsible for matters assigned to it by the Supervisory Board, which include, in particular, the following matters: (i) proposals for the appointment and dismissal of members of the Management Board; (ii) the handling of service contracts with the members of the Management Board; and (iii) succession planning for the Management Board and corporate governance matters. In its proposals for the appointment and dismissal of members of the Management Board, the Presidential Committee takes into account the fact that members of the Management Board should not generally be older than 65 years. In addition, the Presidential Committee prepares the resolution of the Supervisory Board on the compensation system for the Management Board, including its submission to the shareholders' meeting, and the implementation of this system in the service contracts with the members of the Management Board and the setting of targets for their variable compensation. In addition, the Presidential Committee prepares the regular review of the compensation system for the Management Board by the Supervisory Board.

The Audit Committee shall consist of four members elected by the Supervisory Board from among its members (two shareholder representatives and two employee representatives). The chairman of the Audit Committee, who shall have sufficient financial expertise, is elected by the members of the Supervisory Board from among the Audit Committee members. As of the date of the Prospectus, the Audit Committee consists of Ingrid Jägering (chairwoman), Christian Ollig, Marion Koch, and Julia Wahl. The Audit Committee deals with issues relating to accounting, risk management, and compliance. Its key tasks include monitoring (i) the accounting process, (ii) the effectiveness of the internal control system, the risk management system, and the internal audit system, and (iii) the audit. The Audit Committee's duties also include monitoring the Company's compliance with legal and administrative provisions and internal guidelines, with the exception of anti-corruption, antitrust (competition), data protection, and export control matters, which are the responsibility of the Compliance Committee.

The Compliance Committee shall consist of two of the Supervisory Board's shareholder representatives and two of the Supervisory Board's employee representatives. The chairman of the Compliance Committee is elected by the members of the Supervisory Board from among the Compliance Committee members. As of the date of the Prospectus, the Compliance Committee consists of Prof. Dr. Burkhard Schwenker (chairman), Christian Ollig, Winfried Fetzer, and Dr. Frank Döngi. The Compliance Committee monitors the Company's compliance with legal and administrative provisions and internal policies relating to anti-corruption, antitrust (competition), data protection, and export control matters.

The Related Party Transactions Committee shall consist of two of the Supervisory Board's shareholder representatives and two of the Supervisory Board's employee representatives. The chairman of the Related Party Transactions Committee is elected by the members of the Supervisory Board from among the Related Party Transactions Committee members. As of the date of the Prospectus, the Related Party Transactions Committee consists of Prof. Dr. Burkhard Schwenker (chairman), Prof. Dr. h.c. Wolfgang Ischinger, Armin Maier-Junker, and Jürgen Bühl. The Related Party Transactions Committee monitors the Company's internal procedure for the proper course of business and the market standard of related party transactions within the meaning of Section 111a(2) of the German Stock Corporation Act (*Aktiengesetz*) and is responsible for approving related party transactions in accordance with Section 111b of the German Stock Corporation Act (*Aktiengesetz*).

The Nomination Committee shall consist of up to four members elected by the shareholder representatives on the Supervisory Board among the Supervisory Board's shareholder representatives. As of the date of the Prospectus, the Nomination Committee consists of Johannes P. Huth (chairman), Christian Ollig, Prof. Dr. h.c. Wolfgang Ischinger, and Ingrid Jägering. The Nomination Committee is responsible for proposing to the Supervisory Board candidates suited to be proposed by the Supervisory Board to the shareholders for election as members of the Supervisory Board.

The IPO Committee was established by resolution of the Supervisory Board and shall consist of Johannes P. Huth (chairman), Christian Ollig, Armin Maier-Junker, and Jürgen Bühl. The IPO Committee shall decide on all matters requiring consent of the Supervisory Board related to the Offering, in particular the Company's capital increase.

15.3.3. Current Members of the Supervisory Board

The following table shows the names of the current members of the Supervisory Board, as well as – where applicable – their other positions as members of a management, administrative, or supervisory board in companies or as partners in partnerships, in each case outside the Group and within the last five years:

Name	Born	Member Since*	Appointed Until	Further Positions as a Member of a Management, Administrative, or Supervisory Body in Companies or as a Partner in Partnerships
Johannes P. Huth (chairman)	1960	2017	2025	Partner of KKR Management LLP** (and management and board positions at certain affiliates) Member of the board of Coty Inc.** Member of the supervisory board of Axel Springer SE** Member of the supervisory board of SoftwareONE Holding AG (until 2020) Member of the supervisory board of GEG German Estate Group AG (until 2019) Vice-chairman of the supervisory board of NXP BV (until 2019) Member of the supervisory board of GfK SE (until 2018) Member of the board of Cognita Ltd. (until 2018) Chairman of the supervisory board of WMF Group GmbH (until 2016) Member of the supervisory board of Hertha BSC GmbH & Co. KGaA (until 2015)
Armin Maier-Junker (vice-chairman)***	1962	2017	2025	Member of the supervisory board of Airbus Defence and Space GmbH (until 2017)
Jürgen Bühl***	1969	2017	2025	Member of the supervisory board of Airbus Defence and Space GmbH**
Dr. Frank Döngi***	1966	2020	2025	–
Winfried Fetzer***	1959	2017	2025	–

Name	Born	Member Since*	Appointed Until	Further Positions as a Member of a Management, Administrative, or Supervisory Body in Companies or as a Partner in Partnerships
Prof. Dr. h.c. Wolfgang Ischinger	1946	2017	2025	Chairman of Stiftung Münchner Sicherheitskonferenz (gemeinnützige) GmbH** Chairman of the supervisory board of Agora Strategy Group AG (until 2018) Member of the supervisory board of Allianz Deutschland AG and Allianz Private Krankenversicherung (until 2017)
Ingrid Jägering	1966	2017	2025	Independent member of the board of directors of SAF-HOLLAND S.A.** Member of the Management Board and CFO of LEONI AG**
Marion Koch***	1978	2020	2025	–
Christian Ollig	1977	2017	2025	Managing director of Kohlberg Kravis Roberts GmbH** (and management and board positions at certain affiliates) Member of the supervisory board of Upfield Holdings B.V.** Member of the supervisory board of ETL AG Steuerberatungsgesellschaft** Managing director of Traviata B.V.**
Prof. Dr. Burkhard Schwenker	1958	2017	2025	Member of the supervisory board of Hamburger Hafen und Logistik AG** Member of the supervisory board of Hamburger Sparkasse AG** Member of the board or directors of HASPA Finanzholding** Member of the supervisory board of Flughafen Hamburg GmbH** Member of the supervisory board of M.M.Warburg & Co. KGaA** Member of the supervisory board of FreightHub GmbH (until 2019) Member of the supervisory board of Evisco AG (until 2017) Chairman of the supervisory board of Roland Berger GmbH (until 2015)
Julia Wahl***	1987	2019	2025	–
Claire Wellby	1988	2020	2025	Member of the supervisory board of Leonine Licensing AG** Vice president of KKR Show Aggregator GP Limited** (and management positions at certain affiliates)

* Reflects first appointment as a member of the supervisory board of HENSOLDT Holding GmbH or HENSOLDT GmbH (*i.e.*, prior to the change in legal form).

** Position is currently held.

*** Employee representative.

All members of the Supervisory Board may be reached at the Company's offices at Willy-Messerschmitt-Straße 3, 82024 Taufkirchen, Germany (telephone: +49 89 51518 0).

The following overviews provide summaries of the curricula vitae of the current members of the Supervisory Board and indicate their principal activities outside the Company to the extent that those are significant with respect to the Company. For more information, see also "*15.5. Certain Information Regarding the Members of the Management Board and the Supervisory Board, Conflicts of Interest*".

15.3.3.1. Johannes P. Huth (Chairman) – Brief Biography

Johannes P. Huth joined KKR in May 1999 and is a Partner at KKR and Head of KKR's operations in Europe, the Middle East, and Africa. He is also a member of the Firm's Management Committee and several of the Firm's Investment Committees. Prior to joining KKR, Mr. Huth was a member of the Management Committee of Investcorp and jointly responsible for Investcorp's operations in Europe. From 1986 to 1991, he worked at Salomon Brothers, where he was a Vice President in the Mergers and Acquisitions departments in London and New York.

Besides his position as Chairman of the Supervisory Board, Mr. Huth is currently a member of the boards of Axel Springer SE and Coty Inc.

He is Tresorier and a member of the Conseil d'Administration of the Musee des Arts Decoratifs, Paris; Vice-Chair of the Board of Trustees of the Design Museum, trustee of the Staedel Museum in Frankfurt, Member of Council and Audit Committee, LSE, and a member of the Global Advisory Board of the University of Chicago Booth School of Business. He is a Visiting Fellow of Oxford University and a Fellow of the Royal Society of Arts.

He earned a BSc with Highest Honors from the London School of Economics and an MBA from the University of Chicago.

15.3.3.2. Armin Maier-Junker (Vice-Chairman) – Brief Biography

Born in 1962, Mr. Maier-Junker completed a commercial apprenticeship as a communications equipment mechanic and radio electronics technician at AEG-Telefunken and graduated with a successful skilled worker examination. Mr. Maier-Junker started his professional career in 1982 at AEG, where he served in the department for integration and assembly until 1990. Since 1990, Mr. Maier-Junker has been an indemnified works council member of various companies, such as AEG AG, Telefunken Systemtechnik GmbH, Deutscher Aerospace AG, EADS Deutschland GmbH, Airbus Defence and Space GmbH, as well as HENSOLDT Sensors GmbH, where he was temporarily a member of either the general works council or group works council until 2016, respectively. Since 2013, Mr. Maier-Junker is chairman of the works council of HENSOLDT Sensors GmbH at the site in Ulm, Germany. From 2013 until 2017, Mr. Maier-Junker was a member of the supervisory board of EADS Deutschland GmbH and Airbus Defence and Space GmbH. Since 2016, Mr. Maier-Junker is chairman of the general works council of HENSOLDT Sensors GmbH, and since 2017, chairman of the Group works council and vice-chairman of the supervisory boards of HENSOLDT Sensors GmbH and HENSOLDT Holding GmbH. In 2020, Mr. Maier-Junker was appointed as a member and vice-chairman of the Supervisory Board of HENSOLDT AG.

15.3.3.3. Jürgen Bühl – Brief Biography

Born in 1969, Mr. Bühl holds a master of arts in political science, communication science, and sociology from the Ludwig-Maximilians University in Munich. Mr. Bühl started his professional career in 1992 as an employee of the Social Democratic Party of Germany (SPD) in Munich. Subsequently, Mr. Bühl held various positions in the field of public relations and communications, including, among others, as scientific officer and press officer to the members of the Bavarian parliament (1998-2001), as well as a consultant and head of public relations at Dr. Haffa & Partner Public Relations (2001-2003). From 2008 until 2011, Mr. Bühl served as director for planning processes and communications, as well as managing director. Since 2012, Mr. Bühl has held different positions in the headquarters of IG Metall, which include political secretary (2012-2013), director of the treasurer's office (since 2014), and head of the department for coordination of industrial sectors policies (since 2016). Since 2017, Mr. Bühl has been a member of the supervisory board of HENSOLDT Sensors GmbH and a member of the supervisory board of HENSOLDT Holding GmbH. In 2020, Mr. Bühl was appointed as a member of the Supervisory Board of HENSOLDT AG.

15.3.3.4. Dr. Frank Döngi – Brief Biography

Born in 1966, Dr. Döngi holds a Ph.D. degree in aerospace engineering from the University of Stuttgart. Dr. Döngi started his professional career in 1996 at Dornier Satellitensysteme GmbH in Friedrichshafen. He held various business and engineering management positions at Jena-Optronik GmbH in Jena, EADS Astrium S.A.S. in Toulouse, and EADS Astrium GmbH, later Airbus Defence & Space GmbH, in Friedrichshafen. Since September 2017, Dr. Döngi is Head of the business units Airborne, Space & ISR Radars and Eurofighter Radar at HENSOLDT Sensors GmbH in Immenstaad,

Germany. In early 2020, Dr. Döngi was appointed member of the supervisory boards of HENSOLDT Holding GmbH and HENSOLDT Sensors GmbH, respectively, and elected chairman of the spokesman committee for executive employees. In 2020, Dr. Döngi was also appointed as a member of the Supervisory Board of HENSOLDT AG.

15.3.3.5. Winfried Fetzer – Brief Biography

Born in 1959, Mr. Fetzer, a technician and technical business economist, started his professional career in 1984 at HENSOLDT Optronics GmbH in the design department and later became, among other things, an international project manager. In 2016, he was elected as chairman of the works council of HENSOLDT Holding GmbH in Oberkochen and since 2017, he is a member of the Group works council. Since 2016, Mr. Fetzer has been a member of the supervisory board of HENSOLDT Optronics GmbH and, since 2017, of the supervisory board of HENSOLDT Holding GmbH. In 2020, Mr. Fetzer was also appointed as a member of the Supervisory Board of HENSOLDT AG.

15.3.3.6. Prof. Dr. h.c. Wolfgang Ischinger – Brief Biography

Born in 1946, Prof. Dr. h.c. Wolfgang Ischinger is a German career diplomat. He holds a law degree from the University of Bonn. He also did graduate and post-graduate work at the University of Geneva, at the Fletcher School of Law and Diplomacy (M.A. 1973), and at Harvard Law School.

Ambassador Ischinger started his professional career in 1973 at the Executive Office of the Secretary General of the United Nations, New York. In 1975, he joined the German diplomatic service and served, from 1982 until 1990, as a Special Assistant to the German Federal Minister of Foreign Affairs. Beginning in 1990, he held a number of senior diplomatic posts, including Head of the Political Department of the German embassy in Paris (1990-1993), Director of Policy Planning (1993-1995), Political Director (1995-1998), and State Secretary and Deputy Foreign Minister (1998-2001). He was German ambassador in Washington (2001-2006) and London (2006-2008).

In 2007, Ambassador Ischinger represented the European Union in the Kosovo crisis. In 2014, he represented the OSCE in the Ukraine crisis. From 2008 until 2014, Prof. Dr. h.c. Ischinger served as Global Head, Government Relations, Allianz SE/Munich. He was also appointed as a member of the Supervisory Board of Allianz Deutschland AG, and as Deputy Chairman of the Supervisory Board of Allianz Private Krankenversicherung (APK).

Ambassador Ischinger serves on a number of non-profit boards and committees, including the Atlantic Council of the United States, Atlantik-Brücke Germany, Deutsche Gesellschaft für Auswärtige Politik (DGAP), and the American Academy Berlin. Prof. Dr. h.c. Ischinger is an adjunct professor at the University of Tübingen and a senior professor for security policy and diplomatic practice at Hertie School of Governance in Berlin. Ambassador Ischinger has been Chairman of the Munich Security Conference since 2008. He is also President of the Foundation Council (Stiftungsrat) of the Munich Security Conference Foundation. Since 2017, Prof. Ischinger has been a member of the Supervisory Board of HENSOLDT Holding GmbH. He also continues to serve as a member of the International Advisory Board of Investcorp, London/New York. In 2020, Prof. Dr. h.c. Ischinger was appointed as a member of the Supervisory Board of HENSOLDT AG.

15.3.3.7. Ingrid Jägering – Brief Biography

Born in 1966, Ms. Jägering completed a commercial apprenticeship at Siemens' own Business Administration School in a specific personnel development program for management trainees with A-levels/baccalauréat equivalent. Ms. Jägering started her professional career in 1988 at Siemens, where she held various management positions until 2012, including, among others, associate vice president and CFO during the insolvency protection phase of BenQ Mobile Germany (2005-2006), vice president finance and administration at Brose Group (2007-2009), and executive vice president, CFO, and managing director at Siemens Wind Power (2010-2012). From 2012 until 2016, Ms. Jägering was vice president and CFO for the business unit turbo machinery and power plants of MAN Diesel & Turbo. In 2016, Ms. Jägering transferred to OSRAM Opto Semiconductors, where she served as executive vice president, CFO, managing director, and labor director until 2019. In 2019, Ms. Jägering changed to Leoni AG, where she serves as a member of the management board and CFO. Since 2017, Ms. Jägering is a member of the supervisory board of HENSOLDT Holding GmbH. Since 2019, Ms. Jägering is also an independent member of the board of directors and chair of the audit committee

of SAF-HOLLAND S.A. In 2020, Ms. Jägering was appointed as a member of the Supervisory Board of HENSOLDT AG.

15.3.3.8. Marion Koch – Brief Biography

Born in 1978 in Sondershausen, Ms. Koch studied biomedical engineering in Wilhelmshaven and mechanical engineering in Dundee, United Kingdom. She started her career in 2001 at ASTRIUM in Friedrichshafen, Germany, from which she moved to Junghans Uhren and Dräger Aerospace as a project engineer and project manager, respectively. In 2006, Ms. Koch joined Airbus/EADS Deutschland in Immenstaad as a project manager. In 2017, she moved to the newly established Group at its Immenstaad site. Ms. Koch currently works with us as a project manager for airborne, space & ISR radars. Since 2017, she has been a member of the works council of our Immenstaad site and the group works council, and in 2020, Ms. Koch was appointed as a member of the Supervisory Board of HENSOLDT AG.

15.3.3.9. Christian Ollig – Brief Biography

Christian Ollig is a Partner at KKR. He joined KKR in 2008 and is the Head of KKR in Germany and Head of Industrials in EMEA. At KKR, Mr. Ollig has led a number of KKR's investments, including Wild Flavors, Cognita, Württembergische Metallwarenfabrik (WMF), Hensoldt, Upfield (Unilever's plant-based baking, cooking, and spreading business), Axel Springer, and the pending acquisition of Wella. Prior to joining KKR in 2008, he was a vice president at Lehman Brothers in Frankfurt and New York and part of the corporate finance practice at PwC. He graduated with a degree in business administration (*Diplom-Kaufmann*) with distinction from the University of Cologne. Since 2017, Mr. Ollig is a member of the supervisory board of HENSOLDT Holding GmbH. In 2020, Mr. Ollig was appointed as a member of the Supervisory Board of HENSOLDT AG.

15.3.3.10. Prof. Dr. Burkhard Schwenker – Brief Biography

Born in 1958, Prof. Dr. Schwenker studied mathematics and business and completed his Ph.D in 1989. After starting his professional career at PWA Papierwerke Waldhof-Aschaffenburg AG, Prof. Dr. Schwenker joined Roland Berger in 1989 and specialized on consulting in the areas of strategy, organization and corporate transformation. From 1999 until 2010, Prof. Dr. Schwenker was member of the board and from 2003 until 2010, CEO of Roland Berger. Between 2010 and 2015, Prof. Dr. Schwenker served as chairman of the supervisory board of Roland Berger. Today, Prof. Dr. Schwenker is chairman of Roland Berger's advisory council, and a member of several supervisory and advisory boards. Prof. Dr. Schwenker teaches strategic management at the Leipzig Graduate School of Management, where he is also academic co-director of the HHL Center for Scenario Planning. He has been a member of the board of several German academic associations. Moreover, Prof. Dr. Schwenker takes an active role in numerous sociopolitical institutions and foundations, such as, for example, as chairman of the board of the ZEIT-Foundation. Since 2017, Prof. Dr. Schwenker is a member of the supervisory board of HENSOLDT Holding GmbH. In 2020, Prof. Dr. Schwenker was appointed as a member of the Supervisory Board of HENSOLDT AG.

15.3.3.11. Julia Wahl – Brief Biography

Born in 1987, Ms. Wahl holds a bachelor of arts in German and Slavonic studies from the Humboldt University in Berlin and a master of science in European economic integration from the University of Leipzig. Ms. Wahl started her professional career in 2014 at Vodafone Stiftung Deutschland. From 2015 until 2016, Ms. Wahl was a campaign assistant for the 2016 state elections in Baden-Württemberg, Germany. From 2016 until 2018, Ms. Wahl served as a personal assistant to general works council and group works council of Porsche. Since 2018, Ms. Wahl is personal assistant to the district manager of IG Metall Baden-Württemberg. Since 2019, Ms. Wahl is a member of the supervisory board of HENSOLDT Holding GmbH. In 2020, Ms. Wahl was appointed as a member of the Supervisory Board of HENSOLDT AG.

15.3.3.12. Claire Wellby – Brief Biography

Born in 1988, Ms. Wellby holds a triple degree in international management from ESCP Business School in Paris. Ms. Wellby started her professional career in 2012 as an investment banker at Goldman Sachs in London and New York. In 2016, she transferred to Sky and worked within the

in-house mergers and acquisitions team until 2017. Since 2017, Ms. Wellby has been a member of the private equity team of KKR, where she primarily focuses on investment opportunities in the industrial sector. In this position, she has been involved in KKR's investments in the Group and Leonine, and holds management positions at a number of KKR investment entities. Since 2020, Ms. Wellby is a member of the supervisory board of HENSOLDT Holding GmbH. In 2020, Ms. Wellby was also appointed as a member of the Supervisory Board of HENSOLDT AG.

15.3.4. Remuneration and Benefits; Share Ownership

The compensation of the members of the Supervisory Board is set out in Section 12 of the Articles of Association. The Articles of Association state that the members of the Supervisory Board receive a fixed annual compensation in the amount of EUR 40,000.00. Notwithstanding the foregoing, the chairman of the Supervisory Board receives a fixed annual compensation in the amount of EUR 80,000.00 and the vice-chairman receives a fixed annual compensation in the amount of EUR 60,000.00. In addition, Supervisory Board members acting as members of the Presidential Committee, the Audit Committee, the Compliance Committee, or the Nomination Committee receive an additional fixed annual compensation in the amount of EUR 10,000.00 for each committee of which they are a member and the chairmen of the Presidential Committee, the Audit Committee, the Compliance Committee, and the Nomination Committee each receive an additional fixed annual compensation in the amount of EUR 15,000.00. The annual compensation of each member of the Supervisory Board is capped at twice the amount of the fixed annual compensation.

The members of the Supervisory Board are covered by the Company's D&O insurance, with coverage in line with best market practice. For more information, see "*10.19. Insurance*".

As of the date of the Prospectus, the members of the Supervisory Board hold no shares of the Company. The chairman of the supervisory board plans to acquire shares of the Company in the Offering (also see "*3.5. Allotment Criteria*").

15.4. Management Participation Programs

15.4.1. Management Equity Program

In connection with the acquisition of the Orlando business a management equity program ("**MEP**") was set up in order to substantiate alignment between the economic interests of members of the management team, including the members of the Management Board (who were at that time managing directors of HENSOLDT Holding GmbH) and other employees of the Group, and the interests of the further shareholders of the Group. The MEP granted participating persons, in particular the members of our Management Board and certain employees, the opportunity to indirectly acquire limited shares and/or CPECs issued by Lux Midco 1 S.C.A. and thereby an indirect stake in the equity of the Group. In connection with the implementation of the MEP, the participants became limited partners of MEP Ord KG and/or MEP Co-Invest KG (MEP Ord KG and MEP Co-Invest KG together the "**MEP Partnerships**" and each a "**MEP Partnership**", (see "*13.3. Indirect Shareholders*")). The MEP Partnerships were established for the purpose of pooling the participants' interests in Lux Midco 1 S.C.A. The sole general partner of each of the MEP Partnerships is Orlando Management Verwaltungs GmbH, Munich, which is a wholly owned subsidiary of Square Lux TopCo S.à r.l. Square Lux TopCo S.à r.l. is an entity indirectly controlled by KKR. Square Lux TopCo S.à r.l. also holds a limited partnership interest in each of the MEP Partnerships.

As of the date of the Prospectus, 36 participants, including the members of the Management Board, one member of the Supervisory Board (Dr. Frank Döngi), as well as certain other employees of the Group, are participating in the MEP, thereof 26 participants (including the members of the Management Board) through MEP Ord KG only, 9 participants through both MEP Partnerships and 1 participant through MEP Co-Invest KG only. Each participant has acquired against a cash purchase price from Square Lux TopCo S.à r.l. a fraction of its limited partnership interest in one or both MEP Partnerships. The participants invested in the aggregate over time a mid to high single-digit EUR million amount through (i) MEP Ord KG representing in aggregate approximately 11.15% of the limited shares in Lux Midco 1 S.C.A. and/or through (ii) MEP Co-Invest KG for rights representing in aggregate approximately 0.65% of the limited shares in Lux Midco S.C.A. as well as approximately 0.75% of the CPECs issued by Lux Midco 1 S.C.A.

As of the date of the Prospectus, the participants in the MEP indirectly hold approximately 11.80% of the limited shares in Lux Midco 1 S.C.A. (*i.e.*, on a look-through basis, approximately 11.80% of the total share capital of the Company). Thereof, the members of the Management Board indirectly hold approximately 1.84% (CEO), approximately 1.58% (CFO), and approximately 0.79% (CHRO) of the limited shares in Lux Midco 1 S.C.A. Other employees each indirectly hold in the range from approximately 0.02% up to approximately 0.89% of the total share capital of Lux Midco 1 S.C.A.

The investments in the MEP are governed by shareholders' agreements as well as the partnership agreements of the MEP Partnerships. The shareholders' agreements provide, among other things, that participants who cease to actively work for any Group company may be required to sell either all or portions of their partnership interests in the MEP Partnerships to Square Lux TopCo S.à r.l. In this regard, the partnership interests held by participants in MEP Ord KG, but not the partnership interests held by participants in MEP Co-Invest KG, are subject to a time vesting over a period of four years from the closing of the acquisition of the Orlando business (or, with respect to participants who joined the Group after the closing, from the date of the acquisition of the partnership interest in MEP Ord KG by the respective participant). The time vesting is relevant with regard to the determination of the purchase price a participant receives in case of a sale of the partnership interest in MEP Ord KG due to a participant ceasing to work for any Group company. In case of the occurrence of a change of control event, 100% of all partnership interests in MEP Ord KG will be vested due to an accelerated vesting.

It is expected that certain proceeds of the Selling Shareholder from the Offering (as well as further proceeds from potential sales of shares of the Company by the Selling Shareholder after the Offering (see "*3.11.2 Lock-Up of the Selling Shareholder*") will be indirectly distributed by the Selling Shareholder to Square Lux TopCo S.à r.l. and the MEP Partnerships, provided that in case of such a distribution by Lux MidCo 1 S.C.A., first the CPECs issued by Lux MidCo 1 S.C.A. will be repaid in full and any remaining proceeds will be distributed to the holders of limited shares. The participants in the MEP will participate in any such distribution by the Selling Shareholder on a *pro rata* basis according to their indirect holding of CPECs and/or limited shares issued by Lux Midco 1 S.C.A., as the case may be, through MEP Ord KG and/or MEP Co-Invest KG, as the case may be.

15.4.2. Future Incentive Plans

As of the date of the Prospectus, the Company does not have any management or employee participation programs except for the existing MEP. However, the Company will consider implementing a share-based or share-price-based employee participation program after the completion of the Offering. For any share-based program, the Company would utilize shares acquired under the authorization to acquire own shares up to 10% of the Company's share capital (see "*14.6. Authorization to Acquire Treasury Shares*"), the Authorized Capital (see "*14.3. Authorized Capital*"), or the Conditional Capital (see "*14.4. Conditional Capital*"). Structure and performance parameters have not yet been decided.

15.5. Certain Information Regarding the Members of the Management Board and the Supervisory Board, Conflicts of Interest

In the last five years, no member of the Management Board or Supervisory Board has been convicted in relation to fraudulent offenses, nor have they been associated with any bankruptcies, receiverships, or liquidations, or subject to any official public incrimination or sanctions by statutory or regulatory authorities (including designated professional bodies), or disqualified by a court from acting as a member of the administrative, management, or supervisory bodies of any issuer or from acting in the management or conduct of the affairs of any issuer. As of the date of the Prospectus, no family relationships exist among the members of the Management Board, among the members of the Supervisory Board, or among the members of the Management Board on the one hand and the members of the Supervisory Board on the other hand. No member of the Management Board or the Supervisory Board has executed a contract for services with a company of the Group that provides for benefits on termination.

Certain members of the Supervisory Board, Johannes P. Huth, Christian Ollig, and Claire Wellby, hold functions at affiliates of the Selling Shareholder; see "*15.3.3. Current Members of the Supervisory Board*". Accordingly, their interests may not be aligned with those of the Company or the Company's other shareholders, which constitutes a potential conflict of interest.

The members of the Management Board and one member of the Supervisory Board (Dr. Frank Döngi) are indirectly invested in the Company and expected to indirectly receive certain proceeds of the Selling Shareholder from the Offering (see "*15.2.3.6. Shareholdings of the Members of the Management Board in the Company*", "*15.3.4. Remuneration and Benefits; Share Ownership*", and "*15.4.1. Management Equity Program*"). Except as described above, prior to completion of the Offering, the members of the Management Board and the Supervisory Board hold no participation in the Company. The chairman of the Supervisory Board plans to acquire shares of the Company in the Offering (see also "*3.5. Allotment Criteria*"), in which case he will have a financial interest in the development of the Company's share price. To the extent the members of the Management Board or the Supervisory Board directly or indirectly hold shares of the Company, they may, separately from their positions in the respective governing body, have financial interests as a result of their shareholdings, which constitutes a potential conflict of interest.

Except as described above, there are no actual or potential conflicts of interest between any duties of the members of the Management Board and the Supervisory Board to the Company and their private interests and/or other duties.

15.6. Shareholders' Meeting

Shareholders' meetings (annual and extraordinary) take place at the registered seat of the Company or in a city in Germany with more than 100,000 inhabitants. Each of the Company's shares entitles the holder to one vote in the shareholders' meeting. There are no restrictions on the voting rights. The voting right arises only upon fully paid up shares.

Unless mandatory statutory provisions require otherwise, resolutions are adopted by a simple majority vote and, if a majority of the capital is required, with a majority of the share capital represented when the resolution is adopted. Pursuant to German stock corporation law, resolutions of fundamental importance require the approval of the majority of the votes cast and of a 75% majority of the share capital represented at the adoption of the resolution. Resolutions of fundamental importance include, among other things:

- amendments to the purpose/objects of the Company;
- capital increases without subscription rights for existing shareholders;
- capital reductions;
- creating authorized or conditional capital;
- execution of corporate group agreements (especially control and profit and loss transfer agreements);
- mergers, spin-offs, or amalgamations, as well as transfers of substantially all the assets of the Company;
- changes to the legal form of the Company; and
- a dissolution of the Company.

The shareholders' meeting can be convened by the Management Board, the Supervisory Board, or shareholders whose combined shareholding amounts to 5% of the Company's share capital. Shareholders or shareholders' associations can use the shareholder forum of the German Federal Gazette (*Bundesanzeiger*), which is available through the German Company Register's (*Unternehmensregister*) website, to either put forward a joint request or to put forward a request on behalf of the shareholders for a shareholders' meeting. The Supervisory Board must call a shareholders' meeting if it is in the interest of the Company. The annual shareholders' meeting takes place within the first eight months after the expiration of the financial year. The notice of the shareholders' meeting must be issued in the German Federal Gazette (*Bundesanzeiger*) 36 days prior to the day of the shareholders' meeting at the latest, the day of the shareholders' meeting itself and the day of the receipt of the notice not being included in this notice period. Only shareholders who have registered with the Company in text form (Section 126b of the German Civil Code (*Bürgerliches Gesetzbuch*)) in German or English in a timely manner (prior to the shareholders' meeting) are entitled

to participate in the shareholders' meeting and exercise their voting rights under the Articles of Association. Legitimation for participating in the shareholders' meeting requires share ownership on the 21st day before the shareholders' meeting (record date). Shareholders who can prove their share ownership on the record date are entitled to participate and exercise all rights as shareholders in the shareholders' meeting, even in case of a subsequent sale of shares before the date of the shareholders' meeting. *Vice versa*, shareholders who have acquired their shares after the record date are not entitled to participate or exercise rights as shareholders in the shareholders' meeting. The registration must be received by the Company at the address stated in the notice calling the meeting no later than six days prior to the meeting. The date of receipt is not taken into account when calculating the time period. The registration must be in text form (Section 126b of the German Civil Code (*Bürgerliches Gesetzbuch*)) and must be in German or English language; a legitimation pursuant to Section 67c(3) of the German Stock Corporation Act (*Aktiengesetz*) is sufficient. The Management Board is authorized to permit shareholders to participate in the shareholders' meeting without being physically present at the meeting and without a proxy being present. It may further allow for all or individual shareholders to exercise some or all of their rights partially or fully by way of electronic communication. The Management Board is also authorized to allow shareholders to cast their votes in writing or by way of electronic communication without being present at the shareholders' meeting (postal vote). Should the Management Board use this authorization, it will specify the details of this procedure at the time of convening the shareholders' meeting.

Neither German law nor the Articles of Association limit the rights of shareholders who do not reside in Germany or who are foreign shareholders in relation to holding shares and exercising the voting rights pertaining to the shares.

The rights of the shareholders can generally only be amended with the consent of the affected shareholders, but there are circumstances, set out by law, in which a 75% majority is sufficient. Currently, there are no provisions in the Articles of Association that deviate from the statutory provisions regarding the scope of amending shareholders' rights.

15.7. Corporate Governance

The Code in its most recent version of December 16, 2019, as published in the German Federal Gazette (*Bundesanzeiger*) on March 20, 2020, provides recommendations and suggestions for the management and supervision of German listed companies. It is based on internationally and nationally recognized standards of good and responsible corporate management. The Code contains principles, recommendations ("shall provisions") and suggestions ("should provisions") for the management board and the supervisory board that are intended to ensure that the company is managed in its best interests. The Code aims to promote confidence in the management and supervision of German listed companies by investors, customers, employees, and the general public. German stock corporation law only requires the management board and the supervisory board of a listed company to state annually that the recommendations in the Code have been complied with, or to explain which recommendations have not been complied with and are not being applied and the reasons behind non-compliance. It is possible to deviate from the suggestions contained in the Code without disclosure. The declaration of conformity must be publicly available on the Company's website at all times. The Company shall keep previous declarations of conformity available on its website for a period of at least five years.

Prior to the listing of the Company's shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), the Company is not subject to the obligation to render a declaration as to compliance with the Code. As of the date of the Prospectus, the Company complies, and following the listing of the Company's shares on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) intends to comply, with the recommendations of the Code, provided that the recommendation G.4 shall be complied with in connection with a resolution of the Supervisory Board regarding the remuneration of the members of the Management Board, which shall be presented to the shareholders' meeting in 2021 pursuant to Section 120a of the German Stock Corporation Act (*Aktiengesetz*).

16. TRANSACTIONS AND LEGAL RELATIONSHIPS WITH RELATED PARTIES

16.1. Overview

In accordance with IAS 24 – Related Party Disclosures, transactions with individuals or entities that control or are controlled by the Group must be disclosed unless they have already been included as consolidated entities in the Audited Consolidated Financial Statements. In addition, there is an obligation to disclose transactions with associates and persons who have significant influence over the operating and financial policies of the Group. Significant influence can mean a shareholding in the Company of 20% or more, a position on the Management Board or the Supervisory Board, or a key management position.

As of the date of the Prospectus, the Company is indirectly majority-owned by KKR Square Aggregator L.P. and its subsidiaries. KKR Square Aggregator L.P. is a holding company owned by KKR. The Company is also indirectly majority-owned by Lux Midco 1 S.C.A., which is owned by KKR. This means that the Company's related parties include Lux Midco 1 S.C.A., as indirect shareholder, the Selling Shareholder (*i.e.*, Square Lux Holding II. S.à r.l.), as majority shareholder, and its affiliated company Square Lux FinCo S.à r.l. ("**Lux FinCo**"). In addition, certain companies engaged by the Company or by other entities of the Group, namely, KCM (*i.e.*, KKR Capital Markets Partners LLP), KKR Capital Markets (Ireland) Limited, KKR Capital Markets Ltd., KKR Capstone EMEA (International) LLP, and Kohlberg Kravis Roberts & Co L.P. are treated as related parties.

ADS (*i.e.*, Airbus Defence and Space GmbH) was a non-controlling shareholder of HENSOLDT Holding GmbH until June 30, 2018. ADS and the other subsidiaries of Airbus SE were related parties until June 30, 2018. HENSOLDT Pension Trust e.V. (including its subsidiaries) as pension fund of HENSOLDT Sensors GmbH is an additional related party.

Set forth below are transactions with related parties for 2019, 2018, and 2017, as well as for the current financial year up to the date of the Prospectus. Business relationships between the Company and other companies of the Group are not included.

16.2. Transactions with Related Parties

We had business transactions with related parties in 2019, 2018, and 2017, as well as in the current financial year until the date of the Prospectus. Other than as described below, all transactions are performed substantially on the same terms, including interest rates and security, as for transactions of a similar nature with third-party counterparts. Other than as described below, all such transactions with related parties were thus, in the Company's view, carried out in accordance with the arm's length principle.

For further information, including quantitative information, on related party transactions, see Note 9 to the Audited Consolidated Financial Statements 2019 and the Audited Consolidated Financial Statements 2018 and Note 8 to the Audited Consolidated Financial Statements 2017.

16.2.1. Relationships between the Group and its Shareholders

16.2.1.1. Services

KKR Capital Markets Ltd., KKR Capstone EMEA (International) LLP, and Kohlberg Kravis Roberts & Co L.P., each an affiliate of the Selling Shareholder, rendered services, including consultation services, to the Group under several individual service and consultation agreements. Advisory services under these agreements concerned, in particular, shareholder advisory services to the Group against a management fee, general management consulting services, and assistance in various areas, such as financing or human resources.

The Group incurred expenses under these agreements in the amount of EUR 0.3 million in 2018 and EUR 2.6 million in 2017.

16.2.1.2. Loans

The Selling Shareholder had granted, indirectly through its subsidiary Lux FinCo, two shareholder loans to HENSOLDT Holding GmbH:

- one intercompany loan with a nominal amount of EUR 232,360,344.59 as of November 29, 2019 pursuant to an intercompany loan agreement entered into between Lux FinCo as lender and HENSOLDT Holding GmbH as borrower dated February 27, 2017 with a fixed interest rate of 6.716%; and

- one intercompany loan with a nominal amount of EUR 117,206,214.98 as of November 29, 2019 pursuant to a shareholder loan agreement initially entered into between ADS as lender and HENSOLDT Holding GmbH as borrower dated February 28, 2017 (as amended) with a fixed interest rate of 6.716%, which had been transferred and assigned by ADS to Lux FinCo with effect as of June 29, 2018.

The Selling Shareholder contributed the entire nominal amounts of the repayment claims under each intercompany loan, as well as the claims for payment of accrued but unpaid interest on the aggregate amount of each intercompany loan, to the capital reserve of HENSOLDT Holding GmbH, with effect as of November 29, 2019, 23:59 hours, *i.e.*, immediately prior to the contribution of the shares of HENSOLDT Holding GmbH into the Company (see also "*16.2.1.3. Corporate Reorganization*"), thereby extinguishing the repayment claims under the intercompany loans due to consolidation.

Interest expenses in favor of Lux FinCo were recognized in the amount of EUR 21.4 million in 2019, EUR 21.9 million in 2018, and EUR 18.6 million in 2017.

16.2.1.3. Corporate Reorganization of the Group

The Selling Shareholder contributed all 18,724 shares of HENSOLDT Holding GmbH then held by the Selling Shareholder into the Company with effect as of the end of the day on November 29, 2019, *i.e.*, immediately following the contribution of the intercompany loans to HENSOLDT Holding GmbH (see also "*16.2.1.2. Loans*"). Of such shares, (i) 681 shares were transferred as a contribution in kind against the issuance of 9,975,000 shares of the Company to the Selling Shareholder (with the difference between the value of the 681 shares of HENSOLDT Holding GmbH and the nominal amount of the newly issued shares of the Company booked into the capital reserve of the Company) and (ii) 18,043 shares were contributed as a voluntary additional payment of the Selling Shareholder to the equity and were accordingly booked in the capital reserve of the Company. For additional information on the corporate reorganization of the Group, see also "*12.4. Group Structure and Information on Significant Subsidiaries*".

16.2.1.4. Syndication Agent Agreement

KKR Capital Markets Ltd., an affiliate of the Selling Shareholder, rendered services under a syndication agent agreement to, among others, HENSOLDT Holding Germany GmbH. KKR Capital Markets Ltd. acted as syndication agent in connection with the potential offer and sale of securities or other equity interest to one or more investors not affiliated to KKR against a syndication fee. The Group incurred expenses under the syndication agent agreement in the amount of EUR 11.4 million in 2017.

16.2.1.5. Transaction Fee Agreement

Kohlberg Kravis Roberts & Co L.P., an affiliate of the Selling Shareholder, rendered services to, among others, HENSOLDT Holding Germany GmbH under a transaction fee agreement in connection with the acquisition of the Orlando business against a fee. Services included, in particular, structuring services, such as, among other things, financial advisory services, capital structure review, and M&A advice. This agreement has since terminated. The Group incurred expenses under the transaction fee agreement in the amount of EUR 1.9 million in 2017.

16.2.1.6. GSSA

The Company, the Selling Shareholder, and certain other Group entities, among others, have entered into an agreement with the Federal Republic of Germany to protect the security interests of the Federal Republic of Germany with respect to the Sensitive Activities (as amended and updated from time to time), see also "*10.20.2. German State Special Security Agreement*".

16.2.1.7. Airbus

With legal and economic effect as of the end of February 2017, HENSOLDT Holding GmbH, via its subsidiary HENSOLDT Holding Germany GmbH, acquired the Orlando business (see also Note 6.1 to the Audited Consolidated Financial Statements 2017). In June 2018, HENSOLDT Holding GmbH acquired 6,275 shares of HENSOLDT Holding GmbH, until then held by ADS in order to ensure a smooth separation of the Orlando business from ADS and its affiliates. At the same time, an intercompany loan between ADS as lender and HENSOLDT Holding GmbH as borrower was transferred and assigned by ADS to Lux FinCo (see also "*16.2.1.2. Loans*"). In connection with the separation of the Orlando business, certain companies of the Group also concluded various agreements and arrangements with ADS or affiliated companies, including lease agreements, service agreements, and certain other ancillary agreements. The Group generated revenue (for each year net of interest and charges) under these agreements in the amount of EUR 67.8 million in 2018 and EUR 149.8 million in 2017.

16.2.1.8. Underwriting Agreement

The Company entered into the Underwriting Agreement with the Underwriters, which include, among others, KCM, in relation to the coordination, structuring, and implementation of the Offering. In the Underwriting Agreement, the Underwriters agreed, subject to certain conditions, to underwrite and purchase the Primary Base Shares at the Offer Price with a view to offering them in the Offering to investors. The Underwriters also agreed to purchase the Secondary Base Shares and the Additional Base Shares from the holdings of the Selling Shareholder and to sell such shares as part of the Offering to investors, see also "*17. Underwriting*".

16.2.1.9. Cost Sharing and Indemnity Agreement

On September 15, 2020, the Selling Shareholder and the Company entered into a cost sharing and indemnity agreement regarding the allocation of costs and liability in connection with the Offering (the "**Cost Sharing and Indemnity Agreement**"). Pursuant to the agreement, the Selling Shareholder will reimburse the Company for certain costs that are incurred in connection with the preparation and the execution of the Offering on a *pro rata* basis, calculated according to the ratio of the number of Secondary Base Shares and Additional Base Shares to the aggregate number of shares placed in the Offering (excluding Over-Allotment Shares). The costs to be reimbursed include, in particular, certain legal, auditor, and other advisor fees, underwriters' commissions, as well as the cost of insuring against liability claims. The Selling Shareholder further agreed to indemnify the Company from all liability risks in connection with the Offering on a *pro rata* basis, including the *pro rata* share of all reasonable legal costs. In addition, the Company has agreed, upon indemnification by the Selling Shareholder and to the extent legally permissible, to assign certain claims the Company may have against third parties to the Selling Shareholder.

16.2.1.10. Information Sharing Agreement

The Company has entered into an agreement with the Selling Shareholder to ensure that the required financial and other information is shared with the Selling Shareholder and its affiliates, on a timely basis, in particular for the purpose of enabling compliance with financial reporting, corporate governance, legal and regulatory obligations, and information and consultation obligations under the GSSA, as well as for group management purposes. Information shared under the information sharing agreement shall be kept confidential by the Selling Shareholder and its representatives and affiliates.

16.2.2. Other Related Party Transactions

16.2.2.1. Service and Other Agreements with the Members of the Management Board and the Supervisory Board and Certain Other Affiliations

Certain relationships with related parties, including the service and other agreements concluded with the members of the Management Board and compensation arrangements for the members of the Supervisory Board, are described under "*15.2.3. Remuneration and Benefits; Share Ownership*" and "*15.3.4. Remuneration and Benefits; Share Ownership*". Certain members of the Supervisory Board, namely Johannes P. Huth (chairman), Christian Ollig, and Claire Wellby, have an affiliation with the Selling Shareholder through their affiliation with KKR.

16.2.2.2. Pension Plans

We lease our main sites in Taufkirchen and Ulm, as well as two smaller test sites in Erbach and Kiel, all located in Germany, from HENSOLDT Real Estate GmbH & Co. KG, which is not a Group entity, but serves as a security asset for the Group's pension obligations.

Further information regarding the financing of our pension plans are presented under Note 30 to the Audited Consolidated Financial Statements 2019, Note 28 to the Audited Consolidated Financial Statements 2018, and Note 27 to the Audited Consolidated Financial Statements 2017.

17. UNDERWRITING

17.1. Subject of and Arrangements on Underwriting

The Company, the Selling Shareholder, and each of the Underwriters have entered into the Underwriting Agreement on September 15, 2020 with respect to the offer and sale of the Offer Shares.

The obligations of the Underwriters to pay the proceeds of the Offering to the Company and the Selling Shareholder according to the provisions of the Underwriting Agreement are subject to various conditions, including, among other things, (i) the conclusion of a pricing agreement, the Cost Sharing and Indemnity Agreement, and an agreement on an IPO insurance between the Company and an insurer, (ii) the absence of a material adverse change, such as a reasonably likely material adverse change in or affecting the condition, business, prospects, management, consolidated financial position, shareholders' equity, or results of operations of the Group, or a suspension in trading of the Company's securities (other than an intraday suspension for technical reasons) or in securities generally on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), the London Stock Exchange, or the New York Stock Exchange, (iii) receipt of customary certificates, legal opinions, and comfort letters, and (iv) the admission of the Company's shares to trading on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*).

Some of the Underwriters or their affiliates have, and may from time to time in the future continue to have, business relations (including lending activities) with, and may perform services for, the Group or the Selling Shareholder in their capacity as financial institutions (for a more detailed description of the interests of the Underwriters in the offering, see "*3.13. Interests of Parties Participating in the Offering*").

The following table presents the maximum numbers of Base Shares, Additional Base Shares, and Greenshoe Shares that will or may be purchased by the respective Underwriter pursuant to the Underwriting Agreement and the terms and conditions contained therein, together with the corresponding percentage of the total number of Offer Shares:

Underwriter	Maximum Number of Base Shares to be Purchased	Maximum Number of Additional Base Shares to be Purchased	Maximum Number of Greenshoe Shares to be Purchased	Percentage of Offer Shares
BofA Securities	7,333,333	1,430,000	1,314,500	22%
JPM	7,333,333	1,430,000	1,314,500	22%
KCM	7,333,333	1,430,000	1,314,500	22%
DB	3,666,667	715,000	657,250	11%
Citigroup	2,000,000	390,000	358,500	6%
COMMERZBANK	2,000,000	390,000	358,500	6%
UniCredit Bank AG	2,333,333	455,000	418,250	7%
Crédit Agricole CIB	1,166,667	227,500	209,125	3.5%
Mizuho International plc	166,667	32,500	29,875	0.5%

17.2. Commissions

Pursuant to the terms and conditions of the Underwriting Agreement, the Underwriters shall receive a commission of 2.00% of the aggregate gross proceeds of the Offering (including any proceeds from exercising the Greenshoe Option). In addition, the Company and the Selling Shareholder may, at their absolute and full discretion and based upon their assessment of the success of the Offering, decide to pay the Underwriters an additional fee of up to 1.00% of the aggregate gross proceeds of the Offering (including any proceeds from exercising the Greenshoe Option). See also "*4.1. Proceeds and Costs of the Offering*".

17.3. Over-Allotment, Securities Loan, and Greenshoe Option

For the purpose of a possible Over-Allotment, the stabilization manager, for the account of the Underwriters, will be provided with up to 5,975,000 Over-Allotment Shares in the form of a securities loan free of charge from the Selling Shareholder; this number of Over-Allotment Shares will not exceed 15% of the sum of the number of Base Shares and potentially Additional Base Shares. In addition, the Selling Shareholder will further grant the Underwriters the option to acquire up to an equal number of

shares against payment of the Offer Price (Greenshoe Option) in order to satisfy the retransfer obligation under the securities loan. The Greenshoe Option may be exercised at maximum to the extent that shares of the Company have been placed by way of Over-Allotments. The Greenshoe Option will be exercisable by BofA Securities as stabilization manager in agreement with the other Underwriters within 30 calendar days after the commencement of the trading of the shares on the stock exchange. The stabilization manager may, to the extent permitted by applicable law, over-allot or effect transactions with the view to supporting the market price of the shares or any options, warrants or rights with respect to, or other interest in, the shares or other securities of the Company, in each case at a level higher than that which might otherwise prevail. However, there is no assurance that the stabilization manager will undertake stabilization action.

17.4. Termination/Indemnification

The Underwriting Agreement provides that the Underwriters may under certain circumstances terminate the Underwriting Agreement, including after the shares have been allotted and listed, up to delivery and settlement. Grounds for termination include in particular:

- the Company or the Group has sustained since June 30, 2020, a loss or interference with respect to its business from fire, explosion, flood or other calamity (whether or not covered by insurance), or from any labor dispute or court or governmental action, order or decree, otherwise than as set forth or contemplated in the offering documents and which is materially adverse to the Company or the Group taken as a whole;

- since June 30, 2020, (i) there has been any material change or development reasonably likely to result in a material change to the share capital of the Company; (ii) there has been any material change or development reasonably likely to result in a material change in the long-term debt of the Company or the Group taken as a whole; (iii) there has been any material adverse change, or any development reasonably likely to result in a material adverse change, in or affecting the condition of the business, prospects, management, consolidated financial position, shareholders' equity or results of operations of the Group or preventing the Company from performing any of its material obligations under the Underwriting Agreement; or (iv) the Company or the Group taken as a whole has incurred any liability or obligation, direct or contingent, or entered into any material transaction not in the ordinary course of business, otherwise in each of case (i), (ii), (iii) and (iv) than as set forth, described or contemplated in the offering documents; or

- there has occurred any of the following: (i) a suspension in trading (other than an intraday suspension for technical reasons) in securities of the Company or in securities generally on the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*), the London Stock Exchange, or the New York Stock Exchange; (ii) a general moratorium on banking activities in Frankfurt, London, or New York declared by the relevant authorities or a material disruption in commercial banking or securities settlement, payment or clearance services in Europe or the United States; (iii) a material adverse change in national or international financial, political, or economic conditions or currency exchange rates or currency controls which could have a material adverse impact on the financial markets in Germany, the United Kingdom or the United States; (iv) the outbreak or escalation of hostilities, or the declaration of a national emergency or war which could have a material adverse impact on the financial markets in Germany, the United Kingdom or the United States; or (v) the occurrence of any acts of terrorism or any other calamity or crisis or any change in financial, political or economic conditions or currency exchange rates or currency control, which could have a material adverse impact on the financial markets in Germany, the United Kingdom or the United States.

If the Underwriting Agreement is terminated, the Offering will not take place, in which case any allotments already made to investors will be invalidated, and investors will have no claim for delivery. Claims with respect to security commissions already paid and costs incurred by an investor in connection with the subscription will be governed solely by the legal relationship between the investor and the financial institution to which the investor submitted its purchase order. Investors who engage in short selling bear the risk of being unable to satisfy their delivery obligations.

The Company and the Selling Shareholder have further agreed in the Underwriting Agreement to indemnify the Underwriters against certain liabilities, including liabilities under applicable securities laws that may arise in connection with the Offering.

17.5. Selling Restrictions

The distribution of the Prospectus and the sale of the Offer Shares may be restricted by law in certain jurisdictions. The Offer Shares may not be offered or sold, directly or indirectly, and neither the Prospectus nor any other offering material or advertisement in connection with the Offer Shares may be distributed or published in or from any country or jurisdiction other than Germany, except in compliance with any applicable rules and regulations of such country or jurisdiction. It is the responsibility of any person who receives a copy of the Prospectus to inform themselves about and observe any laws and restrictions, including, but not limited to, those set out below. Failure to comply with these restrictions may constitute a violation of securities laws.

No action has been or will be taken by the Company, the Selling Shareholder, or the Underwriters to permit a public offering of any Offer Shares or the possession or distribution of this document in any country or jurisdiction other than Germany where action for such purposes may be required. The Prospectus has been approved solely by BaFin as competent authority under the Prospectus Regulation, see "*2.1. Responsibility for the Content of the Prospectus*".

The Offer Shares have not been, and will not be, registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and the Offer Shares may not be offered, sold, or otherwise transferred to or within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any state or other jurisdiction in the United States. Accordingly, the Offer Shares are being offered and sold only (a) in the United States to persons reasonably believed to be QIBs pursuant to Rule 144A and (b) outside the United States in an offshore transaction in reliance on Regulation S.

In addition, until 40 days after the commencement of the Offering, an offer or sale of the Offer Shares within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

Sales in the United Kingdom are also subject to restrictions. In the United Kingdom, the Prospectus is only addressed to and directed to qualified investors who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "**Order**"), and/or (ii) are high net worth entities falling within Article 49(2)(a) through (d) of the Order, and other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "**Relevant Persons**"). The securities described herein are only available in the United Kingdom to Relevant Persons, and subsequently, any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities in the United Kingdom will be engaged in only with Relevant Persons. Any person in the United Kingdom who is not a Relevant Person should not act or rely on the Prospectus or any of its contents.

In relation to each member state of the EEA and the United Kingdom (each, a "**Relevant State**"), an offer to the public of any Offer Shares, other than the offer in Germany contemplated in the Prospectus (once the Prospectus has been approved by BaFin and published in accordance with the Prospectus Regulation), may not be made in that Relevant State, except that an offer to the public in that Relevant State of any Offer Shares may be made at any time in accordance with the following exceptions under the Prospectus Regulation:

- to any legal entity which is a "qualified investor" as defined in Article 2 lit. e) of the Prospectus Regulation;
- to fewer than 150 natural or legal persons (other than "qualified investors" as defined in Article 2 lit. e) of the Prospectus Regulation) per Relevant State, subject to obtaining the prior consent of the Underwriters for any such offer; or
- in any other circumstances falling within Article 1(4) of the Prospectus Regulation,

provided that no such offer of Offer Shares shall result in a requirement for the Company or any Underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Regulation or a supplemental prospectus pursuant to Article 23 of the Prospectus Regulation.

In the case of any Offer Shares being offered to a financial intermediary as that term is used in Article 1(4) of the Prospectus Regulation, each financial intermediary will also be deemed to have represented, warranted, and agreed that the Offer Shares acquired by it in the Offering have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any Offer Shares to the public, other than their offer or resale in a Relevant State to qualified investors as so defined or in circumstances in which the prior consent of the Underwriters has been obtained to each such proposed offer or resale.

For the purposes of the Prospectus, the expression "offer to the public" in relation to any Offer Shares in any Relevant State means a communication to persons in any form and by any means, presenting sufficient information on the terms of the Offering and the Offer Shares, so as to enable an investor to decide to purchase or subscribe to Offer Shares, including any placing of Offer Shares through financial intermediaries.

18. TAXATION OF SHAREHOLDERS IN GERMANY

Income received from the shares of the Company is subject to taxation. In particular, the tax laws of any jurisdiction with authority to impose taxes on the investor and the tax laws of the Company's state of incorporation, statutory seat and place of effective management, *i.e.*, Germany, might have an impact on the income received from the shares of the Company.

The following section presents a number of key German taxation principles which generally are or can be relevant to the acquisition, holding, or transfer of shares by a shareholder (an individual, a partnership, or a corporation) that has a tax domicile in Germany (that is, whose place of residence, habitual abode, registered office, or place of management is in Germany) and by a shareholder without a tax domicile in Germany. The information is not exhaustive and does not constitute a definitive explanation of all possible aspects of taxation that could be relevant for shareholders. The information is based on the tax laws in force in Germany as of the date of the Prospectus (and their interpretation by administrative directives and courts), as well as typical provisions of double taxation treaties that Germany has concluded with other countries. Tax law can change – sometimes retrospectively. Moreover, it cannot be ruled out that the German tax authorities or courts may consider an alternative interpretation or application to be correct that differs from the one described in this section.

This section cannot serve as a substitute for tailored tax advice to individual shareholders. Shareholders are therefore advised to consult their tax advisers regarding the tax implications of the acquisition, holding or transfer of shares and regarding the procedures to be followed to achieve a possible reimbursement of German withholding tax (Kapitalertragsteuer). Only such advisers are in a position to take the specific tax-relevant circumstances of individual shareholders into due account.

18.1. Income Tax Implications of the Holding, Sale, and Transfer of Shares

In terms of the taxation of shareholders of the Company, a distinction must be made between taxation in connection with the holding of shares ("*18.2. Taxation of Dividends*") and taxation in connection with the sale of shares ("*18.3. Taxation of Capital Gains*") and taxation in connection with the gratuitous transfer of shares ("*18.5. Inheritance and Gift Tax*").

18.2. Taxation of Dividends

18.2.1. Withholding Tax

As a general rule, dividends distributed to the shareholder are subject to a withholding tax (*Kapitalertragsteuer*) of 25.0% and a solidarity surcharge of 5.5% thereon (*i.e.*, 26.375% in total plus church tax, if applicable). This, however, will not apply if and to the extent that dividend payments are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto* pursuant to Section 27 of the German Corporation Tax Act (*Körperschaftsteuergesetz*)); in this case no withholding tax will be withheld. However, these payments will reduce the acquisition costs of the shares and may, consequently, result in or increase a taxable gain upon the disposal of the shares (see below at "*18.3. Taxation of Capital Gains*"). The assessment basis for the withholding tax is the dividend approved by the shareholders' meeting.

If shares – as it is the case with the shares of the Company – are admitted for collective custody by a central securities depository (*Wertpapiersammelbank*) pursuant to Section 5 of the Act on Securities Accounts (*Depotgesetz*) and are entrusted to such bank for collective custody (*Sammelverwahrung*) in Germany, the withholding tax is withheld and passed on for the account of the shareholders (i) by the domestic credit or financial services institution (*inländisches Kredit- oder Finanzdienstleistungsinstitut*) (including domestic branches of such foreign enterprises), by the domestic securities trading company (*inländisches Wertpapierhandelsunternehmen*), or by the domestic securities trading bank (*inländische Wertpapierhandelsbank*) which keeps or administers the shares and disburses or credits the dividends to the shareholder or disburses the dividends to a foreign agent, (ii) by the central securities depository (*Wertpapiersammelbank*) to which the shares were entrusted for collective custody if the dividends are disbursed to a foreign agent by such central securities depository (*Wertpapiersammelbank*), or (iii) by the Company itself if and to the extent shares held in collective custody (*Sammelverwahrung*) by the central securities depository (*Wertpapiersammelbank*) are treated as so-called "*abgesetzte Bestände*" (stock being held separately) (the "**Dividend Paying Agent**"). Aside from the case of stock being held separately, the Company does not assume any responsibility for the withholding of the withholding tax.

In general, the withholding tax must be withheld without regard as to whether and to what extent the dividend is exempt from (corporate) income tax at the level of the shareholder and whether the shareholder is domiciled in Germany or abroad.

However, withholding tax on dividends distributed to a company domiciled in another Member State within the meaning of Art 2 of the Council Directive 2011/96/EU of November 30, 2011, as amended ("**Parent-Subsidiary Directive**"), may be refunded upon application and subject to further conditions. This also applies to dividends distributed to a permanent establishment of such a parent company in another Member State or to a parent company that is subject to unlimited tax liability in Germany, provided that the participation in the Company is actually part of such permanent establishment's business assets. Further requirements for the refund of withholding tax under the Parent-Subsidiary Directive are that the shareholder has directly held at least 10% of the Company's registered share capital continuously for one year and that a respective application is filed with the German Federal Central Tax Office (*Bundeszentralamt für Steuern, Hauptdienstsitz Bonn-Beuel*, An der Küppe 1, 53225 Bonn, Germany). If, in the case of a holding of at least 10% of the Company's registered share capital, shares held in collective custody (*Sammelverwahrung*) by the German central securities depository (*Wertpapiersammelbank*) Clearstream are treated as so-called "*abgesetzte Bestände*" (stock being held separately), the German tax authorities will not object when the main paying agent (*Hauptzahlstelle*) of the Company upon presentation of a valid exemption certificate (*Freistellungsbescheinigung*) and of a proof that this stock has been held separately, disburses the dividend without deducting withholding tax. An exemption certificate can be granted upon application (using official application forms) with the German Federal Central Tax Office (*Bundeszentralamt für Steuern)* (at the above address).

With respect to distributions made to shareholders not tax resident in Germany, the withholding tax may be at least partially refunded in accordance with an applicable double taxation treaty Germany has entered into with the respective shareholder's country of residence if the shares neither form part of the assets of a permanent establishment or a fixed place of business in Germany, nor form part of business assets for which a permanent representative in Germany has been appointed. The withholding tax refund is generally granted by the German Federal Central Tax Office (at the above address) upon application in such a manner that the difference between the total amount withheld, including the solidarity surcharge, and the reduced withholding tax actually owed under the relevant double taxation treaty (generally 15.0%) is refunded by the German Federal Central Tax Office. A refund is not required if the Federal Central Tax Office has, upon application on the officially prescribed form, issued an exemption certificate (*Freistellungsbescheinigung*) which documents that the prerequisites for the application of the reduced withholding tax rates have been met. Dividends covered by the exemption certificate of the shareholder are then only subject to the reduced withholding tax rates stipulated in the exemption certificate.

Forms for the reimbursement and the exemption from the withholding at source procedure are available at the German Federal Central Tax Office (at the above address or online at http://www.bzst.bund.de), as well as at German embassies and consulates.

If dividends are distributed to corporations subject to non-resident taxation in Germany, *i.e.*, corporations with no registered office or place of management in Germany and if the shares neither belong to the assets of a permanent establishment or fixed place of business in Germany nor are part of business assets for which a permanent representative in Germany has been appointed, two-fifths of the tax withheld at the source can generally be refunded even if not all of the prerequisites for a refund under the Parent-Subsidiary Directive or an applicable double taxation treaty are fulfilled. The relevant application forms are available at the German Federal Central Tax Office (at the above address).

The aforementioned possibilities for an exemption from or a refund of withholding tax depend on certain other conditions being met (particularly the fulfillment of so-called substance requirements – *Substanzerfordernisse*).

Pursuant to a special rule, the aforementioned withholding tax reliefs, as well as the credit of withholding tax described in the section "*18.2.2. Taxation of Dividends of Shareholders with a Tax Domicile in Germany*" below for shares held as non-business and as business assets will only be granted if the shareholder (i) has been the economic owner of the shares for a continuous period of at least 45 days during the period starting 45 days prior to the date when the dividend becomes due and ending 45 days after such date (the "**Minimum Holding Period**" (*Mindesthaltedauer*)), (ii) has been

exposed (if taking into account claims of the shareholder from transactions reducing the risk of changes of the market value of the shares and corresponding claims of related parties of the shareholder) to at least 70.0% of the risk resulting from a decrease-in-value of the shares continuously during the Minimum Holding Period (the minimum change-in-value risk (*Mindestwertänderungsrisiko*)), and (iii) is not obliged to forward (*vergüten*) these dividends, directly or indirectly, in total or to more than 50.0% to another person.

In the event that a shareholder tax resident in Germany does not meet the aforementioned three requirements, three fifths of the withholding tax levied on the dividends (*i.e.,* 15.0% of the dividends) is not creditable, but may, upon application, be deducted when determining the shareholder's taxable income in an assessment procedure. Shareholders who do not meet the requirements but who have, nevertheless, not suffered a withholding tax deduction on the dividends (for example, due to the presentation of a non-assessment certificate) or have already obtained a refund of the taxes withheld, are obliged to notify their competent tax office thereof and to make the payment of an amount corresponding to the amount which would otherwise be withheld; pursuant to the law regarding tax incentives for electric mobility and the amendment of further tax regulations (*Gesetz zur weiteren steuerlichen Förderung der Elektromobilität und zur Änderung weiterer steuerlicher Vorschriften*) that came into force on December 18, 2019, this amount will be equal to 15.0% of the dividends from 2019 onwards. The special rule on the restriction of withholding tax credit does not apply to a shareholder if either (i) his or her amount of dividend income on shares (including shares of the Company) and certain profit participation rights (*Genussrechte*) does not exceed an amount of EUR 20,000 in a given tax assessment period or (ii) he or she has been, upon actual receipt of the dividend, the economic owner of the shares for a continuous period of at least one year, whereby shares of the shareholder acquired first are deemed to be sold first (first in – first out).

In the event that a shareholder not tax resident in Germany does not meet the aforementioned three requirements, a refund of the withholding tax pursuant to a double taxation treaty is not available. This restriction only applies if (i) the applicable double taxation treaty provides for a tax reduction leading to an applicable tax rate of less than 15.0%, (ii) the shareholder is not a corporation that directly holds at least a participation of 10.0% of the equity capital of the Company and is subject to tax on its income and profits in its state of residence without being exempt, and (iii) the shareholder has not been, upon actual receipt of the dividend, the economic owner of the shares for a continuous period of at least one year, whereby shares of the shareholder acquired first are deemed to be sold first (first in – first out).

18.2.2. Taxation of Dividends of Shareholders with a Tax Domicile in Germany

This section applies to shareholders with a tax domicile in Germany (*i.e.*, persons whose residence, habitual abode, statutory seat, or place of effective management and control is located in Germany).

18.2.2.1. Shares Held as Non-Business Assets

Dividends distributed to shareholders with a tax domicile in Germany whose shares are held as non-business assets form part of their taxable capital investment income, which is subject to a special uniform income tax rate of 25.0% plus solidarity surcharge of 5.5% thereon (*i.e.*, 26.375% in total plus church tax, if applicable). The income tax owed for this dividend income is generally satisfied by the withholding tax withheld by the Dividend Paying Agent (flat-rate withholding tax (*Abgeltungsteuer*)). Income-related expenses cannot be deducted from the shareholder's capital investment income (including dividends), except for an annual lump-sum deduction (*Sparer-Pauschbetrag*) of EUR 801 (EUR 1,602 for married couples and registered partners jointly assessed). However, the shareholder may request that his capital investment income (including dividends) along with his other taxable income be subject to a progressive income tax rate (instead of the uniform tax rate for capital investment income) if this results in a lower tax burden. In this case, income-related expenses cannot be deducted from the capital investment income, except for the aforementioned annual lump-sum deduction.

If the withholding tax deduction does not satisfy the tax liability of the shareholder, the withholding tax will generally be credited against the progressive income tax and any excess amount will be refunded if the requirements of the special rule on the restriction of withholding tax credit (see above "*18.2.1. Withholding Tax*") are fulfilled.

Exceptions from the flat-rate withholding tax also apply upon application for shareholders who have a shareholding of at least 25.0% in the Company and for shareholders who have a shareholding of at

least 1.0% in the Company and are able to entrepreneurially influence the business activities of the company through professional work for the Company (the latter alternative is applicable for tax assessment periods from 2017 onwards). In this situation, the tax treatment described below at "*18.2.2.2.2. Sole Proprietors*") applies.

For taxpayers subject to church tax, the tax will be withheld by way of an automated procedure and remitted to the religious community levying the tax. Church tax withheld at source may not be deducted as a special expense (*Sonderausgabe*) in the course of the tax assessment, but the Dividend Paying Agent may reduce the standard aggregate withholding tax rate of 26.375% (including the solidarity surcharge) by the church tax to be withheld on the dividends. Where shareholders have lodged a timely written objection with the German Federal Central Tax Office (*Bundeszentralamt für Steuern* (at the above address)) (so-called blocking notice (*Sperrvermerk*)) as regards the automated retrieval of data on their religious affiliation, church tax will not be automatically deducted. In this case, a shareholder subject to church tax is obliged to declare the dividends in his income tax return. The church tax on the dividends is then levied by way of a tax assessment.

Shareholders who are subject to German tax residents' taxation and hold their shares as non-business assets may be paid the dividends without deduction of withholding tax if certain prerequisites are met, in particular, if the shareholder has provided a non-assessment certificate (*Nichtveranlagungs-Bescheinigung*) or an exemption instruction (*Freistellungsauftrag*) and the exempt amount indicated therein has not yet been exhausted.

As an exemption, dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto* pursuant to Section 27 of the German Corporation Tax Act (*Körperschaftsteuergesetz*)) and are paid to shareholders with a tax domicile in Germany whose shares are held as non-business assets, do – contrary to the above – not form part of the shareholder's taxable income but reduce the acquisition costs for the underlying shares. This results in a higher capital gain in the event of the shares' disposal (see below at "*18.3. Taxation of Capital Gains*"). However, this will not apply if (i) the shareholder or, in the event of a gratuitous transfer, its legal predecessor, or, if the shares have been gratuitously transferred several times in succession, one of his legal predecessors at any point during the five years preceding the (deemed, as the case may be,) disposal directly or indirectly held at least 1.0% of the share capital of the Company (a "**Qualified Holding**") and (ii) the dividend payment funded from the Company's contribution account for tax purposes exceeds the actual acquisition costs of the shares. In such a case of a Qualified Holding, a dividend payment funded from the Company's contribution account for tax purposes is deemed a sale of the shares and is taxable as a capital gain if and to the extent the dividend payment funded from the Company's contribution account for tax purposes exceeds the acquisition costs of the shares. In this case the taxation corresponds with the description in the section "*18.3.1.1. Shares held as Non-Business Assets*" with regard to shareholders maintaining a Qualified Holding.

18.2.2.2. Shares Held as Business Assets

Dividends from shares held as business assets of a shareholder with a tax domicile in Germany are not subject to the flat-rate withholding tax. However, dividends are generally subject to the withholding tax on capital investment income of 25.0% plus 5.5% solidarity surcharge thereon, resulting in an aggregate tax rate of 26.375%, plus church tax for individuals, if applicable. The withholding tax (including the solidarity surcharge and church tax, if applicable) withheld and paid by the Dividend Paying Agent will generally be credited against the shareholder's income or corporate income tax liability (including the solidarity surcharge and church tax, if applicable) or refunded in the amount of any excess if the requirements of the special rule on the restriction of withholding tax credit (see above "*18.2.1. Withholding Tax*") are fulfilled. The taxation depends on whether the shareholder is a corporation, a sole proprietor, or a partnership (co-entrepreneurship).

On December 13, 2019, the law regarding a significant reduction of the solidarity surcharge (*Gesetz zur Rückführung des Solidaritätszuschlags 1995*) came into force. Even though this new law has no impact on the solidarity surcharge levied in addition to the withholding tax, it can affect the solidarity surcharge levied on the income tax liability which the withholding tax is credited against, as the case may be. According to this new law, the threshold as of which solidarity surcharge is levied will be significantly increased, so that the solidarity surcharge shall be abolished in full for approximately 90% of German taxpayers and partly for a further 6.5% of German taxpayers. The new rules apply as of 2021. Shareholders are advised to monitor further future developments.

Dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto* pursuant to Section 27 of the German Corporation Tax Act (*Körperschaftsteuergesetz*)) and are paid to shareholders with a tax domicile in Germany whose shares are held as business assets, are generally fully tax-exempt in the hands of such shareholder but reduce the acquisition costs for the underlying shares. To the extent the dividend payments funded from the Company's contribution account for tax purposes exceed the actual acquisition costs of the shares, a taxable capital gain occurs. The taxation of such gain corresponds with the description in the section "*18.3.1.2. Shares held as Business Assets*" made with regard to shareholders whose shares are held as business assets.

18.2.2.2.1. Corporations

If the shareholder is a corporation with a tax domicile in Germany, the dividends are in general effectively 95% exempt from corporate income tax and the solidarity surcharge. 5% of the dividends are treated as non-deductible business expenses and are therefore subject to corporate income tax (plus the solidarity surcharge) at a total tax rate of 15.825%. In other respects, business expenses actually incurred in direct relation to the dividends may be deducted. However, dividends are not exempt from corporate income tax (including solidarity surcharge thereon), if the shareholder only holds a direct participation of less than 10% in the Company's registered share capital at the beginning of the calendar year ("**Portfolio Participation**" - *Streubesitzbeteiligung*). Participations of at least 10.0% acquired during a calendar year are deemed to have been acquired at the beginning of the calendar year. Participations which a shareholder holds through a partnership (including those that are co-entrepreneurships (*Mitunternehmerschaften*)) are attributable to the shareholder only on a *pro rata* basis at the ratio of the interest share of the shareholder in the assets of the relevant partnership.

Dividends (after deducting business expenses economically related to the dividends) are subject to trade tax in the full amount, unless the shareholder held at least 15% of the Company's registered share capital at the beginning of the relevant tax assessment period. In the latter case, the dividends are not subject to trade tax; however, trade tax is levied on the amount considered to be a non-deductible business expense (amounting to 5.0% of the dividend). Trade tax depends on the municipal trade tax multiplier applied by the relevant municipal authority.

Special rules apply to dividends received by companies active in the financial and insurance sectors, as well as pension funds (see "*18.4. Special Treatment of Companies in the Financial and Insurance Sectors and Pension Funds*").

18.2.2.2.2. Sole Proprietors

If the shares are held as business assets by a sole proprietor with a tax domicile in Germany, only 60.0% of the dividends are subject to a progressive income tax (plus the solidarity surcharge) at a total tax rate of up to approximately 47.5%, known as the partial income method (*Teileinkünfteverfahren*). The partial income method does not apply with respect to church tax (if applicable). Only 60.0% of the business expenses economically related to the dividends are tax-deductible. If the shares belong to a domestic permanent establishment in Germany of a business operation of the shareholder, the dividend income (after deducting business expenses economically related thereto) is not only subject to income tax but is also fully subject to trade tax, unless the shareholder held at least 15% of the Company's registered share capital at the beginning of the relevant tax assessment period. In this latter case, the net amount of dividends, *i.e.*, after deducting directly related expenses, is exempt from trade tax. As a rule, trade tax can be credited against the shareholder's personal income tax, either in full or in part, by means of a lump-sum tax credit method, depending on the level of the municipal trade tax multiplier and certain individual tax-relevant circumstances of the taxpayer.

18.2.2.2.3. Partnerships

If the shareholder is a partnership with a tax domicile in Germany, the income or corporate income tax, as the case may be, and the solidarity surcharge are not levied at the level of the partnership but at the level of the respective partner. The taxation for every partner depends on whether the partner is a corporation or an individual. If the partner is a corporation, the dividends contained in the profit share of the shareholder will be taxed in accordance with the principles applicable for corporations (see "*18.2.2.2.1. Corporations*"). If the partner is an individual, the taxation is in line with the principles described for sole proprietors (see "*18.2.2.2.2. Sole Proprietors*"). Upon application and subject to further conditions, an individual as a partner can have his personal income tax rate lowered for earnings not withdrawn from the partnership.

In addition, the dividends are generally subject to trade tax in the full amount at the level of a commercial or deemed commercial partnership if the shares are attributed to a German permanent establishment of the partnership. If a partner of the partnership is an individual, the portion of the trade tax paid by the partnership pertaining to his profit share will generally be credited, either in full or in part, against his personal income tax by means of a lump-sum method – depending on the level of the municipal trade tax multiplier and certain individual tax-relevant circumstances of the taxpayer. Due to a lack of case law and administrative guidance, it is unclear how the rules for the taxation of dividends from Portfolio Participations (see "*18.2.2.2.1. Corporations*") might impact the trade tax treatment at the level of the partnership. Shareholders are strongly recommended to consult their tax advisers.

18.2.3. Taxation of Dividends of Shareholders with a non-German Tax Domicile

Shareholders without a tax domicile in Germany, whose shares are attributable to a German permanent establishment or fixed place of business or are part of business assets for which a permanent representative in Germany has been appointed, are liable for tax in Germany on their dividend income. In this respect the provisions outlined above for shareholders with a tax domicile in Germany whose shares are held as business assets apply accordingly (see "*18.2.2.2. Shares Held as Business Assets*"). The withholding tax (including the solidarity surcharge) withheld and passed on will generally be credited against the income or corporate income tax liability or refunded in the amount of any excess if the requirements of the special rule on the restriction of withholding tax credit (see "*18.2.1. Withholding Tax*") are fulfilled.

In all other cases, any tax liability in Germany for dividends received by shareholders resident outside of Germany will be discharged through the withholding of the withholding tax by the Dividend Paying Agent. A refund or exemption is granted only as discussed under "*18.2.1. Withholding Tax*" above.

Dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto* pursuant to Section 27 of the German Corporation Tax Act (*Körperschaftsteuergesetz*)) are generally not subject to German taxation.

18.3. Taxation of Capital Gains

18.3.1. Taxation of Capital Gains of Shareholders with a Tax Domicile in Germany

This section applies to shareholders with a tax domicile in Germany (*i.e.*, persons whose residence, habitual abode, statutory seat, or place of effective management and control is located in Germany).

18.3.1.1. Shares held as Non-Business Assets

Gains on the disposal of shares acquired by a shareholder with a tax domicile in Germany and held as non-business assets are generally – regardless of the holding period – subject to a uniform tax rate on capital investment income in Germany (25.0% plus the solidarity surcharge of 5.5% thereon, *i.e.*, 26.375% in total plus any church tax, if applicable). The taxable capital gain is equal to the difference between (a) the proceeds of the disposal and (b) the acquisition costs of the shares plus the expenses related directly and materially to the disposal. Dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto* pursuant to Section 27 of the German Corporation Tax Act (*Körperschaftsteuergesetz*)) reduce the original acquisition costs; if dividend payments that are funded from the Company's contribution account for tax purposes exceed the acquisition costs, negative acquisition costs – which can increase a capital gain – can arise in case of shareholders, whose shares are held as non-business assets and do not qualify as a Qualified Holding.

Only an annual lump-sum deduction of EUR 801 (EUR 1,602 for married couples and registered partners jointly assessed) may be deducted from the entire capital investments income. It is generally not possible to deduct income-related expenses in connection with capital gains, except for the expenses directly related in substance to the disposal which can be deducted when calculating the capital gains. Losses from the disposal of shares may only be offset against profits from capital investments arising from the disposal of the Company's shares or other shares in stock corporations during the same assessment period or in future assessment periods.

If the shares are held in custody or administered by a domestic credit or financial services institution, domestic securities trading company or a domestic securities trading bank, including domestic branches of foreign credit institutions or financial service institutions, or if such an office executes the

disposal of the shares and pays out or credits the capital gains (each a "**Domestic Paying Agent**"), the tax on the capital gains will generally be satisfied by the Domestic Paying Agent withholding the withholding tax on investment income in the amount of 26.375% (including the solidarity surcharge) on the capital gain and transferring it to the tax authority for the account of the seller. If the shares were held in custody or administered by the respective Domestic Paying Agent continuously after acquisition, the amount of tax withheld is generally based on the difference between the proceeds from the sale, after deducting expenses directly related to the sale, and the amount paid to acquire the shares. However, the withholding tax rate of 25% plus the 5.5% solidarity surcharge thereon and any church tax (if applicable), will be applied to 30% of the gross sales proceeds if the shares were not administered by the same custodian bank since acquisition and the original cost of the shares cannot be verified or such verification is not admissible. In this case, the shareholder is entitled to, and in case the actual gain is higher than 30% of the gross proceeds must, verify the original costs of the shares in his or her annual income tax return.

The church tax deduction for capital gains is performed by way of standardized tax withholding procedure by the Domestic Paying Agent withholding such tax. The principles outlined above for church tax on dividend income (see "*18.2.2.1 Shares Held as Non-Business Assets*") apply accordingly.

The shareholder can apply for his total capital investment income, together with his other taxable income, to be subject to a progressive income tax rate as opposed to the uniform tax rate on investment income, if this results in a lower tax liability. In this case, the withholding tax is credited against the progressive income tax and any resulting excess amount will be refunded. Limitations on offsetting losses are applicable. Further, income-related expenses are non-deductible, except for the annual lump-sum deduction.

Shareholders who are subject to German residents' taxation and hold their shares as non-business assets may realize capital gains without deduction of tax on capital investment income and solidarity surcharge if certain prerequisites are met, particularly if the shareholder has provided a non-assessment certificate (*Nichtveranlagungs-Bescheinigung*) or an exemption instruction (*Freistellungsauftrag*) and the exempt amount indicated therein has not yet been exhausted.

If the withholding tax or, if applicable, the church tax on capital gains is not withheld by a Domestic Paying Agent, the shareholder is required to declare the capital gains in his income tax return. The income tax and any applicable church tax on the capital gains will then be collected by way of assessment.

In case of a Qualified Holding, the capital gain deriving from the disposal of the shares is not subject to the flat-rate withholding tax, but to the progressive income tax regime. In this case, the partial income method applies to gains on the disposal of shares, which means that only 60.0% of the capital gains are subject to tax and only 60.0% of the losses on the disposal and expenses economically related thereto are tax deductible. Even though withholding tax is withheld by a Domestic Paying Agent in the case of a Qualified Holding, this does not satisfy the tax liability of the shareholder. Consequently, a shareholder must declare his capital gains in his income tax returns. The withholding tax (including the solidarity surcharge and church tax, if applicable) withheld and paid will be credited against the shareholder's income tax liability on his tax assessment (including the solidarity surcharge and any church tax if applicable) or refunded in the amount of any excess.

18.3.1.2. Shares held as Business Assets

Gains on the sale of shares held as business assets of a shareholder with a tax domicile in Germany are not subject to a uniform withholding tax. Withholding tax may only be withheld if the shares are kept with a Domestic Paying Agent. Subject to certain prerequisites, the tax on capital investment income withheld and remitted to the tax authorities will be imputed towards the shareholder's income tax liability and any excess amount paid will be refunded. Subject to certain requirements, however, the Domestic Paying Agent may refrain from deducting tax on capital investment income if (i) the shareholder is a corporation subject to German residents taxation, an association of individuals or an estate or (ii) the shares form part of the business assets of a business operation in Germany and the shareholders declare such to the Domestic Paying Agent in the officially prescribed form. Should the Domestic Paying Agent nonetheless have withheld tax on capital investment income, the tax withheld and remitted to the tax authorities (including solidarity surcharge, and church tax, if applicable) will be credited against the shareholder's personal income tax or corporate income tax liability and any excess amount paid will be refunded.

The taxation of the capital gains depends on whether the shareholder is a corporation, a sole proprietor or a partnership (co-entrepreneurship). Dividend payments that are funded from the Company's contribution account for tax purposes (*steuerliches Einlagekonto* pursuant to Section 27 of the German Corporation Tax Act (*Körperschaftsteuergesetz*)) reduce the original acquisition costs. In the event of disposal, a higher taxable capital gain can arise therefrom. If the dividend payments exceed the shares' book value for tax purposes, a taxable capital gain can arise.

18.3.1.2.1. Corporations

If the shareholder is a corporation with a tax domicile in Germany, the gains on the disposal of shares are, in general, effectively 95.0% exempt from corporate income tax (including the solidarity surcharge) and trade tax, regardless of the size of the participation and the holding period. 5.0% of the gains are treated as non-deductible business expenses and are therefore subject to corporate income tax (plus the solidarity surcharge) at a tax rate amounting to 15.825% and trade tax (depending on the municipal trade tax multiplier applied by the respective municipal authority). As a rule, losses on disposals and other profit reductions in connection with shares (for example, from a write down) cannot be deducted as business expenses.

Special rules apply to capital gains realized by companies active in the financial and insurance sectors, as well as pension funds (see "*18.4. Special Treatment of Companies in the Financial and Insurance Sectors and Pension Funds*").

18.3.1.2.2. Sole Proprietors

If the shares are held as business assets by a sole proprietor with a tax domicile in Germany, only 60.0% of the gains on the disposal of the shares are subject to a progressive income tax (plus the solidarity surcharge) at a total tax rate of up to approximately 47.5% (partial-income method). Only 60.0% of the losses on the disposal and expenses economically related thereto are tax deductible. The partial income method does not apply with respect to church tax (if applicable). If the shares belong to a German permanent establishment of a business operation of the sole proprietor, 60.0% of the gains of the disposal of the shares are, in addition, subject to trade tax.

Trade tax can be credited towards the shareholder's personal income tax, either in full or in part, by means of a lump-sum tax credit method – depending on the level of the municipal trade tax multiplier and certain individual tax-relevant circumstances of the taxpayer.

18.3.1.2.3. Partnerships

If the shareholder is a partnership with a tax domicile in Germany, the income or corporate income tax is not levied at the level of the partnership but at the level of the respective partners. The taxation depends on whether the partner is a corporation or an individual. If the partner is a corporation, the gains on the disposal of the shares as contained in the profit share of the partner will be taxed in accordance with the principles applicable for corporations (see "*18.3.1.2.1. Corporations*"). For capital gains in the profit share of a partner that is an individual, the principles outlined above for sole proprietors apply accordingly (partial-income method, see above under "*18.3.1.2.2. Sole Proprietors*"). Upon application and subject to further conditions, an individual as a partner can obtain a reduction of his personal income tax rate for earnings not withdrawn from the partnership.

In addition, gains on the disposal of shares are subject to trade tax at the level of a commercial or deemed commercial partnership, if the shares are attributed to a domestic permanent establishment of a business operation of the partnership: Generally, at 60.0% as far as they are attributable to the profit share of an individual as the partner of the partnership, and, currently, at 5.0% as far as they are attributable to the profit share of a corporation as the partner of the partnership. Losses on disposals and other profit reductions in connection with the shares are currently not considered for the purposes of trade tax if they are attributable to the profit share of a corporation, and are taken into account at 60.0% in the context of general limitations if they are attributable to the profit share of an individual.

If the partner of the partnership is an individual, the portion of the trade tax paid by the partnership attributable to his profit share will generally be credited, either in full or in part, against his personal income tax by means of a lump-sum method – depending on the level of the municipal trade tax multiplier and certain individual tax-relevant circumstances of the taxpayer.

18.3.2. Taxation of Capital Gains of Shareholders with a non-German Tax Domicile

Capital gains derived from the disposal of shares by shareholders with no tax domicile in Germany are only subject to German tax if the selling shareholder has a Qualified Holding in the Company or the shares belong to a domestic permanent establishment or fixed place of business or are part of business assets for which a permanent representative in Germany has been appointed.

Pursuant to a decision of the German Federal Fiscal Court (*Bundesfinanzhof*) dated May 31, 2017 (Federal Tax Gazette (*Bundessteuerblatt*), part II of 2018, p. 144), in case of a Qualified Holding, the capital gain on the disposal of shares is not subject to German taxation if the shareholder is a corporation which is not tax resident in Germany and neither maintains a permanent establishment nor has appointed a permanent representative in Germany.

If the shareholder is an individual, only 60.0% of the gains on the disposal of the shares are subject to progressive income tax plus the solidarity surcharge thereon and church tax, if applicable. However, most double taxation treaties provide for a partial or full relief from German taxation and assign the right of taxation to the shareholder's country of residence. Where a Domestic Paying Agent is involved, withholding tax on capital gains is generally levied at a rate of 25.0% (plus 5.5% solidarity surcharge thereon, resulting in an aggregate withholding tax rate of 26.375%). However, if (i) the shares are not held through a permanent establishment or fixed place of business or as business assets for which a permanent representative is appointed in Germany and (ii) a Domestic Paying Agent is involved, then, pursuant to a tax decree issued by the German Federal Ministry of Finance (*Bundesministerium der Finanzen*) on January 18, 2016, the Domestic Paying Agent will in general not be required to withhold the tax on capital investment income (plus solidarity surcharge thereon). In the case of a Qualified Holding, the capital gains must be declared in a tax return and will be taxed via an assessment procedure if no exemption under a double taxation treaty or under domestic law applies.

With regard to gains or losses on the disposal of shares belonging to a domestic permanent establishment or fixed place of business, or which are part of business assets for which a permanent representative in Germany has been appointed, the abovementioned provisions pertaining to shareholders with a tax domicile in Germany whose shares are business assets apply accordingly (see "*18.3.1.2. Shares held as Business Assets*"). The Domestic Paying Agent can refrain from deducting the withholding tax if the shareholder declares to the Domestic Paying Agent on the officially prescribed form that the shares form part of domestic business assets and certain other requirements are met.

18.4. Special Treatment of Companies in the Financial and Insurance Sectors and Pension Funds

If credit institutions (*Kreditinstitute*) or financial services institutions (*Finanzdienstleistungsinstitute*) hold or sell shares that are allocable to their trading portfolio (*Handelsbestand*) pursuant to Section 340e(3) of the German Commercial Code (*Handelsgesetzbuch*), they will neither be able to benefit from the partial income method nor be entitled to the effective 95.0% exemption from corporate income tax plus the solidarity surcharge and any applicable trade tax. Thus, dividend income and capital gains are fully taxable. The same applies to shares acquired by financial institutions in the meaning of the German Banking Act (*Gesetz über das Kreditwesen*) held in the majority by credit institutions or financial services institutions and where the shares are to be allocated to the current assets (*Umlaufvermögen*) as of the date of acquisition. The preceding sentence applies accordingly for shares held in a permanent establishment in Germany by financial institutions, financial service institutions and financial institutions tax resident in another Member State or in other signatory states of the Treaty on the EEA.

Likewise, the tax exemption described in Section "*18.3.1.2.1. Corporations*" afforded to corporations for dividend income and capital gains from the sale of shares does not apply to shares that qualify as a capital investment in the case of life insurance and health insurance companies, or those which are held by pension funds.

However, an exemption to the foregoing, and thus a 95.0% effective tax exemption, applies to dividends obtained by the aforementioned companies, to which the Parent-Subsidiary Directive applies.

18.5. Inheritance and Gift Tax

The transfer of shares to another person by way of inheritance or gift is generally subject to German inheritance or gift tax if:

(i) the place of residence, habitual abode, place of management or registered office of the decedent, the donor, the heir, the donee or another acquirer is, at the time of the asset transfer, in Germany, or such person, as a German national, has, prior to the transfer, not spent more than generally five consecutive years outside of Germany without maintaining a place of residence in Germany;

(ii) the decedent's or donor's shares belonged to business assets for which there had been a permanent establishment in Germany or a permanent representative had been appointed; or

(iii) the decedent or the donor, at the time of the succession or gift, held a direct or indirect interest of at least 10.0% of the Company's share capital either alone or jointly with other related parties.

The small number of double taxation treaties in respect of inheritance and gift tax which Germany has concluded to date usually provide for German inheritance or gift tax only to be levied in the cases under (i) and, subject to certain restrictions, in the cases under (ii). Special provisions apply to certain German nationals living outside of Germany and to former German nationals.

18.6. Other Taxes

No German capital transfer taxes, value-added-tax, stamp duties, or similar taxes are currently levied on the purchase or disposal or other forms of transfer of the shares. However, an entrepreneur may opt to subject disposals of shares, which are in principle exempt from value-added-tax, to value-added-tax if the sale is made to another entrepreneur for the entrepreneur's business. Wealth tax is currently not levied in Germany.

On February 14, 2013, the EU Commission adopted a proposal for a Council Directive (the "**Draft Directive**") on a common financial transaction tax ("**FTT**") to be implemented in Austria, Belgium, France, Germany, Greece, Italy, Portugal, Spain, Slovakia, and Slovenia (the "**Participating Member States**") and Estonia, that has stated in 2015 that it will not participate in implementing the proposed FTT.

The Draft Directive has a very broad scope and could, if introduced, apply to certain dealings in the shares (including secondary market transactions) in certain circumstances. The Draft Directive focused on levying a FTT on financial transactions (as defined in the Draft Directive), including the purchase, sale and exchange of financial instruments. Under the Draft Directive, the rate of the FTT would not be lower than 0.1% (0.01% for derivatives), generally based on the amount of the paid or owed consideration or in case of derivatives, the notional amount referred to in the derivatives contract at the time of the financial transaction. The issuance should, however, be exempt.

Since the date of the publication of the Draft Directive, discussions have taken place between the Participating Member States. According to the German Federal Ministry of Finance (*Bundesministerium der Finanzen*), the FTT should be levied from 2021 onwards. According to a statement of the German Federal Ministry of Finance (*Bundesministerium der Finanzen*) dated January 21, 2020, the new FTT shall apply to certain transactions that mainly involve shares issued by listed companies with a market capitalization higher than EUR 1 billion and at a rate of 0.2%. Under this proposal, certain exceptions shall apply, for example, for initial public offerings.

Nevertheless, the FTT remains subject to negotiation between the Participating Member States and was (and most probably will be) the subject of legal challenge. It may still be adopted and altered prior to its adoption. Moreover, once any directive has been adopted, it will need to be implemented into the respective domestic laws of the Participating Member States, and the domestic provisions implementing the directive might deviate from the directive itself. Finally, additional Member States may decide to participate in or to dismiss the implementation.

Prospective holders of the shares should consult their own tax advisers in relation to the consequences of the FTT.

19. FINANCIAL INFORMATION

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Unaudited Condensed Consolidated Interim Financial Statements of the Company Prepared in Accordance with IFRS on interim financial reporting (IAS 34) as of and for the Six-Month Period Ended June 30, 2020

A. HENSOLDT Unaudited Condensed Consolidated Interim Financial Statements

1. HENSOLDT Unaudited Consolidated Income Statement

First half year of 2020 compared to first half year of 2019

KEUR	HY 2020	HY 2019
Revenue	440,296	415,557
Cost of sales	-376,649	-354,572
Impairment losses (-) / gains (+) on trade receivables and contract assets	1,900	422
Gross Profit	**65,547**	**61,408**
Selling and distribution expenses	-42,239	-40,319
General administrative expenses	-37,720	-31,374
Research and development costs	-13,894	-15,949
Other operating income	9,712	12,687
Other operating expenses	-8,900	-12,141
Share of profit / loss from investments accounted for using the equity method	-1,794	-591
Earnings before finance result and income tax (EBIT)	**-29,287**	**-26,279**
Interest income	1,979	36,566
Interest expense	-85,389	-42,852
Other finance income / costs	-4,514	-743
Finance result	**-87,924**	**-7,029**
Earnings before income taxes	**-117,211**	**-33,308**
Income taxes	28,281	906
Consolidated loss	**-88,930**	**-32,402**
thereof attributable to the owners of the parent company	*-88,456*	*-32,491*
thereof attributable to non-controlling interests	*-475*	*90*

2. HENSOLDT Unaudited Consolidated Statement of Comprehensive Income

First half of 2020 compared to first half of 2019

KEUR	HY 2020	HY 2019
Consolidated loss	**-88,930**	**-32,402**
Other comprehensive income / loss		
Amounts that will not be reclassified to profit or loss		
Measurement of defined benefit plans	22,084	-39,084
Tax on items, that will not be reclassified to profit or loss	-5,151	14,606
Subtotal	**16,933**	**-24,478**
Amounts that will be reclassified to profit or loss		
Exchange differences on translating foreign subsidiaries	-14,685	1,406
Cash Flow Hedge - Unrealized gains / losses	-1,503	-1,505
Cash Flow Hedge - Reclassification in the income statement	119	899
Tax effects on unrealized gains / losses	421	-252
Subtotal	**-15,648**	**549**
Other comprehensive income	**1,285**	**-23,929**
Total comprehensive Income	**-87,645**	**-56,331**
thereof attributable to the owners of the parent company	-84,550	-56,608
thereof attributable to non-controlling interests	-3,095	278

3. HENSOLDT Unaudited Consolidated Statement of Financial Position

June 30, 2020 compared to December 31, 2019

Assets

KEUR	Jun 30, 2020	Dec 31, 2019
Non-current assets	**1,352,228**	**1,402,220**
Goodwill	642,823	646,823
Intangible assets	396,524	403,300
Property, plant and equipment	98,310	92,893
Right of use assets	149,534	154,862
Investments accounted for using the equity method	0	1,169
Other investments and other non-current financial assets	13,817	14,682
Non-current other financial assets	1,682	53,241
Other non-current assets	4,881	4,881
Deferred tax assets	44,658	30,369
Current assets	**1,200,879**	**1,051,389**
Other non-current financial assets, due on short-notice	2,955	2,952
Inventories	437,796	411,082
Contract assets	167,781	165,883
Trade receivables	209,488	290,809
Current other financial assets	11,779	5,752
Other current assets	48,371	34,324
Income tax receivables	1,115	3,198
Cash and cash equivalents	321,594	137,389
Total assets	**2,553,107**	**2,453,609**

Equity and Liabilities

KEUR	Jun 30, 2020	Dec 31, 2019
Share capital	10,000	10,000
Capital reserve	396,748	396,748
Other reserves	-45,865	-49,770
Retained earnings	-304,212	-215,757
Equity held by shareholders of HENSOLDT GmbH	**56,670**	**141,221**
Non-controlling interests	10,479	13,574
Equity, total	**67,149**	**154,795**
Non-current liabilities	**1,516,319**	**1,517,924**
Non-current provisions	413,102	413,641
Non-current financing liabilities	891,246	887,696
Non-current contract liabilities	23,963	16,319
Non-current lease liabilities	144,153	147,521
Other non-current financial liabilities	3,260	225
Other non-current liabilities	6,416	7,677
Deferred tax liabilities	34,179	44,845
Current liabilities	**969,638**	**780,890**
Current provisions	154,100	185,083
Current financing liabilities	217,264	11,338
Current contract liabilities	338,404	317,134
Current lease liabilities	13,608	12,999
Trade payables	150,221	168,750
Other current financial liabilities	14,726	18,388
Other current liabilities	80,870	67,118
Tax liabilities	444	80
Total equity and liabilities	**2,553,107**	**2,453,609**

4. HENSOLDT Unaudited Consolidated Statement of Cash Flow

First half year of 2020 compared to first half year of 2019

KEUR	HY 2020	HY 2019
Profit / loss for the period (including minority interests)	-88,930	-32,402
Depreciation and amortization	57,664	60,991
Allowances on inventories, trade receivables and contract assets	-2,418	636
Profit / loss from disposal of non-current assets	1	120
Share of profit in entities recognized according to the equity method	1,794	591
Financial expenses (net)	83,413	6,315
Other non-cash expenses / income	-210	-2,476
Change in		
Provisions	-8,842	-3,858
Inventories	-33,208	-74,336
Contract balances	28,236	-23,328
Trade receivables	75,421	75,493
Trade payables	-16,588	-28,729
Other assets and liabilities	-1,733	-11,619
Interest paid	-22,430	-23,200
Income tax (expense (+) / income (-))	-28,281	-906
Income taxes payments (-) / refunds (+)	-1,980	-732
Cash flows from operating activities	**41,908**	**-57,440**
Acquisition on intangible assets and property, plant and equipment	-50,548	-36,066
Proceeds from sale of intangible assets, property, plant and equipment	30	44
Acquisition of associates, other investments and other non-current investments	-2,431	394
Acquisition of subsidiaries net of cash acquired	4,000	0
Other	166	-30
Cash flows from investing activities	**-48,783**	**-35,657**
Assumption of financial liabilities	203,523	949
Payment of lease liabilities	-6,723	-5,550
Dividend payments to non-controlling interests	0	-181
Cash flows from financing activities	**196,800**	**-4,782**
Effects of movements in exchange rates on cash and cash equivalents	-3,594	687
Other adjustments	-2,127	0
Net changes in cash and cash equivalents	**184,205**	**-97,193**
Cash and cash equivalents		
Cash and cash equivalents on January 1st	**137,389**	**227,550**
Cash and cash equivalents on June 30th	**321,594**	**130,357**

5. HENSOLDT Unaudited Consolidated Statement of Changes in Equity

Development first half year of 2020 compared to first half year of 2019

KEUR	Attributable to the owners of HENSOLDT GmbH									
				Other Reserves						
	Share Capital	Capital Reserve	Retained Earnings	Remeasurement of pensions	Cashflow Hedge	Currency conversion difference	Treasury Shares	Subtotal	Minority interests	Equity
Jan 1, 2020	**10,000**	**396,748**	**-215,757**	**-39,294**	**-4,111**	**-6,366**	**0**	**141,221**	**13,574**	**154,794**
Consolidated profit/loss	0	0	-88,456	0	0	0	0	**-88,456**	-474	**-88,930**
Other comprehensive income	0	0	0	16,933	-897	-12,130	0	**3,906**	-2,621	**1,285**
Total comprehensive income/loss	**0**	**0**	**-88,456**	**16,933**	**-897**	**-12,130**	**0**	**-84,550**	**-3,095**	**-87,645**
Dividends non-controlling interests	0	0	0	0	0	0	0	0	0	**0**
Jun 30, 2020	**10,000**	**396,748**	**-304,212**	**-22,362**	**-5,008**	**-18,496**	**0**	**56,671**	**10,479**	**67,149**

KEUR	Attributable to the owners of HENSOLDT GmbH									
				Other Reserves						
	Share Capital	Capital Reserve	Retained Earnings	Remeasurement of pensions	Cashflow Hedge	Currency conversion difference	Treasury Shares	Subtotal	Minority interests	Equity
Jan 1, 2019	**25**	**46,275**	**-220,655**	**571**	**-3,439**	**-9,379**	**-10,563**	**-197,164**	**10,870**	**-186,293**
Consolidated profit/loss	0	0	-32,491	0	0	0	0	**-32,491**	90	**-32,401**
Other comprehensive income	0	0	0	-24,478	-800	1,160	0	**-24,118**	188	**-23,929**
Total comprehensive income/loss	**0**	**0**	**-32,491**	**-24,478**	**-800**	**1,160**	**0**	**-56,608**	**278**	**-56,330**
Dividends non-controlling interests	0	0	0	0	0	0	0	0	-181	**-181**
Jun 30, 2019	**25**	**46,275**	**-253,145**	**-23,907**	**-4,239**	**-8,219**	**-10,563**	**-253,772**	**10,967**	**-242,805**

B. HENSOLDT Selected Notes to the Unaudited Condensed Consolidated Interim Financial Statements

1. The Company

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

The Unaudited Condensed Interim Consolidated Financial Statements of HENSOLDT GmbH and its subsidiaries includes the six-month period ended June 30, 2020.

2. Accounting policies

The Unaudited Condensed Consolidated Interim Financial Statements for the first half year 2020, were prepared in accordance with IAS 34 and related interpretations, issued by the International Accounting Standards Board ('IASB') as endorsed by European Union ('EU') for interim financial reporting as at June 30, 2020.

The Condensed Consolidated Interim Financial Statements are unaudited / unreviewed and were authorized for issue by the HENSOLDT's Management Board on August 10, 2020.

They are prepared and reported in euro ('EUR') and all values are rounded to the nearest thousand appropriately. Due to rounding, numbers presented may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

These Condensed Consolidated Interim Financial Statements thus include all information and disclosures required by IFRS to be presented in Condensed Consolidated Interim Financial Statements and should be read in conjunction with the IFRS Consolidated Financial Statements as of and for the financial year ended December 31, 2019.

The accounting policies applied to the Condensed Consolidated Interim Financial Statements are generally based upon the same accounting policies and same methods of computation used in the consolidated financial statements for financial year 2019. Exceptions are new or revised International Financial Reporting Standards (IFRS) required to be applied for the first time in financial year 2020 that, however, have not had a material influence on the Unaudited Condensed Consolidated Interim Financial Statements.

3. Use of judgements and estimates

Preparation of the Unaudited Condensed Interim Consolidated Financial Statements in accordance with IAS 34 requires the Management to exercise judgement and make estimates and assumptions that affect the application of accounting policies in the Group and the presentation of assets, liabilities, income and expenses. Actual amounts may differ from these estimates. The results obtained thus far in financial year 2020 are not necessarily an indication of how business will develop in the future.

In the first half year of fiscal 2020, HENSOLDT´s business and, in particular, the economic environment is affected by the COVID-19 spread, though certain mitigating effects may arise due to the various measures taken by Governments or States globally, including favorable financial support to the economies. The increased uncertainties in light of the COVID-19 pandemic posed particular challenges when making appropriate judgements, estimates and assumptions. In the Unaudited Condensed Consolidated Interim Financial Statements as of June 30, 2020, the Company based financial statement-related estimates and assumptions on existing knowledge and best information available and applied a scenario assuming the current COVID-19 pandemic is of no long-term duration. COVID-19 related impacts on HENSOLDT´s Condensed Consolidated Interim Financial Statements may result from impact on our business, including delays in order intake and the supply chain, production downtimes or lack of liquidity on the customer side.

4. Acquisitions and disposals

At the end of June 2020, the Company signed an agreement to acquire two business units in air traffic management and defense solutions including radar systems of Tellumat's air traffic management and defense and security business units in South Africa. The two business units employ an aggregate of approximately 100 full-time employees. Closing is envisaged in the early fourth quarter of 2020.

On October 1, 2019, HENSOLDT acquired Nexeya S.A.S. ('Nexeya Group'). In the first half 2020, the still preliminary purchase price of EUR 88.8 million was adjusted through a EUR 4.0 million repayment.

5. Transactions with related parties

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

Revenue, other income and expenses with related entities for the six months ended June 30, 2020:

KEUR	HY 2020	HY 2019
Revenue and other income	33,702	48,518
Expenses	8,882	18,606

KEUR	Jun 30, 2020	Dec 31, 2019
Receivables	79,178	92,111
Liabilities	11,447	8,868

There were no material changes regarding key management personnel from the information disclosed in the 2019 Consolidated Year End Financial Statements.

6. Segment information

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

KEUR HY 2020	Sensors	Optronics	Elimination/ Transversal/ Others	Group
Order Intake	1,654,581	122,048	-1,056	1,775,573
Order Backlog (30 June)	2,819,400	607,522	22	3,426,944
Revenues from external customers	343,334	96,962	0	440,296
Intersegment revenues	130	769	-899	0
Segment revenues	**343,464**	**97,731**	**-899**	**440,296**

KEUR HY 2020	Sensors	Optronics	Elimination/ Transversal/ Others	Group
Material non-cash items other than depreciation and amortization:				
Additions to other provisions	-25,969	-16,368	0	-42,337
Dissolution of other provisions	2,142	1,408	0	3,551
Entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method	0	0	-1,794	-1,794

KEUR HY 2020	Sensors	Optronics	Elimination/ Transversal/ Others	Group
EBITDA	**32,267**	**9,847**	**-13,738**	**28,377**
Transaction cost	477	0	0	477
Other non-recurring effects	63	450	11,940	12,453
Adjusted EBITDA	**32,807**	**10,297**	**-1,798**	**41,307**
Margin adjusted EBITDA	*9,6%*	*10,5%*		*9,4%*
Depreciation and Amortization	-43,650	-13,886	-128	-57,664
EBIT	**-11,383**	**-4,039**	**-13,866**	**-29,287**
Effect on earnings from purchase price allocation	26,996	7,329	0	34,325
Transaction cost	477	0	0	477
Other non-recurring effects	63	450	12,068	12,581
Adjusted EBIT	**16,153**	**3,740**	**-1,798**	**18,096**
Margin adjusted EBIT	*4,7%*	*3,8%*		*4,1%*

KEUR HY 2020	Sensors	Optronics	Elimination/ Transversal/ Others	Group
EBIT	-11,383	-4,039	-13,866	**-29,287**
Finance result				-87,924
EBT				**-117,211**

KEUR HY 2019	Sensors	Optronics	Elimination/ Transversal/ Others	Group
Order Intake	312,121	108,836	-281	420,677
Order Backlog (30 June)	1,676,556	557,745	-539	2,233,763
Revenues from external customers	317,113	98,444	0	415,557
Intersegment revenues	141	36	-177	0
Segment revenues	**317,254**	**98,480**	**-177**	**415,557**

KEUR HY 2019	Sensors	Optronics	Elimination/ Transversal/ Others	Group
Material non-cash items other than depreciation and amortization:				
Additions to other provisions	-39,707	-7,188	0	-46,894
Dissolution of other provisions	11,697	1,799	0	13,496
Capitalized interest	0	0	-11,642	-11,642
Entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method	0	0	-591	-591

KEUR HY 2019	Sensors	Optronics	Elimination/ Transversal/ Others	Group
EBITDA	**26,778**	**14,635**	**-6,701**	**34,712**
Separation cost	0	0	-269	-269
Other non-recurring effects	0	0	6,429	6,429
Adjusted EBITDA	**26,778**	**14,635**	**-541**	**40,873**
Margin adjusted EBITDA	*8.4%*	*14.9%*	*-*	*9.8%*
Depreciation and Amortization	-45,617	-15,190	-184	-60,991
EBIT	**-18,839**	**-554**	**-6,885**	**-26,279**
Effect on earnings from purchase price allocation	28,064	8,453	0	36,518
Separation cost	0	0	-119	-119
Other non-recurring effects	0	0	6,429	6,429
Adjusted EBIT	**9,225**	**7,899**	**-574**	**16,550**
Margin adjusted EBIT	*2.9%*	*8.0%*		*4.0%*

KEUR HY 2019	Sensors	Optronics	Elimination/ Transversal/ Others	Group
EBIT	-18,839	-554	-6,885	**-26,279**
Finance result				-7,029
EBT				**-33,308**

7. Revenue

The Group´s operations and main revenue streams are described in the last annual Financial Statements.

During the first six months, revenues increased by KEUR 25,739 to KEUR 440,296 compared to KEUR 415,557 in the first half year 2019, mainly due to the acquisition of the Nexeya Group.

Revenue (geographical information)

For the six months ended June 30

KEUR	2020	2019
Europe	341,928	272,913
(therein Germany)	*209,772*	*169,823*
Middle East	37,615	41,109
APAC	15,509	26,656
North America	24,055	10,903
Africa	19,647	53,002
LATAM	7,330	13,585
Other regions / Consolidation	-5,788	-2,611
Total	**440,296**	**415,557**

Revenue (sales / aftersales)

For the six months ended June 30

				2020
KEUR	**Sensors**	**Optronics**	**Other**	**Group**
Sales	227,321	78,953	0	306,273
Aftersales	115,729	14,926	0	130,655
Exchange differences	260	3,162	-54	3,368
Total	**343,309**	**97,041**	**-54**	**440,296**

				2019
KEUR	**Sensors**	**Optronics**	**Other**	**Group**
Sales	244,009	88,688	0	**332,697**
Aftersales	71,912	9,556	0	**81,468**
Exchange differences	1,253	138	0	**1,391**
Total	**317,174**	**98,383**	**0**	**415,557**

Revenue (point in time of revenue recognition)

For the six months ended June 30:

KEUR				**2020**
Point of time of revenue recognition	**Sensors**	**Optronics**	**Other**	**Group**
Revenue recognition at a point in time	157,791	90,228	0	**248,019**
Revenue recognition over time	185,259	3,651	0	**188,909**
Exchange differences	260	3,162	-54	**3,368**
Total	**343,309**	**97,041**	**-54**	**440,296**

KEUR				**2019**
Point of time of revenue recognition	**Sensors**	**Optronics**	**Other**	**Group**
Revenue recognition at a point in time	184,967	98,225	0	**283,192**
Revenue recognition over time	130,954	20	0	**130,974**
Exchange changes	1,253	138	0	**1,391**
Total	**317,174**	**98,383**	**0**	**415,557**

Seasonality and cyclicality of operations

HENSOLDT´s industry is subject to certain trends and patterns. Our business is weighted towards the last quarter of the financial year, due to the timing of many budgetary decisions by our government customers. In addition, a significant volume of our annual revenue for both of the two reporting segments is typically recorded in the last months of the year. This weighting arises due to the timing of many budgetary decisions by our government customers. The first half of our financial year, particularly the first quarter, is characterized by a reduction of trade receivables and corresponding cash inflow due to customer payment, a reduction of trade payables and corresponding outflows, as well as an increase in work in process accounted for under inventories, which generally continues through the second quarter of our financial year. The Company expects these trends to generally continue in the future.

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

The share of loss in Hensoldt Cyber GmbH, an investment accounted for using the equity method, was KEUR -1,794 compared to KEUR -591 in the first half year 2019.

9. Other operating income / expenses

Other operating income decreased by KEUR 2,975 to KEUR 9,712 compared to KEUR 12,687 in the first half year 2019. Other operating expenses decreased by KEUR 3,240 to KEUR 8,900 compared to KEUR 12,141 in the first half year 2019. Both are due to lower project costs collected and recharged to other entities.

10. Finance result

Total finance result deteriorated by KEUR -80,895 to KEUR -87,924 compared to KEUR -7,029 in the first half year 2019. This is mainly due to the measurement of an embedded derivative in the Term Loan agreement in accordance with IFRS 9 (first half year of 2019: KEUR 34,137 compared to KEUR -53,915 in the first half year of 2020). A positive effect of KEUR 11,642 on the interest expenses relates to the contribution of a shareholder loan to the capital reserve in November 2019.

11. Consolidated loss

The consolidated loss increased by KEUR 56,529 to KEUR -88,930 compared to KEUR -32,402. This is mainly driven by the valuation of the embedded derivative in the Term Loan agreement in accordance with IFRS 9.

12. Income taxes

Income tax expense is recognized at an amount determined by multiplying the profit or loss before tax for the interim reporting period by management's best estimate of the weighted-average annual income tax rate expected for the full financial year, adjusted for the tax effect of certain items recognized in full in the interim financial period such as the revaluation of the embedded derivative. As such, the effective tax rate in the Interim Financial Statements may differ from management's estimate of the effective tax rate for the annual Financial Statements.

The increase in income tax income of KEUR 28,281 compared to KEUR 906 in the first half year 2019 results mainly from deferred taxes due to the revaluation of the embedded derivative and the effect from purchase price allocations on earnings.

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

Intangible assets decreased by KEUR 6,777 from KEUR 403,300 to KEUR 396,524 as the amortization of step ups arising from former acquisitions exceeded the net additions.

Development cost of KEUR 31,379 were capitalized compared to KEUR 24,198 in the first half year 2019.

HENSOLDT considers the changes to the business and economic environment due to COVID-19 as a triggering event for goodwill impairment testing. The impairment tests were performed in the second quarter 2020 and led to no impairment.

The adjustment of the still preliminary purchase price of Nexeya Group led to a reduction of goodwill by KEUR 4,000.

Property, plant and equipment increased by KEUR 5,417 from KEUR 92,893 to KEUR 98,310 mainly due to higher investments for assets under construction.

Right-of-use assets decreased by KEUR 5,328 to KEUR 149,534 compared to KEUR 154,862 due to scheduled amortization.

14. Other investments and other non-current financial assets

KEUR	Jun 30, 2020	Dec 31, 2019
Other Investments	11,188	11,188
Other non-current financial assets	2,629	3,494
Other investments and other non-current financial assets	**13,817**	**14,682**
Other non-current financial assets, due at short notice	**2,955**	**2,952**
Total	**16,772**	**17,634**

Other investments in entities accounted for using the equity method which form part of the net investment have been reduced by a write off of KEUR 625.

15. Inventories

Inventories increased by KEUR 26,714 to KEUR 437,796 compared to KEUR 411,082 mainly in higher increased work in process due to seasonal patterns.

16. Contract assets and Trade receivables

Contract assets increased slightly by KEUR 1,897 mainly due to offsetting with receivables.

Trade receivables decreased by KEUR 81,322 mainly due to strong cash collection in both segments due to seasonal patterns.

17. Provisions

KEUR	Jun 30, 2020	Dec 31, 2019
Provisions for Pensions	356,408	358,628
Other Provisions	210,794	240,068
Total	**567,202**	**598,724**
thereof non-current portion	413,102	413,641
thereof current portion	154,100	185,083

Provisions for pensions decreased by KEUR 2,220 mainly due to higher interest rates.

Other provisions decreased by KEUR 29,274 mainly for personnel-related provisions due to seasonal patterns.

18. Other financial assets and other financial liabilities

Other financial assets

KEUR	Jun 30, 2020	Dec 31, 2019
Positive fair values of derivative financial instruments	0	51,463
Miscellaneous other non-current financial assets	1,682	1,778
Non-current other financial assets	**1,682**	**53,241**
Positive fair values of derivative financial instruments	4,138	4,904
Receivables from employees	1,668	225
Miscellaneous other current financial assets	5,973	623
Current other financial assets	**11,779**	**5,752**
Total	**13,461**	**58,993**

Other financial liabilities

KEUR	Jun 30, 2020	Dec 31, 2019
Negative fair values of derivative financial instruments	3,035	0
Miscellaneous other non-current financial liabilities	225	225
Other non-current financial liabilities	**3,260**	**225**
Negative fair values of derivative financial instruments	10,994	10,933
Miscellaneous other current financial liabilities	3,732	7,455
Other current financial liabilities	**14,726**	**18,388**
Total	**17,986**	**18,614**

19. Other assets and other liabilities

Other assets

KEUR	Jun 30, 2020	Dec 31, 2019
Non-current other assets	**4,881**	**4,881**
Advance payments	30,396	22,978
VAT	10,698	5,397
Suppliers with debit balances	2,132	1,054
Miscellaneous other current assets	5,145	4,895
Current other assets	**48,371**	**34,324**
Total	**53,252**	**39,205**

Other Liabilities

KEUR	Jun 30, 2020	Dec 31, 2019
Non-current other liabilities	**6,416**	**7,677**
Tax liabilities (without income tax)	29,427	23,701
Liabilities to employees	32,509	25,118
Miscellaneous other current liabilities	18,934	18,298
Current other liabilities	**80,870**	**67,118**
Total	**87,286**	**74,795**

20. Financial instruments

Accounting classifications and fair values

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

				Jun 30, 2020
KEUR	**IFRS 9 Category**	**Carrying amount**	**Fair value**	**Level**
Assets				
Other investments and other non-current financial assets[1]	FVtOCI	13,817	13,817	-
Other non-current financial assets, due at short-notice	AC	2,955	2,955	-
Trade receivables	AC	209,488	209,488	-
Other financial assets				
Other derivative instruments	FVtPL	4,138	4,138	2
Non-derivative instruments	AC	9,323	9,323	-
Cash and cash equivalents	AC	321,594	321,594	-
Total financial assets		**561,315**	**561,315**	

[1] Fair value corresponds with cost due to lack of materiality

KEUR	IFRS 9 Category	Carrying amount	Fair value	Jun 30, 2020 Level
Liabilities				
Financing liabilities				
Liabilities to banks (long-term)	FLAC	891,246	933,207	2
Liabilities to banks (short-term)	FLAC	217,265	217,265	-
Trade payables	FLAC	150,221	150,221	-
Other financial liabilities				
Derivative instruments for cash flow hedges	FVtOCI	1,096	1,096	2
Other derivative instruments	FVtPL	12,932	12,932	2
Miscellaneous other financial liabilities	FLAC	3,958	3,958	-
Total financial liabilities		**1,276,718**	**1,318,679**	

KEUR	IFRS 9 Category	Carrying amount	Fair value	Dec 31, 2019 Level
Assets				
Other investments and other non-current financial assets[2]	FVtOCI	14,683	14,683	-
Other non-current financial assets, due at short-notice	AC	2,951	2,951	-
Trade receivables	AC	290,809	290,809	-
Other financial assets				
Derivative instruments for cash flow hedges	FVtOCI	89	89	2
Other derivative instruments	FVtPL	56,278	56,278	2
Non-derivative instruments	AC	2,626	2,626	-
Cash and cash equivalents	AC	137,389	137,389	-
Total financial assets		**504,825**	**504,825**	
Liabilities				
Financing liabilities				
Liabilities to banks	FLAC	899,034	961,894	2
Trade payables	FLAC	168,750	168,750	-
Other financial liabilities				
Other derivative instruments	FVtPL	10,933	10,933	2
Miscellaneous other financial liabilities	FLAC	7,681	7,681	-
Total financial liabilities		**1,086,398**	**1,149,258**	

[2] Fair value corresponds with cost due to lack of materiality

Fair value measurement

The input factors used and the measurement methods applied are described in the year end Consolidated Financial Statements as at December 31, 2019.

21. Litigation and claims

The Company is from time to time involved in various legal and arbitration proceedings in the ordinary course of its business, the most significant of which are described below. Other than as described below, the Company is not aware of any material governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened), during a period covering at least the previous twelve months which may have, or have had in the recent past significant effects on the Company's financial position or profitability.

In January 2020 a major customer filed a request for arbitration with the contractually agreed arbitration board regarding a partially fulfilled contract and demanded refund of payments already made (approximately EUR 31 million plus interest) plus further costs and expenses. HENSOLDT considers the claims made to be unfounded and filed in May 2020 a statement of defense and counterclaim for specific performance, i.e. payment under the contract in dispute (approximately EUR 11 million plus interest). It is not yet possible to make a sufficient certain statement about the outcome of the arbitration.

22. Number of employees

Employees (average figures per quarter end, FTEs)	HY 2020	HY 2019
Production, research & development, service	4,493	3,593
Sales and distribution	98	123
Administration and general services	540	495
Apprentices, trainees, etc.	402	362
Total	**5,533**	**4,573**

The increase in the average number of employees is mainly driven by the acquisition of Nexeya.

23. Events after the reporting date

The Company intends to change its legal form into a German stock corporation (Aktiengesellschaft) and to potentially apply for listing of its shares on a regulated market.

With commercial registration as of August 6, 2020, the Company's share capital was increased from EUR 10 million by EUR 70 million to EUR 80 million from the Company's reserves.

There are no further significant events after the reporting date.

C. Disclosure in accordance with Section 115 (5) sentence 6 of the German Securities Trading Act (WpHG)

The Condensed Consolidated Interim Financial Statements as of June 30, 2020 – consisting of the Consolidated balance sheet, Consolidated income statement, Consolidated statement of comprehensive income, Consolidated cash flow statement, Consolidated statement of changes in equity and selected notes – and the Group interim management report for the period from January 1 to June 30, 2020, were not audited in accordance with Section 317 of the German Commercial Code (HGB) or subjected to a review by a person qualified to audit financial statements.

D. Statement of the Managing Directors

The managing directors of HENSOLDT hereby declare that, to the best of their knowledge:

The Condensed Consolidated Interim Financial Statements as of June 30, 2020 have been prepared in accordance with applicable accounting standards and give a fair view of the assets, liabilities, financial position and results of the company and of all the entities taken as a whole included in the consolidation, and the half year interim report of the managing directors presents a fair view of the significant events that occurred during the first six months of the financial year, their impact on the financial statements, the main related party transactions as well as a description of the main risks and uncertainties for the remaining six months of the financial year.

Taufkirchen, August 10, 2020

HENSOLDT GmbH

Managing Directors

Thomas Müller   Axel Salzmann   Peter Fieser

IFRS consolidated financial statements of

HENSOLDT GmbH,

as of December 31, 2019

HENSOLDT Group - Consolidated income statement

KEUR	Note	2019	2018
Revenue	11	1,114,164	1,110,117
Cost of sales	11	-855,208	-900,422
Impairment losses on trade receivables and contract assets	35.5	-4,092	-5,898
Gross profit		**254,864**	**203,797**
Selling and distribution expenses		-84,828	-76,848
General administrative expenses		-76,321	-68,849
Research and development costs	12	-30,993	-32,178
Other operating income	13	25,343	32,724
Other operating expenses	13	-24,792	-36,243
Share of profit/loss from investment accounted for using the equity method	8	-1,202	-643
Earnings before finance cost and income tax (EBIT)		**62,071**	**21,760**
Interest income	14	58,938	14,855
Interest expense	14	-83,501	-96,425
Other finance income/costs	14	-1,930	-5,275
Finance income/costs		**-26,493**	**-86,845**
Earnings before income taxes		**35,578**	**-65,085**
Income taxes	15	-27,407	5,205
Consolidated profit/loss		**8,171**	**-59,880**
thereof attributable to the owners of HENSOLDT GmbH		5,918	-60,565
thereof attributable to non-controlling interests		2,253	685

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

HENSOLDT Group - Consolidated statement of comprehensive income

KEUR	Note	2019	2018
Consolidated profit/loss		**8,171**	**-59,880**
Other comprehensive income/loss			
Items that will not be reclassified to profit or loss			
Measurement of defined benefit plans	30.1	-64,581	24,343
Tax on items that will not be reclassified to profit or loss		24,717	-6,975
Subtotal		**-39,864**	**17,368**
Items that will be reclassified to profit or loss			
Difference from currency translation of financial statements		3,569	-6,805
Cash flow hedge - unrealized gains/losses	35.3	-1,557	-6,034
Cash flow hedge - reclassification to profit or loss	35.3	1,185	1,302
Tax effect on unrealized gains/losses	35.3	-348	1,648
Subtotal		**2,849**	**-9,889**
Other comprehensive proft/loss, net of tax		**-37,015**	**7,479**
Total comprehensive loss in the financial year		**-28,844**	**-52,401**
thereof attributable to the owners of HENSOLDT GmbH		-31,604	-51,633
thereof attributable to non-controlling interests		2,760	-768

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

HENSOLDT Group - Consolidated statement of financial position

ASSETS

KEUR	Note	Dec. 31, 2019	Dec. 31, 2018	Jan. 1, 2018
Non-current assets		**1,402,220**	**1,129,633**	**1,201,736**
Goodwill	16	646,823	593,860	584,050
Intangible assets	16	403,300	398,781	452,970
Property, plant and equipment	17	92,893	89,180	91,402
Right-of-use assets	26	154,862	-	-
Investments accounted for using the equity method	8	1,169	1,570	63
Other investments and other non-current financial assets	18	14,682	11,347	5,143
Non-current other financial assets	24	53,241	735	18,904
Other non-current assets	25	4,881	9,125	18,464
Deferred tax assets	15	30,369	25,035	30,740
Current assets		**1,051,389**	**1,082,689**	**1,005,421**
Other non-current financial assets, due at short-notice	18	2,952	5,269	41,314
Inventories	19	411,082	407,002	413,290
Contract assets	11	165,883	80,688	53,367
Trade receivables	20	290,809	338,072	326,257
Current other financial assets	24	5,752	1,460	11,310
Other current assets	25	34,324	21,422	16,464
Income tax receivables	15	3,198	1,226	5,445
Cash and cash equivalents	34	137,389	227,550	137,974
Total assets		**2,453,609**	**2,212,322**	**2,207,157**

EQUITY AND LIABILITIES

KEUR		Dec. 31, 2019	Dec. 31, 2018	Jan. 1, 2018
Share capital	32.1	10,000	25	25
Capital reserve		396,748	46,275	46,275
Other reserves		-49,770	-12,247	-21,178
Retained earnings		-215,757	-220,655	-161,412
Treasury shares		-	-10,563	-
Equity held by shareholders of HENSOLDT GmbH		**141,221**	**-197,164**	**-136,290**
Non-controlling interests		**13,574**	**10,870**	**13,162**
Equity, total	**32**	**154,795**	**-186,294**	**-123,128**
Non-current liabilities		1,517,924	1,609,935	1,465,353
Shareholder loans	34	-	349,567	437,474
Non-current provisions	22	413,641	310,272	294,069
Non-current financial liabilities	34	887,696	880,364	662,134
Non-current contract liabilities	11	16,319	24,767	18,436
Non-current lease liabilities	26	147,521	-	-
Other non-current financial liabilities	24	225	4,561	983
Other non-current liabilities	25	7,677	3,399	2,682
Deferred tax liabilities	15	44,845	37,005	49,575
Current liabilities		**780,890**	**788,681**	**864,932**
Current provisions	22	185,083	210,900	217,062
Current financial liabilities	34	11,338	3,367	15,024
Current contract liabilities	11	317,134	332,800	419,593
Current lease liabilities	26	12,999	-	-
Trade payables	21	168,750	167,073	160,109
Other current financial liabilities	24	18,388	13,299	18,049
Other current liabilities	25	67,118	56,294	35,085
Tax liabilities	15	80	4,948	10
Total equity and liabilities		**2,453,609**	**2,212,322**	**2,207,157**

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

HENSOLDT Group - Consolidated statement of cash flows

KEUR	Note	Jan. 1. - Dec 31, 2019	Jan. 1. - Dec 31, 2018
Profit/loss for the period (including minority interests)		8,171	-59,880
Depreciation and amortization	16/17/26	129,610	124,414
Allowances on inventories, trade receivables and contract assets		13,221	6,984
Profit/loss from disposals of non-current assets		418	143
Share of profit in entities recognized according to the equity method		1,202	643
Financial expenses (net)		24,563	81,570
Other non-cash expenses/income		-5,376	4,853
Change in			0
Provisions		-404	31,501
Inventories		-17,849	15,447
Contract balances		-89,404	-112,406
Trade receivables		56,441	-14,533
Trade payables		-13,430	913
Other assets and liabilities		4,615	25,068
Interest paid		-45,116	-35,171
Income tax (expense + / income -)		27,408	-5,205
Income taxes payments (-) / refunds (+)		-10,869	1,336
Cash flows from operating activities		**83,201**	**65,677**
Acquisition/ addition of intangible assets and property, plant and equipment	16/17	-80,480	-60,084
Proceeds from sale of intangible assets and property, plant and equipment	16/17	515	426
Acquisition of associates, other investments and other non-current investments	7/18	-3,947	-8,324
Disposals of associates, other investments and other non-current investments	18	2,147	24,182
Acquisition or subsidiaries net of cash acquired	7	-83,817	-17,329
Other		-48	240
Cash flows from investing activities		**-165,630**	**-60,889**
Assumption of financial liabilities	34.3	2,387	222,900
Repayment of financial liabilities	34.3	0	-123,995
Payment from owners of the HENSOLDT GmbH		25	0
Payment of lease liabilities		-11,327	0
Purchase of treasury shares	32.2	0	-10,563
Dividend payments to non-controlling interests		-181	-304
Other		0	149
Cash flows from financing activities		**-9,096**	**88,187**
Effects of movements in exchange rates on cash and cash equivalents		1,365	-3,399
Net changes in cash and cash equivalents		**-90,160**	**89,576**
Cash and cash equivalents			
Cash and cash equivalents on January 1	34.1	**227,550**	**137,974**
Cash and cash equivalents on December 31	34.1	**137,389**	**227,550**

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

HENSOLDT Group – Consolidated statement of changes in equity

		Attributable to the owners of the HENSOLDT GmbH									
					Other reserves						
KEUR	Note	Subscribed capital	Capital reserve	Retained earnings	Measurement of pension plans	Cash flow hedge	Difference from currency translation	Treasury shares	**Sub-total**	Non-controlling interests	**Total**
As of Jan. 01, 2018		**25**	**46,275**	**-161,412**	**-16,796**	**-533**	**-3,849**	**0**	**-136,290**	**13,162**	**-123,128**
Consolidated profit/loss		0	0	-60,565	0	0	0	**0**	**-60,565**	685	**-59,880**
Other comprehensive income/loss		0	0	0	17,368	-2,906	-5,530	0	**8,931**	-1,453	**7,479**
Total comprehensive income		0	**0**	**-60,565**	**17,368**	**-2,906**	**-5,530**	**0**	**-51,633**	**-768**	**-52,401**
Acquisition of treasury shares		0	0	0	0	0	0	-10,563	**-10,563**	0	**-10,563**
Dividends on non-controlling interests		0	0	0	0	0	0	0	**0**	-304	**-304**
Other		0	0	1,322	0	0	0	0	**1,322**	-1,220	**102**
As of Jan. 01, 2019		**25**	**46,275**	**-220,655**	**572**	**-3,439**	**-9,379**	**-10,563**	**-197,164**	**10,870**	**-186,294**
Consolidated profit/loss		0	0	5,918	0	0	0	**0**	**5,918**	2,253	**8,171**
Other comprehensive income/loss		0	0	0	-39,865	-671	3,014	0	**-37,522**	507	**-37,015**
Total comprehensive income		0	**0**	**5,918**	**-39,865**	**-671**	**3,014**	**0**	**-31,605**	**2,760**	**-28,844**
Contribution of shareholder loan	**32**	0	370,985	0	0	0	0	0	**370,985**	0	**370,985**
Cancellation of treasury shares	**32**	0	-10,563	0	0	0	0	10,563	**0**	0	**0**
Adjustement from reorganization	**32**	9,975	-9,950	0	0	0	0	0	**25**	0	**25**
Transactions with non-controlling interests/ Acquisition through business combinations		0	0	0	0	0	0	0	**0**	556	**556**
Dividends on non-controlling interests		0	0	0	0	0	0	0	**0**	-181	**-181**
Other		0	0	-1,020	0	0	-1	0	**-1,021**	-431	**-1,452**
As of Dec. 31, 2019		**10,000**	**396,748**	**-215,757**	**-39,293**	**-4,111**	**-6,366**	**0**	**141,221**	**13,574**	**154,795**

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

HENSOLDT Group - Notes to the consolidated financial statements

I. Basis of presentation

1. The Company

These IFRS consolidated financial statements comprise the financial position, financial performance and cash flows of HENSOLDT GmbH (the ‘Company’) and its subsidiaries (the ‘Group’ or ‘HENSOLDT Group’) with its registered office in Taufkirchen, Germany (registered office: Willy-Messerschmitt-Str. 3, 82024 Taufkirchen, Germany, under file no. HRB 252143, Munich District Court) and its subsidiaries (the ‘Group’ or ‘HENSOLDT Group’).

The financial year is the calendar year.

Management released the IFRS consolidated financial statements for circulation to the supervisory board of HENSOLDT Holding GmbH on March 2, 2020.

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

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

2. Significant accounting policies

2.1. Basis of preparation

The current corporate structure was created in 2019 by the contribution in kind of HENSOLDT Holding GmbH (including its subsidiaries) into HENSOLDT GmbH. The equity of HENSOLDT GmbH increased by the nominal value of new shares issued against contribution in kind based on the contribution agreement of November 29, 2019.

In accordance with Section 290 of the German Commercial Code (HGB), HENSOLDT GmbH, as ultimate German parent company, prepares consolidated financial statements pursuant to Section 315e (3) HGB according to IFRS as applicable in the European Union.

The Company’s consolidated financial statements as of December 31, 2019, have been prepared voluntarily in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as these are to be applied in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in the European Union. The additional requirements of Section 315e (1) HGB were taken into account.

According to IFRS 1.3, the first IFRS financial statements of a company are those to which the company applies the IFRS for the first time through an explicit declaration of full compliance with IFRS as applicable in the European Union.

Until November 29, 2019, HENSOLDT Holding GmbH has been the ultimate parent company of the HENSOLDT Group and has prepared consolidated financial statements in compliance with IFRS as applicable in the European Union in previous years.

With the exception of the presentation of a third balance sheet as of January 1, 2018, the regulations of IFRS 1 have no further effects.

The related accounting in the HENSOLDT Group is analogous to the principles developed for capital reorganization (common control transactions). The assets and liabilities of HENSOLDT Holding GmbH acquired by HENSOLDT GmbH are recognized in the consolidated financial statements of HENSOLDT GmbH with their carrying amounts at the time of the transaction. The accounting for the current reporting period and all prior-year comparative periods are therefore taken over and continued in the consolidated financial statements of HENSOLDT GmbH.

Before the contribution in kind, 6,275 treasury shares of HENSOLDT Holding GmbH in the amount of KEUR 10,563 were cancelled and offset against the capital reserve by way of shareholders' resolution dated November 15, 2019. In addition, the majority shareholder of HENSOLDT Holding GmbH at that time, Square Lux Holding II S.à.r.l., contributed the Square Lux Finco S.à.r.l. loan receivable of KEUR 370,985 including accrued interest to the capital reserve of HENSOLDT Holding GmbH.

Changes in important accounting policies are described in Note 4.

These consolidated financial statements are presented in Euro (EUR), which is the Group's functional currency. Unless otherwise indicated, all financial figures presented in Euro are rounded to the nearest thousand.

These financial statements were prepared based on the assumption of the Group's continuation as a going concern. In the Group's third year of operating activities achieved a consolidated profit of EUR 8.2 million. Consolidated equity amounts to EUR 154.8 million.

The Group generated a cash flow from operating activities of EUR 83.2 million and has cash and cash equivalents as of December 31, 2019 of EUR 137.4 million. Furthermore, the liquidity is ensured by an existing revolving credit facility of EUR 200.0 million.

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

2.2. Consolidation policies

Business combinations

The Group accounts for business combinations using the acquisition method provided the Group has gained control. The consideration transferred for the acquisition and the identifiable net assets acquired are generally recognized at fair value. Any goodwill arising is tested for impairment annually. Any gain on a bargain purchase is recognized directly in the consolidated income statement. Transaction costs are expensed as incurred unless they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

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

Subsidiaries

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

Non-controlling interests

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

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

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

Shares in investments accounted for using the equity method

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

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

Investments in associates and joint ventures are recognized as equity-accounted investees. They are initially recognized at cost, which also includes transaction costs. After initial recognition, the consolidated financial statements contain the Group's share in the total comprehensive income of the equity-accounted investee until the date at which significant influence or joint management ends.

Consolidation of intercompany transactions

Internal group balances, business transactions and all unrealized revenue and expenses from internal group business transactions are eliminated in course of preparation of the consolidated financial statements. Unrealized gains on transactions with equity-accounted investees are derecognized against the investment according to the Group's share in the investment. Unrealized losses are eliminated in the same way as unrealized gains, but only if there are no indications of impairment.

2.3. Revenue from contracts with customers

Revenue recognition

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

Revenue equals to the transaction price to which the HENSOLDT Group expects to be entitled to under the relevant contract. Variable considerations (such as price escalations, contractual penalties, revisions following price audits) are reflected in the transaction price if it is highly probable that such variable consideration may be collected or when the uncertainty associated with such variable consideration no longer exists. The amount of the variable consideration is determined either according to the expected value method or using the most likely amount, depending on which method better predicts the variable consideration. If the length of time between the transfer of the goods or services and the payment date exceeds 12 months and a significant benefit from financing arises for the customer or the HENSOLDT Group, the consideration under IFRS 15 would need to be adjusted by the time value of money. As there are significant other reasons leading to a divergence between the point in time of performance and payment, no financing component is given from the perspective of management of the HENSOLDT Group.

If a contract comprises several distinct goods or services, the transaction price is allocated to the performance obligation based on the relative stand-alone selling price. If stand-alone selling prices are not directly observable, the Group estimates these in an appropriate amount. If no observable prices exist, particularly as the goods and services offered by HENSOLDT are highly complex and individual, the stand-alone selling price of each separate performance obligation is estimated based on the expected costs plus a margin approach.

When control of produced goods or rendered services is transferred over time to the customer, revenue is recognized over time, i.e. under the percentage of completion method ("PoC method").

The Group transfers control over time when:

- It produces a good with no alternative use and the Group has an irrevocable right to payment (including a reasonable margin) for the work completed to date, in the event of contract termination at the convenience of customers; or
- It creates a good which is controlled by the customer as the good is created or enhanced; or
- The customer simultaneously receives and consumes the benefits provided by the Company (e.g. maintenance contracts, training services).

For each performance obligation to be satisfied over time pursuant to IFRS 15, the HENSOLDT Group recognizes revenue over time by determining the progress towards complete satisfaction of that performance obligation. The HENSOLDT Group applies one single method, the PoC method, to determine the progress for each performance obligation to be satisfied over time, with the selected method being consistently applied to similar performance obligations and similar circumstances. For the application of the PoC method, the measurement of progress towards complete satisfaction of a performance obligation is based on inputs (i.e. costs incurred). HENSOLDT uses this method as it, by the Group's view, best reflects the progress towards the satisfaction of the performance obligation.

When none of the criteria above has been met, revenue is recognized at a point in time. In general, this is the point in time at which the power of control transfers to the purchaser, which most of the time is upon delivery of the goods.

For reporting purposes, HENSOLDT discerns two revenue categories: Sales and Aftersales. The category Aftersales consists of revenue related to the sale of products and to rendering of services related to a prior purchase (e.g. sale of spare parts, provision of maintenance). Revenue from the sale of products and rendering of services other than the aforementioned are included in the category Sales.

Due to the individual and specialized nature of the goods and services that HENSOLDT offers both of the product categories include revenue recognized at a point in time and revenue recognized over time. Principally, invoices related to revenue recognized over time are issued

pursuant to the contractual terms. Invoices related to revenue recognized at a point in time are generally issued upon delivery of the goods. Both variants typically provide for payment between 30 and 60 days after invoicing.

In addition, costs capitalized for obtaining and fulfilling a contract are amortized in line with the transfer of control over the promised goods and services that relate to these capitalized costs.

Contract assets, contract liabilities and trade receivables

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

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

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

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

2.4. Intangible assets and goodwill

Intangible assets

The intangible assets with limited useful lives are generally amortized on a straight-line basis over their respective expected useful lives (3 to 10 years) to their estimated residual values. Brands with indefinite useful lives are not amortized but tested for impairment annually. The brand HENSOLDT is to be used in the long term and the Group intends to operate on the market under the name HENSOLDT for an unlimited amount of time. There is no indication of a limited useful life or indications as to the period on which a time limit could be granted.

Goodwill

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

Research and development

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

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

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

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

2.5. Property, plant & Equipment

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

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

2.6. Inventories

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

Manufacturing costs include all costs directly attributable to the manufacturing process, such as material costs, wage and production-related overheads (based on normal operating capacity and normal use of materials, labor and other production costs) including write-downs. If any inventory risks exist, e.g. due to reduced usability after longer storage periods or lower replacement costs, suitable write-downs are recognized. Write-downs on inventories are recognized when it is probable that projected contract costs will exceed total contract revenue.

2.7. Leases

The Group adopted IFRS 16 "Leases" for annual periods beginning on January 1, 2019.

The Group has leasing activities only as a lessee. The Group leases many assets including property, technical equipment, IT equipment and vehicles.

At inception of a contract, the Group assesses whether a contract is or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset the Group assesses as a lessee whether:

- The contract involves the use of an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- The Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- The Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
    - The Group has the right to operate the asset; or
    - The Group designed the asset in a way that predetermines how and for what purpose it will be used.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its stand-alone price. This policy applies to lease contracts concerning buildings. The Group has elected not to separate non-lease components for all other classes of lease contracts.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease. Country specific interest rates are used in South Africa.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- Lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

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

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

Short-term leases and leases of low-value assets

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

Policy applicable before January 1, 2019

For contracts entered into before January 1, 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- Fulfilment of the arrangement was dependent on the use of a specific asset or assets and;
- The arrangement had conveyed a right to use the asset. Arrangement conveyed the right to use the asset if one of the following was met:
    - The purchaser had the ability to or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
    - The purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
    - Facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as a finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy to that asset.

Assets held under other leases were classified as operating leases and were not recognized in the Group's statement of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognized as an integral part of the total lease expense, over the term of the lease.

2.8. Employee benefits

Short-term employee benefits

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

Defined contribution plans

Obligations for contributions to defined contribution plans are recognized as expenses as soon as the associated work is performed. Prepaid contributions are recognized as an asset to the extent that there is an entitlement to a refund or a reduction in future payments.

Defined benefit plans

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

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

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

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

Other long-term employee benefits

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

2.9. Other provisions

Provision for onerous contracts

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

Onerous sales contracts are identified by monitoring the progress of the contract and the underlying project and by updating the estimate of contract costs, which involves significant and complex assumptions, assessments and estimates in connection with obtaining a certain performance standard and estimates relating to other costs (see Note 3, Note 11 and Note 22).

Warranties

A provision for warranties is recognized when the underlying products or services are sold or provided. The provision is based on the individual assessment of future costs to be incurred. If a warranty is identified as a separate service and as such as a separate performance obligation, it is recognized in accordance with IFRS 15.

2.10. Financial instruments

Recognition and initial measurement

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

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

Classification and subsequent measurement

Financial assets

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

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

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

(i) “measured at amortized cost” (AC)

(ii) “at fair value with changes through profit or loss” (FVtPL) and

(iii) “at fair value through other comprehensive income” (FVtOCI).

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

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

A debt instrument is designated at FVtOCI if both of the following conditions are met and it was not designated at FVtPL:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Receivables that are meant to be sold to a factoring party, cannot be held in a business model “held to collect”. These receivables have to be measured at fair value. HENSOLDT’s decision whether to sell trade receivables is principally made on a case-by-case basis.

At initial recognition of an equity instrument that is not held for trading, the Group can irrevocably elect to present subsequent value changes of the investment in other comprehensive income. This decision is made on a case-by-case basis for each investment. All financial assets that are not measured at amortized cost or at FVtOCI are measured at FVtPL. This includes all derivative financial assets (see Note 35).

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

Financial assets at FVtPL: These assets are subsequently measured at fair value. Net gains and losses, inclusive of any interest and dividend income, are recognized in profit or loss. For derivatives designated as hedging instruments in an effective hedge, see Note 35.

Financial assets at amortized cost: These assets are measured at amortized cost using the effective interest method. Amortized cost is diminished by impairment losses. Interest income, foreign exchange gains and losses as well as impairment losses are recognized in profit or loss. A gain or loss arising from derecognition is recognized in profit or loss. The impairment requirements on financial assets are described in Note 2.14.

Certain equity investments, especially immaterial other investments or interests in joint ventures or associates that are not consolidated using the at-equity method due to materiality, are measured at cost.

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

Equity instruments at FVtOCI: These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividends clearly represent cover of a part of costs of the investment. Other net gains or losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Financial liabilities

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

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

Derecognition

The Group derecognizes a financial asset when the contractual rights to receive the cash flows of an asset expire or it transfers the rights to receive the cash flows in a transaction in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

To some extent, the Group sells trade receivables to external factoring parties. In this process, the Group determines whether the risk and rewards of ownership of the financial asset are fully transferred. Subsequently, the financial asset is derecognized and the Group assesses whether a continuing involvement exists and if so, a corresponding item must be recognized.

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

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

Netting

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

Derivative financial instruments and hedge accounting

Derivative financial instruments

The HENSOLDT Group carries out some of its transactions in foreign currency, such as customer or supplier contracts. HENSOLDT enters into forward exchange transactions and commits to purchases and sales in corresponding foreign currencies to limit the risks to income and costs from currency fluctuations.

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

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

Hedge accounting ensures that derivative gains or losses are recorded through profit or loss (primarily as a part of revenue) in the same period in which the hedged items or transactions are recognized through profit or loss. By contrast, changes in the value of derivative contracts are recognized in total comprehensive income if the hedged items or transactions have not yet been recognized in profit or loss.

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

The Group decided to continue the optional application of accounting policies of IAS 39 for hedging transactions.

The fair value of derivative financial instruments, that are designated in a hedge accounting relationship as well as the development of the hedging reserve are shown in Note 35.3.

Cash flow hedges

If a derivative is designated as a cash flow hedging instrument, the effective portion of changes in the fair value is recognized in other comprehensive income and the cumulative change is transferred to the hedging reserve. Any ineffective portion of changes in fair value of the derivative is recognized in profit or loss.

When the hedged forecast transaction subsequently results in the recognition of a non-financial item such as inventories, the amount accumulated from the hedging reserve is included directly in the cost of the non-financial item when this is recognized.

For all other hedged forecast transactions, the accumulated amount, which was transferred to the hedging reserve, is reclassified in profit or loss in the period or periods in which the hedged forecast future cash flows affect profit or loss.

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

2.11. Income tax

Income tax expense comprises both actual income tax to be paid and deferred taxes.

Current Taxes

Current taxes comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

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

Deferred taxes

Applying the liability method of IAS 12 , deferred taxes are calculated on the basis of temporary differences between the tax and financial reporting valuation approaches including differences from consolidation, loss and interest carryforwards as well as tax credits. The calculation uses the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. The amount is calculated on the basis of the tax rates and tax laws applicable as of the reporting date or will be applicable in the near future.

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

- the initial recognition of goodwill; or
- an asset or liability from a transaction which is not a business combination and at the date of the transaction affects neither the income (loss) for the period nor taxable profit (taxable loss), and

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer likely that sufficient taxable earnings will be available against which the deferred tax asset could be offset at least in part. Deferred tax assets that are not recognized are reviewed at each reporting date and recognized to the extent to which it has become likely that future taxable earnings will permit the realization of the deferred tax asset.

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

Deferred tax assets and liabilities are offset only if certain criteria are met.

IFRIC 23

In June 2017 the IFRIC 23 on the interpretation of IAS 12 (Income Taxes) was published by the IASB. IFRIC 23 clarifies the application of recognition and measurement requirements of income tax position when there is uncertainty over income tax treatments. An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted or adjusted by the tax authorities. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019.

Each uncertain tax treatment was considered separately or together as a group, depending on which approach better predicts the resolution of the uncertainty. The entity used either the most likely amount or the expected value method measuring the uncertainty. The decision is based on which method provides better predictions of the resolution of the uncertainty.

2.12. Foreign currency

Foreign currency transactions

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

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

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

- An investment in equity securities designated at FVtOCI (except on impairment, in which case foreign currency differences that have been recognized in OCI are reclassified to profit or loss);
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- Qualifying cash flow hedges to the extent that the hedges are effective.

Foreign operations

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

2.13. Statement of cash flows

Under the indirect determination of cash flow, the changes in items in the statement of financial position related to operating activities are adjusted by currency translation effects and by changes in the scope of consolidation. For this reason, they cannot be directly reconciled with the relevant changes on the basis of the published consolidated statement of financial position.

2.14. Impairment

Non-derivative financial assets

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

- financial assets at amortized cost
- contract assets

Under the general approach, impairment is measured as either 12-month expected credit loss (ECL) or lifetime ECL, depending on whether there has been a significant increase in credit risk since initial recognition.

12-month credit losses are the share of expected losses resulting from default events which are possible within 12 months of the reporting date (or a shorter period if the expected term of the instrument is less than 12 months). The maximum period over which the ECL is to be estimated is the maximum contractual period over which the Group is exposed to credit risk.

Lifetime expected credit losses are expected credit losses which result from all possible default events over the expected lifetime of a financial instrument.

Allowances on trade receivables and contract assets are always measured based on the amount of the lifetime expected credit loss (simplified approach).

To assess whether the credit risk of a financial asset since initial recognition has significantly increased and for the assessment of expected credit losses, the Group considers reasonable and supportable information which is relevant and available without undue cost or effort. This covers both quantitative and qualitative information and analysis, which is based on past experience of the Group and in-depth assessments, inclusive of forward-looking information.

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

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

Credit impaired financial assets

At each reporting date, the Group assesses whether financial assets measured at amortized cost are credit-impaired. A financial asset is credit-impaired if one or more events occurs which has adverse effects on the expected future cash flows of the financial asset.

Indicators that a financial asset is credit-impaired include the following observable data:

- significant financial difficulty of the issuer or the borrower,
- a breach of contract, such as a default or past-due situation of more than 90 days
- restructuring of a loan or credit by the Group which would not otherwise have been considered
- it is probable that the borrower will become insolvent or enter into other bankruptcy proceedings, or
- the disappearance of an active market for a security because of financial difficulties.

Write-off

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

Non-financial assets

At the end of each reporting period the Group assesses whether there is an indication of impairment of a non-financial asset or CGU to which the asset belongs (e.g. changes in the legal framework or introduction of new technology). In addition, intangible assets with indefinite useful lives, intangible assets not yet available for use as well as goodwill are tested for impairment in the fourth quarter of each financial year, regardless of whether there are any indications of impairment. For impairment testing, goodwill is allocated to a CGU or group of CGUs to thus reflect the manner in which goodwill is monitored for internal management purposes.

To determine if an impairment has occurred, assets are combined into the smallest group of assets that generate cash inflows from continuing use and are largely independent from the cash inflows of other assets or CGUs. Goodwill acquired from a business combination is allocated to the CGUs or groups of CGUs which are expected to benefit from the synergies of the combination. This applies irrespective of whether other assets or liabilities of the entity acquired are assigned to these CGUs.

The recoverable amount of an asset or CGU is the higher of its value in use and its fair value less costs to sell. To assess the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the present market assessment of the time value of money and the specific risks relating to an asset or a CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

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

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

2.15. Fair value measurement

A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The fair value is the price at which an asset would be sold or a liability transferred under current market conditions on the measurement date in an orderly transaction on the primary market or, if such a market is not available, the most advantageous market to which the Group has access at this point in time. The fair value of a liability reflects the non-performance risk.

The Group uses the following hierarchy to determine and present fair value of the financial instruments for each valuation method:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Methods by which input parameters that substantially impact the fair value determination are not based on observable market data

If an asset or liability measured at fair value has a bid or ask price, then the Group measures assets or long positions at the bid price and liabilities and short positions at the ask price.

The best indication of the fair value at initial recognition of a financial instrument is generally the transaction price, i.e. the fair value of the consideration paid or received. If the Group determines that at initial recognition the fair value is different to the transaction price and the fair value is evidenced neither (a) by a quoted price in an active market for an identical asset or liability nor (b) based on a measurement technique for which all unobservable inputs can be considered insignificant in relation to the measurement, then this financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, this difference is recognized in profit or loss on an appropriate basis over the life of the instrument, however no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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

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

Equity instruments: The fair value of unlisted equity instruments cannot be reliably determined, as the area of reasonable approximation of the fair value is decisive and the probabilities of the various estimates within the area cannot be appropriately assessed. With due consideration of materiality, these instruments are measured at cost and their carrying amounts are used in the place of fair value.

Assets from customer financing and other loans: The carrying amounts shown in the financial statements are used as rough estimates of the fair value.

Trade and other receivables, contract assets and other receivables: The carrying amounts shown in the financial statements are used as reasonable approximation of the fair value due to the relatively short period between the receivable arising and it falling due.

Cash and cash equivalents: Comprise cash on hand, cash at bank and checks. The carrying amounts shown in the financial statements are used as reasonable approximation of the fair value due to the relatively short period between the instrument arising and its term or maturity.

Plan assets: Other investments include shares in a limited partnership (HENSOLDT Real Estate GmbH & Co. KG). The limited partnership essentially includes underlying real estate assets, which are evaluated based on current market prices. The fair value of the plan assets represents the net asset value of the limited partnership.

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

Derivatives: The fair values of derivative instruments are based on quoted market prices where available but in most cases are determined using accepted measurement methods such as option pricing models and discounted cash flow models. Measurement is based on observable market data such as exchange rates, rates for forward exchange transactions, interest rates and yield curves.

The fair values of derivatives are measured on the basis of input parameters from Level 2.

Price determination for forward exchange transactions: the fair value is determined by using the quoted forward rate as of the reporting date and net present value calculations based on yield curves with high credit ratings in the relevant currencies.

Price determination for interest rate futures: the fair value is calculated as the present value of estimated future cash flows. Estimates of future cash flows from variable interest payments are based on quoted rates for interest rate futures, future prices and interbank interest rates. The estimated cash flows are discounted using a yield curve that was constructed from similar sources and reflects the relevant comparable interbank interest rate used by market participants for pricing the interest rate futures. The fair value estimate is adjusted for the credit risk which reflects the credit risk of the Group and the contracting party. This is calculated using credit spreads derived from credit default swap and bond prices.

Embedded derivatives: The Term Loan contains an embedded derivative (floor and termination right) that needs to be split from its host and measured at fair value through profit or loss. An option-price model is used to simulate the fair value of the derivatives. The model uses historical interest rates, forwards rates and credit spreads.

Financial liabilities: The fair values recognized for financial liabilities, which are not bond or debt securities, are determined on the basis of input parameters from Level 2 in which planned or expected cash flows are discounted with corresponding market interest rates. The fair value of the written put option granted to minority shareholders is based on a discounted cash flow model using a 3-year business plan.

Trade payables, contract liabilities as well as current other financial liabilities: the carrying amounts of trade payables, contract liabilities and other current financial liabilities are seen as reasonable approximations of the fair value due to the relatively short period between the instrument arising and its maturity.

3. Key estimates and assessments

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

3.1. Revenue recognition over time

Revenue from the rendering of performance obligations over time is recognized using the PoC method (Cost-to-Cost method). Under this method, exact estimates of contract results at the stage of completion and on the extent of progress to completion are very important. To determine the progress of the contract the key estimates include total contract costs, the remaining costs until completion, the overall contract revenue and the contract risks.

Management regularly reviews all estimates used for these contracts and adjusts them as required (for more information please refer to Note 11 and Note 20).

3.2. Capitalization of development cost

When capitalizing development costs, the Group makes estimates regarding the development costs as well as estimates as to whether the product or the process is technically and commercially viable. HENSOLDT considers the capitalized development costs to be recoverable in full.

3.3. Assets acquired and liabilities assumed as well as goodwill

Measurement of the fair value of assets acquired and liabilities assumed in the course of company acquisitions, which form the basis of the measurement of goodwill, requires significant estimates. Land, buildings and machinery are usually measured independently while marketable securities are measured at market prices. If intangible assets are identified, based on the type of intangible asset and the complexity of determining its fair value, the Group consults either an independent external valuation expert or develops the fair value internally using suitable valuation techniques that are based in general on the forecast of total expected future net cash flows.

These measurements are closely related to management's assumptions regarding the future development of related assets and the discount rate to be applied.

3.4. Impairment testing

Impairment exists when the carrying amount of an asset or CGU exceeds its recoverable amount. The recoverable amount of an asset or CGU is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. If there is no sufficient information available to determine the fair value less cost to sell of an asset or CGU, the value in use of the asset or CGU is used instead.

The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next three years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognized by the Group. The key assumptions used to determine the recoverable amount for the different CGUs, including a sensitivity analysis, are disclosed and further explained in Note 16.

3.5. Provisions

The measurement of provisions, e.g. for contract losses, guarantees, restructuring measures and legal proceedings, is based on best available estimates. Onerous contracts are determined by monitoring the progress of projects and updating estimates of contract costs, which also requires significant judgment in relation to reaching certain performance standards and estimates of guarantees and follow-up costs. The extent of the assumptions, assessments and estimates in these monitoring processes depends on the size and type of the Group's contracts and the associated projects.

3.6. Employee benefits

The Group recognizes pension and other retirement benefits in accordance with actuarial valuations. These valuations are based on statistical and other factors for anticipating future events. The assumptions can deviate significantly from actual developments due to changing market and economic conditions and thus lead to a significant change in employee benefits obligations and the related future costs (see Note 30).

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

Market risk

The market values of plan assets are subject to fluctuations which can impact the net defined benefit obligation.

Interest rate risk

The value of the defined benefit obligation and the plan assets is significantly affected by the discount rate used. Lower interest rates, particularly market conditions linked to the euro, result in a relatively high net defined benefit obligation. If the decline in return on corporate bonds continues, the defined benefit obligation will continue to increase in future reporting periods and can be only partially offset by the positive development in market values of plan assets. In general, the defined benefit obligation is sensitive to movements in interest rates which leads to volatile results of the valuation.

Inflation risk

Defined benefit obligations can be sensitive to movements in the inflation rate, whereby a higher inflation rate could lead to an increase in the obligation. As some pension plans are directly tied to salary, pay increases can lead to an increase in pension obligations.

Longevity risk

Pension obligations are sensitive to the life expectancy of their beneficiaries. Increased life expectancy leads to an increase in the valuation of the pension obligation.

The weighted average assumptions for the most important pension plans used to calculate the actuarial value of the obligation as of December 31, are as follows:

Assumptions in %	Pension plans in Germany 2019	2018
Discount rate	1.42%	2.00%
Wage increase rate (until age 36)	3.00%	3.75%
Wage increase rate (from age 36)	2.00%	2.75%
Inflation rate	1.00%	1.50%

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

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

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

Moreover, an assumption is made as to what extent the employees choose a one-off payment, installment payment or pension when the benefit falls due. In light of the prolonged decline in interest rates in conjunction with no expected change to this trend in the foreseeable future and actual observed selection choices upon retirement since the creation of HENSOLDT, management has revised its demographic assumptions related to the behavior of beneficiaries under the German pension plan. This resulted in a significant increase in pension liability.

The calculation of pension obligations is based on the current 2018 G biometric reference tables provided by Heubeck, which replaced in 2018 the previous 2005 G mortality tables. Management has also adapted assumptions regarding invalidity, which are now based on own estimates derived from observations since the creation of HENSOLDT.

3.7. Contingent legal liabilities

Group companies can be parties to legal disputes in a variety of ways as described in Note 22. The outcome of these issues can have a material impact on the Group's financial position, operating profit and cash flows. Management regularly analyzes current information on these issues and recognizes provisions in the amount of likely cash outflows, including estimated legal costs. In deciding on the need for provisions, management takes into account the degree of probability of an unfavorable outcome and the possibility of reliably estimating the amount of damage. Filing an action or formally exercising damage claims against Group companies or the announcement of such an action or exercising of damage claims does not automatically mean that a provision is appropriate.

3.8. Income taxes

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

On the basis of individual company planning and taking into account tax adjustment effects, the Company assumes that the advantages of deferred tax assets can be realized in the next four to five years on the basis of sufficient, future taxable income. The main influencing factor for the occurrence of loss carryforwards were one-off transformation-related effects. In addition, the business plan is positively impacted by general business development and the establishment of a tax pooling arrangement for income tax in Germany.

3.9. Lease term

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

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

HENSOLDT has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. The Group considers all relevant factors that create economic incentives to exercise either the renewal or termination. After the commencement date, HENSOLDT reassesses the lease if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

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

Please refer to Note 26 for information on potential future lease payments relating to periods following the commencement date of extension and termination option that are not included in the lease term.

3.10. Determination of fair values

Several accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Using unobservable market parameters, key estimates and assessments need to be determined. HENSOLDT regularly reviews significant unobservable inputs and valuation adjustments. Please refer to Note 2.15.

4. Change in accounting policies and disclosure

4.1. Changes in accounting policies

Standard and changes	Date of effectiveness from IASB for the annual reporting period beginning on or after	EU Endorsement status	Material impact on HENSOLDT Group's Financial Statement
IFRS 16 "Leases"	January 1, 2019	Confirmed	Yes
Amendments to IAS 19 Employee Benefits	January 1, 2019	Confirmed	No
Amendments to IAS 28: Long-term Interests in Investments in Associates	January 1, 2019	Confirmed	No
Amendments to IFRS 9: Prepayment Features with Negative Compensation	January 1, 2019	Confirmed	No
IFRIC 23 Uncertainty over Income Tax Treatments	January 1, 2019	Confirmed	No
Annual Improvements 2015-2017	January 1, 2019	Confirmed	No

The HENSOLDT Group applied IFRS 16 for the first time as of January 1, 2019. IFRIC 23 and amendments from other standards have no material effect on the consolidated financial statements of the HENSOLDT Group.

4.2. IFRS 16 Leases

The Group applied IFRS 16 using the modified retrospective approach, under which the right-of-use (RoU) asset is measured equal to the lease liability adjusted for any initial direct costs, lease incentives received, dismantling provisions and prepayments. Accordingly, the comparative information presented for 2018 is not restated - i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an arrangement contains a lease.* The Group now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in Note 2.7.

On transition to IFRS 16, the Group has elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under

IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

As a lessee

As a lessee, the Group leases many assets including property, production equipment, IT equipment and vehicles. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks

and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the group recognizes right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

Leases classified as operating leases under IAS 17

Previously, the Group classified its lease contracts as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as of January 1, 2019. The right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The HENSOLDT Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- Did not recognize right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- Did not recognize right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Used hindsight when determining the lease term.

Leases classified as finance leases under IAS 17

The Group did not classify any lease contracts as finance lease under IAS 17.

Impact on financial statements

Impact on transition

On transition to IFRS 16, the Group recognized additional right-of-use assets and lease liabilities. The impact on transition is summarized below.

KEUR	01.01.2019
Right-of-use assets	
thereof land and buildings	142,621
thereof technical equipment and machinery	4,851
thereof other fixtures, furnitures and equipment	3,428
Total right-of-use assets	**150,900**
Lease liabilities	
thereof lease liabilities current	10,556
thereof lease liabilities non-current	140,344
Total lease liabilities	**150,900**

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payment using its incremental borrowing rate at January 1, 2019. The weighted average incremental borrowing rate used to discount the outstanding lease payments is 4.12%. For some lease contracts the interest rate was readily available and as such not included in the weighted average interest rate. The Group's incremental borrowing rate is based on the three month EURIBOR rate with an additional margin based on the Group's refinancing rate. The Group makes certain adjustments to reflect the terms of the lease and type of the asset leased. The Thomson-Reuters database is used as reference for the determination of the three month EURIBOR rate. For different economic environments country specific rates are used.

The following table presents the reconciliation of the future minimum lease payments for non-cancellable operating leases as reported as at December 31, 2018 and the lease liabilities recognized as at January 1, 2019.

KEUR	
The future minimum lease payments under non-cancellable operating leases at December 31, 2018	**206,436**
Practical expedients	
thereof short term leases	-701
thereof low value assets	-3,452
Other	-1,054
Adjusted future minimum lease payments under non-cancellable operating leases at 31. December 2018	**201,229**
Effect from expected exercise of extension options	23,230
Effect from discounting as of January 01, 2019	-66,422
Leases with a lease term beginning after January 01, 2019	-7,137
Lease liabilities recognised as a result of the first time adoption of IFRS 16 at January 01, 2019	**150,900**

Further information on leases can be found under Note 26.

5. New, revised and amended IFRS standards and interpretations issued but not yet adopted

A range of new or revised standards, changes and improvements to standards and interpretations are not yet applicable to the financial year ending December 31, 2019, and were not applied when preparing these consolidated financial statements.

Standard and changes	**Date of effectiveness from IASB for the annual reporting period beginning on or after**	**EU Endorsement status**	**Material impact on HENSOLDT Group's Financial Statement**
IFRS 17 – Insurance Contracts	January 1, 2021	Not yet confirmed	No
Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020	confirmed	No
Amendments to IFRS 3 Business Combinations	January 1, 2020	Not yet confirmed	No
Amendments to IAS 1 and IAS 8: Definition of Material	January 1, 2020	confirmed	No
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, and IFRS 7)	January 1, 2020	confirmed	No

The HENSOLDT Group does not expect a material effect on its consolidated financial statements from the amendments.

II. Group structure

6. Consolidated group[3]

The shareholdings as of December 31, 2019, are listed in the following table:

Company	Registered Office	Equity interest	Type of interest
HENSOLDT GmbH	Taufkirchen / Germany	100.00%	PC
HENSOLDT Holding GmbH	Taufkirchen / Germany	100.00%	FC
HENSOLDT Holding Germany GmbH	Taufkirchen / Germany	100.00%	FC
EuroAvionics Holding GmbH [2]	Pforzheim / Germany	100.00%	FC
EuroAvionics GmbH [2;5]	Pforzheim / Germany	100.00%	FC
EuroAvionics UK Ltd. [2]	Slinfold, West Sussex / United Kingdom	100.00%	FC
EuroAvionics Schweiz AG [2]	Sissach / Switzerland	100.00%	FC
EuroAvionics US HoldCo. Inc. [2]	Sarasota (Florida) / USA	100.00%	FC
EuroAvionics USA LLC [2]	Sarasota (Florida) / USA	100.00%	FC
GEW Integrated Systems (Pty) Ltd. [1]	Brummeria (Pretoria) / South Africa	75.00%	FC
GEW Technologies (Pty) Ltd. [1]	Brummeria (Pretoria) / South Africa	75.00%	FC
HENSOLDT Optronics GmbH [1]	Oberkochen / Germany	100.00%	FC
HENSOLDT Optronics (Pty) Ltd. [1]	Irene (Centurion) / South Africa	70.00%	FC
HENSOLDT Sensors GmbH [1]	Taufkirchen / Germany	100.00%	FC
HENSOLDT UK Limited [3]	Enfield / United Kingdom	100.00%	FC
KH Finance No.2 [3]	Enfield / United Kingdom	100.00%	FC
KH Finance Ltd. [3]	Enfield / United Kingdom	100.00%	FC
Kelvin Hughes Ltd. [3]	Enfield / United Kingdom	100.00%	FC
Kelvin Hughes BV [3]	Rotterdam / The Netherlands	100.00%	FC
A/S Kelvin Hughes [3]	Ballerup / Denmark	100.00%	FC
Kelvin Hughes LLC [3]	Alexandria (Virginia) / USA	100.00%	FC
HENSOLDT Singapore Pte. Ltd. [3]	Singapore / Singapore	100.00%	FC
HENSOLDT Holding France S.A.S.	Paris / France	100.00%	FC
HENSOLDT France S.A.S.	Paris / France	100.00%	FC
Kite Holding France S.A.S.	Paris / France	100.00%	FC
HENSOLDT Australia Pty Ltd	Fyshwick, Canberra / Australia	100.00%	FC
Nexeya France S.A.S. [4]	Toulouse / France	100.00%	FC
Midi Ingénierie S.A.S. [4]	Toulouse / France	85.00%	FC
Antycip Technologies S.A.S. [4]	Châtenay-Malabry / France	100.00%	FC
Penser Maitriser Technicité Logistique - P.M.T.L S.A.S. [4]	Cologne / France	100.00%	FC
Nexeya Conseil et Formation S.A.S. [4]	Toulouse / France	100.00%	FC
Nexeya Canada Inc. [4]	Markhan (Ontario) / Canada	100.00%	FC
HENSOLDT Cyber GmbH	Taufkirchen / Germany	51.00%	EQ

PC = Parent Company
EQ = Joint ventures pursuant to IFRS 11 (accounted for using the equity method)
FC = Consolidated affiliated company.

[1] Orlando-Group
[2] EuroAvionics-Group
[3] Kelvin Hughes-Group
[4] Nexeya-Group
[5] Exemption option under Section 264 (3) German Commercial Code.

The consolidated financial statements include the financial statements of HENSOLDT GmbH and the financial statements of all direct and indirect significant subsidiaries controlled by HENSOLDT GmbH. The group entities prepare their financial statements for the same reporting date as the Group’s consolidated financial statements. 32 (PY: 24) entities were fully consolidated. One entity was included in the Group using the equity method. 13 (PY: 10) companies listed below were not consolidated.

[3] Including disclosures in accordance with Section 315 (2) no. 1-4 HGB.

Company	Registered Office	Equity EUR million	profit/loss EUR million	Equity interest	Type of interest
Atlas Optronics LLC [1, 5]	Abu Dhabi / United Arab Emirates	0.0	0	49.00%	AC
Deutsche Elektronik Gesellschaft für Algerien (DEGFA) GmbH [1,5]	Ulm / Germany	10.6	-0.4	66.66%	JV
EURO-ART Advanced Radar Technology GmbH [1, 5]	Munich / Germany	0.2	0.0	25.00%	AC
EURO-ART International EWIV [1, 5]	Munich / Germany	1.1	0	50.00%	AC
EUROMIDS S.A.S. [1,5]	Paris / France	2.9	0.1	25.00%	AC
LnZ Optronics Co., Ltd. [1,5]	Seoul / South-Korea	1.4	0.1	50.00%	AC
HENSOLDT do Brasil Segurança e Defesa Electrónica e Optica Ltda [1,5]	Belo Horizonte / Brazil	-0.3	0.0	99.00%	NC
Société Commune Algérienne de Fabrication de Systèmes Electroniques (SCAFSE) SPA [1,5]	Sidi Bel Abbès / Algeria	25.6	2.8	48.99%	JV
HENSOLDT Inc. [1,5]	Wilmington (Delaware) / USA	-3.0	-2.6	100.00%	NC
HENSOLDT Private Ltd. [1,5]	Bangalore / India	0.0	0.0	100.00%	NC
Nexeya USA Inc.[4,6]	Beaufort (North Carolina) / USA	0.0	0.0	100.00%	NC
Antycip Iberica SL [4,5]	Barcelona / Spain	0.0	0.0	100.00%	NC
PMTL PC SARL [4,6]	Balma, Toulouse / France	0.1	0.0	49.75%	AC

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

AC: Associated company (valued at cost for reasons of immateriality).

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

[1] Orlando-group

[2] EuroAvionics-group

[3] Kelvin Hughes-group

[4] Nexeya-group

[5] Equity and profit/ loss 2018

[6] Equity and profit/ loss 30.06.2019

7. Acquisitions

7.1. Nexeya

On October 1, 2019, HENSOLDT Holding GmbH by way of HENSOLDT Holding France S.A.S. acquired 100% of the shares and voting interests in Nexeya France S.A.S., Toulouse, France (“Nexeya”). Nexeya is a tech company specializing in critical products and high value added services for the defense, aeronautics, railway and energy sectors.

The acquisition strengthens HENSOLDT’s presence in France, improving customer’s access and enhancing the product portfolio.

The preliminary consideration paid amounted to EUR 88.8 million. Acquisition-related costs amounted to EUR 1.0 million. These expenses were recognized in the statement of profit or loss under other operating expenses.

The carrying amounts or fair values of the identifiable assets at the date of acquisition were as follows:

EUR million	Carrying amount	Fair value
Assets		
Property, plant and equipment	3.3	3.3
Intangible assets	14.6	45.9
Financial assets	14.8	12.8
Inventories	6.1	6.1
Trade receivables and other assets	34.3	34.3
Cash and cash equivalents	-2.7	-2.7
Total assets	**70.4**	**99.7**
Liabilities	**-52.3**	**-52.3**
Deferred taxes	**0.0**	**-8.4**
Total net assets including minorities	**18.1**	**39.0**
excluding minorities	0.2	0.0
Total identified net assets	**17.9**	**39.0**
Goodwill		49.8
Total consideration transferred		**88.8**

The preliminary purchase price allocation resulted in the recognition of technology of EUR 26.6 million, customer relations and order backlog of EUR 8.4 million.

The residual amount is goodwill to the amount of EUR 49.8 million. This mainly represents the expected future prospects from the market position of the acquired group as well as synergies expected to be achieved from integrating the company into HENSOLDT's existing business.

On the date of transfer of control, the acquired parent company had cash and cash equivalents of EUR 2.7 million and had a gross amount of trade receivables of EUR 25.5 million, of which EUR 0.1 million was estimated as probably irrecoverable.

For the three months ended December 31, 2019, the Nexeya-Group contributed revenue of EUR 21.0 million and a result of KEUR 74.3 to HENSOLDT's results. If the acquisition had occurred on January 01, 2019, management estimates, based on pro forma financial statements, that consolidated revenue would have been EUR 87.3 million, and the result for the year would have been EUR 1.6 million. In determining these amounts, management has assumed that the fair value adjustments, determining provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on January 01, 2019.

7.2. HENSOLDT Australia Pty Ltd.

On October 01, 2019, HENSOLDT Holding GmbH by way of HENSOLDT Holding Germany GmbH acquired 100% of the shares and voting interests of HENSOLDT Australia (formerly: IE Asia-Pacific Pty Ltd), Canberra, Australia. IEAP covers a range of non-defense and military surveillance, from the installation of radar systems through to maintenance, performance evaluation, and on-site support.

The acquisition strengthens HENSOLDT's presence in Australia, improving customer's access and supplementing the product portfolio.

The consideration paid amounted to EUR 5.9 million (AUD 9.5 million), additionally, HENSOLDT incurred acquisition-related costs to the amount of EUR 0.25 million. These expenses were recognized in the statement of profit or loss under other expenses.

The carrying amounts or fair values of the identifiable assets at the date of acquisition were as follows:

EUR million	Carrying amount	Fair value
Assets	3.9	3.9
Liabilities	-1.2	-1.2
Total identifiable net assets	2.7	2.7
Goodwill		3.2
Total consideration transferred		**5.9**

The residual amount is goodwill in the amount of EUR 3.2 million. This mainly represents the expected future prospects from the market position of the acquired company.

7.3. Business acquisitions in the previous reporting period

HENSOLDT France S.A.S.

With effect from April 26, 2018, HENSOLDT Holding Germany GmbH by way of HENSOLDT Holding France S.A.S. (previously Square Holding France S.A.S.) acquired 100% of the shares in HENSOLDT France S.A.S. (previously Airbus DS Electronics and Border Security S.A.S.) from Airbus Defence and Space S.A.S..

The former business segment of Airbus Group comprises IFF systems and datalink solutions for guide missiles and airborne mission systems.

This acquisition ensures HENSOLDT a presence in France and fosters the expansion of its product portfolio.

The consideration paid amounted to EUR 15.0 million. Acquisition-related costs amounted to EUR 0.3 million.

The carrying amounts or fair values of the identifiable assets at the date of acquisition were as follows:

EUR million	Carrying amount	Fair value
Assets		
Intangible assets	0.2	9.4
Property, plant and equipment	0.6	0.6
Deferred tax assets	2.4	2.4
Inventories	11.0	13.5
Receivables and other assets	8.3	8.3
Total assets	**22.5**	**34.2**
Deferred taxes	**0.0**	**-3.5**
Liabilities	**-23.9**	**-23.9**
Total identified net assets	**-1.4**	**6.8**
Goodwill		8.2
Total consideration transferred		**15.0**

The purchase price allocation resulted in other intangible assets of EUR 9.4 million and deferred tax liabilities of EUR 3.5 million. The other intangible assets consist of technology of EUR 7.4 million and order volumes of EUR 1.8 million.

The residual amount is goodwill to the amount of EUR 8.2 million. This mainly represents the expected future prospects from the market position of the acquired group.

On the date of transfer of control, the acquired companies had no cash and cash equivalents and had gross amounts from trade receivables of EUR 5.8 million, of which KEUR 68 was estimated as probably irrecoverable.

Taking account of amortization from the purchase price allocation, HENSOLDT France has contributed a loss of EUR 2.6 million and EUR 15.7 million to Group revenue since the acquisition date (April 26, 2018).

If HENSOLDT France had been included in the scope of consolidation already as of January 1, 2018, management estimates that this would have resulted in an increase in Group revenue for financial year 2018 of EUR 5.6 million and negative total comprehensive income taking account of amortization from the purchase price allocation in the amount of EUR 2.3 million.

PentaTec Elektronische Systeme GmbH

With effect from January 1, 2018 HENSOLDT Holding Germany GmbH acquired 100% of the shares in PentaTec Elektronische Systeme Gesellschaft mit beschränkter Haftung, Grasbrunn. The company complements the HENSOLDT product portfolio.

The carrying amounts or fair values of the identifiable assets at the date of acquisition were as follows:

EUR million	Carrying amount	Fair value
Assets	**0.2**	**0.2**
Liabilities	**-0.3**	**-0.3**
Total identifiable net assets	**-0.1**	**-0.1**
Goodwill		1.6
Total consideration transferred		**1.5**

The residual amount is goodwill in the amount of EUR 1.6 million. This mainly represents the expected future prospects from the market position of the acquired company.

On the date of transfer of control, the acquiree had cash and cash equivalents of EUR 0.1 million and gross amounts from trade receivables of KEUR 18.

Acquisition-related costs of EUR 0.2 million were recognized as an expense under other expenses.

The Company was merged into the already fully consolidated HENSOLDT Sensors GmbH with effect from January 1, 2018.

7.4. Determination of fair values

The valuation methods used to determine the fair value of the significant assets acquired were as follows:

Acquired assets	Market approach and cost approach
Property, plant and equipment	The measurement model takes into account market prices for similar items, if available, and depreciated replacement cost, if applicable. Depreciated replacement costs reflect adjustments for physical deterioration as well as functional reconditioning and economic obsolescence.
Intangible assets	The relief from royalty method and multi-period excess earnings method: the relief from royalty method takes into account the discounted estimated royalty payments that are expected to be saved by patents and trademarks being kept in the Company's ownership. The multi-period excess earnings method takes into account the present value of the expected net cash flows generated by customer relationships, with the exception of all cash flows relating to the underlying assets.
Inventories	Market approach: the fair value is determined on the basis of the estimated sales price in the ordinary course of business less estimated production and selling costs as well as an appropriate profit margin based on the time and effort expended on producing and selling inventories.

If new information on the facts and circumstances that existed as of the acquisition date and that would have resulted in corrections of the above amounts or additional provisions become known within one year of the acquisition date, the accounting for the acquisition is adjusted.

8. Investments accounted for using the equity method

HENSOLDT Cyber GmbH, Taufkirchen, District of Munich, is a 51% joint venture founded in 2017 by HENSOLDT Holding Germany GmbH and Secure Elements GmbH, Munich. The share capital of the company amounts to KEUR 25. On the part of HENSOLDT Holding Germany GmbH payments of KEUR 800 in 2019 (PY: KEUR 2,150) were made into the capital reserve. The value of the investment of KEUR 3,012 was reduced in 2019 by the pro-rata loss of KEUR 1,202 (PY: KEUR 643).

The Company's purpose is the development, production, integration and sale of solutions in the areas of IT hardware, software and services.

9. Transactions with related parties

In accordance with IAS 24, transactions with individuals or entities that control or are controlled by the HENSOLDT Group must be disclosed unless they have already been included as consolidated entities in the consolidated financial statements. In addition, there is an obligation to disclose transactions with associates and persons who have significant influence over the operating and financial policies of the HENSOLDT Group. Significant influence here can mean a participation in HENSOLDT GmbH of 20% or more, or key management personnel.

As of the lapse of November 29, 2019, HENSOLDT GmbH became the new parent company of the Group. Key management personnel of HENSOLDT Group are the management board of HENSOLDT GmbH and the supervisory board of HENSOLDT Holding GmbH. Until

November 29, 2019, the key management personnel of the Group comprised the management team and the supervisory board at the level of HENSOLDT Holding GmbH. The management team of HENSOLDT Holding GmbH comprised the members of its management board and certain additional management positions. As of December 31, 2019 the supervisory board still exists at the level of HENSOLDT Holding GmbH.

Related parties of HENSOLDT GmbH are:

members of the management board of HENSOLDT GmbH:

- Thomas Müller, CEO[4]
- Axel Albert Hans Salzmann, CFO[1]
- Peter Fieser, CHRO[1]

as well as the members of the supervisory board of HENSOLDT Holding GmbH:

- Johannes P. Huth, Partner of an investment company, Chairman of the supervisory board
- Christian Ollig, Director of an investment company
- Martin Mix, Director of an investment company (till February 29, 2020)
- Claire Welby, Principal of an investment company (from March 01, 2020)
- Ingrid Jägering, Managing director
- Prof. Dr. Burkhard Schwenker, Management consultant, publicist, lecturer
- Prof. Wolfgang Ischinger, Ambassador and chairman of the Munich Security Conference
- Armin Maier-Junker, Chairman of the Works Council and the General Works Council of HENSOLDT Sensors GmbH, Deputy Chairman of the supervisory board
- Winfried Fetzer, Chairman of the Works Council, Chairman of the General Works Council of HENSOLDT Optronics GmbH
- Thomas Hoepfner, Chairman of the Works Council / Deputy Chairman of the General Works Council of HENSOLDT Sensors GmbH
- Peter Härtle, Chairman of the Company Spokesperson Committee of senior management (till February 29, 2020)
- Dr. Frank Döng, Chairman of the Company Spokesperson Committee of senior management (from March 01, 2020)
- Jürgen Bühl, Trade Union Secretary of the IGM Management Board
- Julia Wahl, Union Secretary of IG Metall (from January 31, 2019)

The Company is under the majority control of KKR Square Aggregator L.P., Canada, and its subsidiaries. KKR Square Aggregator L.P. is a holding company of investment funds advised by Kohlberg Kravis Roberts & Co L.P. and its affiliates and is thereby indirectly controlled by KKR (i.e., KKR & Co. Inc.) and its sole shareholder with unrestricted voting rights, i.e., KKR Management LLP.

The company is also indirectly under the control of Square Lux Midco 1 & Co S.C.A., Luxembourg, which is ultimately and indirectly controlled by KKR & Co. Inc. This means HENSOLDT GmbH's related parties include Square Lux Midco 1 & Co S.C.A., Luxembourg, as indirect shareholder, Square Lux Holding II. S.à.r.l., Luxembourg, as sole shareholder, and its affiliate company Square Lux Finco S.à.r.l., Luxembourg. In addition, certain companies engaged by the HENSOLDT GmbH or by other entities of the Group, namely KCM (i.e., KKR Capital Markets (Ireland) Limited), KKR Capital Markets Ltd., UK, KKR Capstone EMEA (International) LLP and Kohlberg Kravis Roberts & Co L.P. are related parties.

Airbus Defence and Space GmbH (ADS GmbH) was non-controlling shareholder until June 30, 2018. ADS GmbH and the subsidiaries of Airbus SE were related parties until June 30, 2018. HENSOLDT Pension Trust e.V. (including its subsidiaries) as pension fund of HENSOLDT Sensors GmbH is an additional related party.

[4] also members of the management board of HENSOLDT Holding GmbH

Related party transactions:

KEUR	2019	2018
Revenue and other income		
Non-consolidated companies	25,264	0
Associates	13,667	37,763
Joint ventures	58,178	60,961
Other related parties (Airbus)	0	75,248
(thereof ADS GmbH)	*0*	*33,499*
Other related parties (miscellaneous)	14,213	15,081
Expenses		
Non-consolidated companies	1,637	1,106
Associates	544	1,083
Joint ventures	249	307
Other related parties (Airbus)	0	7,400
(thereof ADS GmbH)	*0*	*4,520*
Other related parties (miscellaneous)	35,135	34,830
Receivables		
Non-consolidated companies	5,499	167
Associates	14,693	25,922
Joint ventures	71,858	52,079
Other related parties (miscellaneous)	62	0
	0	0
Liabilities		0
Non-consolidated companies	45	902
Associates	2,509	1,030
Joint ventures	1,506	14,236
Other related parties (miscellaneous)	4,808	353,577
(thereof Square Lux Finco S.à.r.l. shareholder loans)	*0*	*349,567*

The Group exchanges goods and services with a large number of companies as part of its continuing operations. Some of these companies are related parties, the most significant of which are associated companies and joint ventures.

Revenue have been recognized in 2019 with non-consolidated companies of KEUR 25,264 (PY: EUR 0), with associated companies of KEUR 13,667 (PY: KEUR 37,763) and with joint ventures of KEUR 58,178 (PY: KEUR 60,961). Transactions with other related parties include other income in value of KEUR 14,213. Expenses with other related parties include interest expenses of KEUR 21,418 (PY: KEUR 21,923) and cost of sales of KEUR 13,717 (PY: KEUR 12,907).

Receivables and liabilities from related companies in 2019 mainly relate to trade receivables and trade liabilities.

KKR Capstone EMEA (International) LLP, KKR Capital Markets Ltd., London, UK, and Kohlberg Kravis Roberts & Co. LP, USA, rendered no services in 2019 (PY: KEUR 175).

As sole shareholder Square Lux Holding II. S.à.r.l., Luxembourg, has a controlling influence on the Company. Under the shareholder loan described under 34.2 'Financial liabilities',

interest expenses of KEUR 21.418 were recognized in favor of the shareholder Square Lux Finco S.à.r.l. in the financial year (PY: KEUR 21,923). In 2019, the loan including capitalized interest was contributed to the capital reserves of HENSOLDT Holding GmbH.

Further information regarding the financing of pension plans of the Group which are considered related parties are presented under Note 30.

Information on the compensation and benefits granted to members of the management board of the Company and the supervisory board of HENSOLDT Holding GmbH are shown in Note 31.

III. Group performance

10. Operating segments

10.1. Segmentation

The HENSOLDT Group has applied IFRS 8 *Operating segments* for the first time as of January 1, 2019. Comparative information, concerning operating segments has also been presented. As IFRS 8 does not affect the measurement of any line items in the financial statements, no transition effect has been recorded.

The HENSOLDT Group´s segmentation corresponds to its internal steering, controlling and reporting structures. The accounting principles for reportable segments conform to the principles applied by the HENSOLDT Group as a whole. In accordance with IFRS 8, HENSOLDT Group has identified the reportable segments Sensors and Optronics.

Segment Sensors

The segment Sensors comprises three divisions: (i) Radar, Identification Friend or Foe ("IFF") & Data Communications ("COMMS"), (ii) Spectrum Dominance & Airborne Solutions, and (iii) Customer Services; and Others/Elimination.

Radar, IFF & COMMS
Within the Radar, IFF & COMMS division, the Group develops and manufactures mobile and stationary radar systems used for surveillance, reconnaissance, air traffic control and air defense. These systems are used on various platforms, including the Eurofighter, the German Navy's Frigate 125 and the US Navy's Littoral Combat Ship. The Radar, IFF & COMMS division also includes systems for establishing secure data connections for air, sea and land platforms.

Spectrum Dominance & Airborne Solutions
The Spectrum Dominance & Airborne Solutions division includes electronic systems for the acquisition and evaluation of radar and radio signals and jammers, which are for example used 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, electronic self-protection systems integrating missile, laser and radar warning sensors with countermeasures for air, sea and ground platforms are offered and military and civil avionics systems such as situational awareness systems, mission computers and flight data recorders are provided. Systems from the Spectrum Dominance & Airborne Solutions division are used in fighter aircrafts such as the Eurofighter and Tornado, the Airbus A400M transport aircraft and various helicopter models.

Customer Services
The Customer Services division covers customer support and services, as well as maintenance over the entire lifecycle of the platforms and systems offered in the other two divisions of the segment Sensors. Others/Elimination includes (i) others mainly including components for anti-aircraft missile defense systems, funded military studies and funding projects and (ii) elimination covering elimination of intra-segment revenue between the three divisions of the Sensors segment.

Segment Optronics

The segment Optronics comprises the Optronics division including optronic, optical and precision instruments for military and civil applications that can be used on land, in water and

in the air. On land, the product range includes riflescopes, sights, laser rangefinders, night vision devices, and thermal imaging cameras that assist snipers and infantry soldiers with observation and target acquisition. In addition, devices for surveillance and target acquisition are offered for armored vehicles. For use at sea, submarine periscopes, optronic mast systems, missile-warning sensors and other optical and laser-based systems are offered. In the air, the product portfolio includes camera systems with image stabilizers for helicopters, aircraft and drones, which support their surveillance and target acquisition. Finally, mobile and stationary remote monitoring solutions for security forces are offered in this segment.

10.2. Segment information

The operating segments of the HENSOLDT Group are internally steered and controlled by the means of its most important KPIs, order intake, revenue and adjusted EBIT. In addition, HENSOLDT uses adjusted EBITDA as a further key performance indicator as well as order backlog as an additional key operating metric. The following table shows the KPIs that the Management Board uses to evaluate the performance of each operating segment as well as additional information.

				2019
EUR million	**Sensors**	**Optronics**	**Elimination/ Transversal/ Others**	**Group**
Order Intake	658	383	-1	1,040
Order Backlog as per December 31	1,568	634	0	2,202
Revenues from external customers	837	275	2	1,114
Intersegment revenues	1	2	-2	0
Segment revenues	**837**	**277**	**0**	**1,114**

				2019
EUR million	**Sensors**	**Optronics**	**Elimination/ Transversal/ Others**	**Group**
Material non-cash items other than depreciation and amortisation:				
Additions to other provisions	-76	-68	0	-144
Dissolution of other provisions	25	18	0	42
Capitalized interest	0	0	-21	-21
Entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method	0	0	-1	-1

EUR million	Sensors	Optronics	Elimination/ Transversal/ Others	Group
EBITDA	**163**	**53**	**-20**	**196**
Separation cost	0	0	-5	-5
Transaction cost	0	0	1	1
Other non-recurring effects	0	1	23	24
Adjusted EBITDA	**163**	**54**	**-1**	**216**
Margin adjusted EBITDA (1)	*19.4%*	*19.6%*		*19.4%*
Depreciation and Amortization (2)	-102	-32	0	-134
EBIT	**60**	**22**	**-20**	**62**
Effect on earnings from purchase price	62	17	0	79
Separation cost	0	0	-5	-5
Transaction cost	0	0	1	1
Other non-recurring effects	0	1	23	24
Adjusted EBIT	**122**	**40**	**-1**	**161**
Margin adjusted EBIT (1)	*14.6%*	*14.2%*		*14.4%*

(1) In each case related to external sales

(2) Depreciation and amortization of intangible assets, property, plant and equipment, rights of use and capitalized costs incurred in connection with the obtaining or fulfilling a contractual obligation.

				2019
EUR million	**Sensors**	**Optronics**	**Elimination/ Transversal/ Others**	**Group**
EBIT	**60**	**22**	**-20**	**62**
Finance income/costs	0	0	0	-26
EBT	**0**	**0**	**0**	**36**

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

				2018
EUR million	**Sensors**	**Optronics**	**Elimination/ Transversal/ Others**	**Group**
Order Intake	879	281	0	1,160
Order Backlog as per December 31	1,693	568	0	2,261
Revenues from external customers	862	249	-1	1,110
Intersegment revenues	0	1	-1	0
Segment revenues	**862**	**249**	**-1**	**1,110**

EUR million	Sensors	Optronics	Elimination/ Transversal/ Others	Group
				2018
Material non-cash items other than depreciation and amortisation:				
Additions to other provisions	-128	-55	0	-183
Dissolution of other provisions	30	7	0	37
Capitalized interest	0	0	-22	-22
Entity's interest in the profit or loss of associates and joint ventures accounted for by the equity method	0	0	-1	-1

EUR million	Sensors	Optronics	Elimination/ Transversal/ Others	Group
EBITDA	**145**	**44**	**-30**	**159**
Separation cost	0	0	5	5
Transaction cost	1	0	0	1
Other non-recurring effects	0	0	25	25
Adjusted EBITDA	**146**	**44**	**0**	**190**
Margin adjusted EBITDA (1)	*16.9%*	*17.7%*		*17.1%*
Depreciation and Amortization (2)	-107	-28	-2	-138
EBIT	**38**	**16**	**-32**	**22**
Effect on earnings from purchase price	73	19	0	93
Separation cost	0	0	7	7
Transaction cost	1	0	0	1
Other non-recurring effects	0	0	25	25
Adjusted EBIT	**112**	**35**	**0**	**148**
Margin adjusted EBIT (1)	*13.0%*	*14.2%*		*13.3%*

(1) In each case related to external sales

(2) Depreciation and amortization of intangible assets, property, plant and equipment, rights of use and capitalized costs incurred in connection with the obtaining or fulfilling a contractual obligation.

EUR million	Sensors	Optronics	Elimination/ Transversal/ Others	Group
				2018
EBIT	**38**	**16**	**-32**	**22**
Finance income/costs	0	0	0	-87
EBT	**0**	**0**	**0**	**-65**

Other non-recurring effects in 2018 include efforts for efficiency programs ("HENSOLDT Go!"), M&A projects, post-merger-integration, establishment of international sales offices, structural development of the company as well as efforts for separation activities not covered by the Orlando SPA.

Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties.

Only selected profit and loss items are part of the internal management reporting and, therefore, specific information is only provided for these performance indicators but not for assets and liabilities since these are not part of the internal management reporting.

10.3. Geographical information

KEUR	2019	2018
Revenue		
Europe	742,843	762,450
(thereof Germany)	*483,282*	*497,353*
Middle East	164,775	125,225
APAC	82,373	112,930
North America	40,927	35,767
Africa	86,312	71,915
LATAM	19,194	14,895
Other regions/Consolidation	-22,260	-13,064
	1,114,164	**1,110,117**

Non-current assets	Dec. 31. 2019	Dec. 31, 2018
Germany	1,146,076	1,039,408
Other regions	158,322	53,142
	1,304,398	**1,092,550**

10.4. Major customers

HENSOLDT has three customers that each generate more than 10% of total sales. From the first customer a revenue of EUR 239.6 million (thereof Sensors: EUR 237.1 million, thereof Optronics EUR 2.5 million) was recognized, revenue from the second customer amounted to EUR 124.2 million (thereof Sensors: EUR 123.3 million, thereof Optronics EUR 0.9 million). Revenue of EUR 115.4 million (thereof Sensors: EUR 96.1 million, thereof Optronics EUR 19.3 million) is recognized from the third customer.

11. Revenue, cost of sales and gross margin

11.1. Revenue

The Group generates revenue from contracts with customers for the development and production of products, the provision of installation, training and service performance and other services.

The following tables show the revenue recognized in the years 2019 and 2018:

KEUR	Sensors	Optronics	Other	2019
Revenue from contracts with customers				
Sales	625,369	241,659	0	**867,028**
Aftersales	210,124	34,306	0	**244,431**
Exchange rate differences	1,065	-506	2,146	**2,706**
Total	**836,559**	**275,459**	**2,146**	**1,114,164**

KEUR	Sensors	Optronics	Other	2019
Point of time of revenue recognition				
Revenue recognition at a point in time	497,620	259,578	0	**757,199**
Revenue recognition over time	337,873	16,387	0	**354,260**
Exchange rate differences	1,065	-506	2,146	**2,706**
Total	**836,559**	**275,459**	**2,146**	**1,114,164**

KEUR	Sensors	Optronics	Other	2018
Revenue from contracts with customers				
Sales	692,018	226,216	0	**918,235**
Aftersales	166,876	22,572	0	**189,448**
Exchange rate changes	3,043	89	-696	**2,435**
Total	**861,937**	**248,877**	**-696**	**1,110,117**

KEUR	Sensors	Optronics	Other	2018
Point of time of revenue recognition				
Revenue recognition at a point in time	611,806	234,316	0	**846,122**
Revenue recognition over time	247,088	14,472	0	**261,560**
Exchange rate changes	3,043	89	-696	**2,435**
Total	**861,937**	**248,877**	**-696**	**1,110,117**

11.2. Contract assets and contract liabilities

KEUR	Contract assets	Contract liabilities
Jan. 1, 2018	**53,366**	**438,029**
Revenue recognized in the reporting period that was included in the contract liability balance at the beginning of the period	0	-266,580
Increases due to cash received, except for amounts which were recognized as revenue during the reporting period	0	173,770
Reclassifications from contract assets, which were recognized at the beginning of the period, to receivables	-11,919	0
Increases due to changes in the determination of stage of completion	32,776	0
Changes in the estimate of the transaction price or contract modification	0	288
Changes due to business combinations	6,443	11,256
Other	22	804
Dec. 31, 2018	**80,688**	**357,567**
thereof current	80,688	332,800
thereof non-current	0	24,767
Dec. 31, 2018	**80,688**	**357,567**
Revenue recognized in the reporting period that was included in the contract liability balance at the beginning of the period	0	-145,360
Increases due to cash received, except for amounts which were recognized as revenue during the reporting period	0	116,798
Reclassifications from contract assets, which were recognized at the beginning of the period, to receivables	-31,256	0
Increases due to changes in the determination of stage of completion	90,269	0
Changes in the estimate of the transaction price or contract modification	1,962	-4,719
Changes due to business combinations	23,557	3,397
Other	663	5,769
Dec. 31, 2019	**165,883**	**333,453**
thereof current	165,883	317,134
thereof non-current	0	16,319

An impairment of KEUR 358 (PY: KEUR 314) is included in the carrying amount of the contract assets.

Revenue from performance obligations, which had been (partially) fulfilled in prior periods, in the amount of KEUR 3,762 (PY: KEUR 1,158) was recognized in the reporting period.

11.3. Transaction price for remaining performance obligations

As of December 31, 2019, the total amount of the transaction price for the remaining performance obligations amounted to EUR 2,202 million (PY: EUR 2,261 million). Management expects that 45% of this transaction price will be recognized as revenue in the next reporting period and an additional 53% in the period between 2021 and 2024. The remaining 2% will be recognized in financial year 2025 and following years.

11.4. Capitalized costs which arise in the course of obtaining or fulfilling the contract

KEUR	
As of Jan. 01, 2018	**15,319**
Depreciation	-11,111
As of Dec. 31, 2018	**4,208**
Depreciation	-4,208
As of Dec. 31, 2019	**0**

The HENSOLDT Group makes use of the practical expedient of IFRS 15.94 and waives capitalizing the costs arising in the course of obtaining the contract, which fulfil the recognition criteria of IFRS 15 but would be written-off within one year.

11.5. Cost of sales and gross margin

Cost of sales includes amortization from adjustments to the fair values of assets as part of the purchase price allocations of KEUR 78.764 (PY: KEUR 93,070).

Inventories recognized as an expense in the reporting period amounted to KEUR 698,833 (PY: KEUR 724,309), in each case excluding amortization from the purchase price allocation).

12. Research and development costs

Research and development costs amounted to KEUR 30,993 (PY: KEUR 32,178). For the capitalization of development costs, please refer to Note 16.

13. Other operating income and expenses

13.1. Other operating income

KEUR	2019	2018
Reinvoiced services	22,700	30,794
Other	2,643	1,930
Other operating income	**25,343**	**32,724**

Other operating income relates mainly to recharged building and administrative services including the modernization project of building 88 in Taufkirchen, IT services and supply of temporary employees.

13.2. Other operating expenses

KEUR	2019	2018
Reinvoiced costs	19,952	32,772
Other	4,839	3,471
Other operating expenses	**24,792**	**36,243**

Other operating expense relates mainly to building and administrative services including the modernization project of building 88 in Taufkirchen.

14. Finance income/costs

KEUR	2019	2018
Interest income from plan assets	3,621	1,309
Other interest income	54,402	12,595
thereof changes in fair value of embedded derivatives	*54,163*	*0*
Other	915	951
Interest income	**58,938**	**14,855**
Interest expense for shareholder loans and other financial liabilities		
Loan (Term Loan)	-34,380	-54,129
thereof changes in fair value of embedded derivatives	*0*	*-22,175*
Revolving Credit Facility	-2,598	-2,207
Shareholder loan (Square Lux Finco S.à.r.l.)	-21,419	-25,561
Interest expense from swap	-3,379	-6,741
Interest expenses on provisions for employee benefits	-8,649	-6,829
Interest expenses on lease liabilities	-9,769	0
Other	-3,307	-958
Interest expense	**-83,501**	**-96,425**
Bank fees	-5,234	-1,524
Foreign currency translation of monetary items	2,608	-3,064
Other	696	-687
Other finance income/costs	**-1,930**	**-5,275**
Total finance costs	**-26,493**	**-86,845**

15. Income tax

Income taxes are broken down as follows:

KEUR	2019	2018
Current tax expense (expenses - / income +)	-8,778	-7,997
(of which income tax attributable to the prior year)	*2,203*	*-1,125*
Deferred taxes (expense - / income +)	-18,629	13,202
(thereof changes in temporary differences)	*-12,967*	*8,166*
Recognized tax (expense - / income +)	**-27,407**	**5,205**
Deferred tax income recognized directly in equity (PY: tax expense)	24,453	-5,326

At German companies, a corporation tax rate of 15.0% was used for the calculation of deferred taxes. In addition, a solidarity surcharge of 5.5% on corporation tax and a trade tax rate of 12.48% were taken into account. This resulted in an overall tax rate of 28.30% for German companies. At international group companies, the respective country-specific tax rates were used for the calculation of current and deferred taxes.

The following table presents the reconciliation of expected tax expense and reported tax expense. Expected tax expense is determined by multiplying consolidated profit before tax from continuing operations by the total tax rate of 28.30% applicable in 2019:

KEUR	2019	2018
Earnings before income tax (profit + / loss -)	35,578	-65,085
Income tax rate	*28.30%*	*28.30%*
Expected income taxes on this (expense - / income +)	-10,068	18,419
Effects deriving from differences to the expected tax rate	67	-365
Change in the tax rate and tax laws	-91	-524
Taxes for prior years	3,413	2,681
Non-deductible interest expenses	-1,677	-1,957
Other non-deductible expenses and taxes as well as effects from change from permanent balance sheet differences	-6,693	3,567
Tax-exempt income	186	0
Changes in the realization of deferred tax assets	-13,623	-15,917
Other	1,079	-699
Income tax as per income statement (expense - / income +)	**-27,407**	**5,205**
Effective tax rate in %	*77.03%*	*8.00%*

Deferred tax assets and liabilities are recognized in accordance with IAS 12 Income Taxes if future tax effects are to be expected that are due to temporary differences between the carrying amounts of existing assets and liabilities and their tax bases, on the one hand, or due to loss carryforwards on the other. Deferred tax assets and liabilities from valuation differences in items of the statement of financial position break down as follows:

KEUR	Dec. 31, 2019	Dec. 31, 2018
Deferred tax assets		
Assets		
Intangible assets	0	796
Property, plant and equipment	843	306
Financial assets	302	5,757
Inventories and contract assets	42,995	54,243
Receivables and other assets	5,813	7,727
Liabilities		
Provisions	85,542	66,053
Liabilities	50,218	26,777
Loss carryforwards	34,377	39,983
Tax credits	347	2,548
Other	1,288	2,939
Deferred tax assets (gross)	**221,725**	**207,129**
Netting	-191,356	-18r2,094
Deferred tax assets (net)	**30,369**	**25,035**

KEUR	Dec. 31, 2019	Dec. 31, 2018
Deferred tax liabilities		
Assets		
Intangible assets	97,691	88,568
Property, plant and equipment	4,251	1,640
Financial assets	165	0
Inventories and contract assets	63,000	67,572
Receivables and other assets	18,484	4,480
Liabilities		
Provisions	31,077	36,467
Liabilities	21,489	20,247
Other	44	125
Deferred tax liabilities (gross)	**236,201**	**219,099**
Netting	-191,356	-182,094
Deferred tax liabilities (net)	**44,845**	**37,005**
Excess of deferred tax liabilities	**14,476**	**11,970**

The change in the amount of deferred taxation includes an increase in deferred tax liabilities in the amount of KEUR 8,394 due to deferred tax resulting from the first time consolidation and purchase price allocation of the Nexeya Group.

The assessment of impairment of deferred tax assets depends on the management's estimate of the utilization of the deferred tax assets. This is dependent on taxable profits in the periods when the tax measurement differences are reversed and the tax loss carryforwards can be utilized.

As of December 31, 2019, no deferred tax liabilities were recognized for taxes on profits not transferred from subsidiaries. The Group assumes that for the time being the profits of its subsidiaries not yet distributed will not be distributed in the foreseeable future. Temporary differences in connection with investments in subsidiaries for which no deferred tax liabilities were recognized totaled KEUR 2,772 (PY: KEUR 539).

As of December 31, 2019, there were the following loss and interest carryforwards (gross):

KEUR	Dec. 31, 2019	Dec. 31, 2018
Corporation tax loss carryforwards	129,202	147,430
Trade tax loss carryforwards	123,139	146,863
Interest carryforwards	150,754	109,142
Tax credits	347	2,548

As of December 31, 2019, the Company reported loss carryforwards that are subject to restrictions on loss offsetting. For this reason, no deferred tax assets were recognized for the following matters as their use through future positive taxable earnings is not likely (gross amounts):

KEUR	Dec. 31, 2019	Dec. 31, 2018
Corporation tax loss carryforwards	8,749	8,459
Trade tax loss carryforwards	8,348	8,058
Interest carryforwards	150,754	109,142

The tax loss carryforwards for which no deferred tax assets were recognized are not subject to any limitations on use.

IV. Operating assets and liabilities

16. Intangible assets

Intangible assets comprise (i) goodwill (see Note 7), (ii) capitalized development costs (see Note 2), and (iii) other intangible assets, mainly acquired intangible assets.

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

KEUR	Licenses, patents and other rights	Other intangible assets	Capitalized development costs	Customer relationship, technology, order backlog, brand	Construction in progress	Total
Cost						
As of Jan. 1, 2018 (1)	**4,579**	**0**	**24,890**	**496,582**	**2,327**	**528,379**
Acquisition through business combinations	0	169	0	9,168	0	9,337
Additions	1,663	113	36,575	0	879	39,230
Disposals	0	0	0	0	0	0
Reclassifications	98	0	0	0	-71	27
Currency translation	1	0	-546	0	0	-545
As of Dec. 31, 2018	**6,341**	**282**	**60,919**	**505,750**	**3,135**	**576,427**
Acquisition through business combinations	350	0	605	35,051	277	36,283
Additions	3,007	34	55,095	0	955	59,091
Disposals	0	0	0	0	-1	-1
Reclassifications	530	0	0	0	-364	166
Currency translation	1	0	685	0	0	686
As of Dec. 31, 2019	**10,229**	**316**	**117,304**	**540,801**	**4,002**	**672,652**
Accumulated amortization and impairment losses						
As of Jan. 1, 2018 (1)	**-1,338**	**0**	**-4,655**	**-69,416**	**0**	**-75,409**
Additions	-2,103	-134	-10,170	-89,886	0	-102,292
Disposals	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0
Currency translation	0	0	55	0	0	55
As of Dec. 31, 2018	**-3,440**	**-134**	**-14,770**	**-159,302**	**0**	**-177,647**
Additions	-3,647	-150	-9,672	-78,043	0	-91,510
Disposals	-6	0	0	0	0	-6
Reclassifications	0	0	0	0	0	0
Currency translation	0	0	-189	0	0	-189
As of Dec. 31, 2019	**-7,093**	**-283**	**-24,631**	**-237,345**	**0**	**-269,352**
	0	**0**	**0**	**0**	**0**	**0**
Carrying amount	**0**	**0**	**0**	**0**	**0**	**0**
As of Dec. 31, 2018	**2,901**	**148**	**46,149**	**346,448**	**3,135**	**398,781**
As of Dec. 31, 2019	**3,136**	**33**	**92,673**	**303,456**	**4,002**	**403,300**

(1) Including historical cost and accumulated depreciation of Orlando aquisition

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

The carrying amount of the HENSOLDT brand amounted to KEUR 55,350 as of December 31, 2019.

In financial year 2019, no impairment loss was recognized.

16.1. Development costs

The Group capitalized development costs in financial year 2019 of KEUR 55,095 (PY: KEUR 36,575) as internally generated intangible assets, primarily for development of various radar and sensor technologies (ASR-NG, TRML4D, TRS4D, IMEX/RESM, Spexer).

In financial year 2019, no impairment loss was recognized. In 2018 the impairment test triggered an impairment losses that was recognized in the amount of KEUR 3,357 for one project.

16.2. Goodwill

The following table shows the development of goodwill acquired through business combinations:

Cost	EUR million
As of Jan. 1, 2018	**584**
Additions PentaTex GmbH	2
Additions HENSOLDT France SAS	8
As of Dec. 31, 2018	**594**
Additions Nexeya Group	50
Additions HENSOLDT Australia Pty Ltd	3
As of Dec. 31, 2019	**647**

Accumulated amortization and impairment losses	EUR million
As of Jan. 1, 2018	**0**
As of Dec. 31, 2018	**0**
As of Dec. 31, 2019	**0**

Carrying amount	EUR million
As of Dec. 31, 2018	**594**
As of Dec. 31, 2019	**647**

For impairment testing goodwill is allocated the Sensors and Optronics CGUs, which are also operating and reportable segments.

MEUR	Sensors	Optronics	Total
Goodwill as of Jan 1, 2018	**501**	**83**	**584**
Additions PentaTec GmbH	2	0	2
Additions HENSOLDT France SAS	8	0	8
As of Dec. 31, 2018	**511**	**83**	**594**
Additions Nexeya Group	50	0	50
Additions HENSOLDT Australia Pty Ltd	3	0	3
As of Dec. 31, 2019	**564**	**83**	**647**

The recoverable amount of both CGUs is based on their value in use, determined by discounting the future cash flows to be generated from continuing use of the CGU. The carrying amount of both CGUs was determined to be lower than their value in use. As the carrying amount of the CGUs did not exceed the value in use of the CGUs, no impairment on goodwill was recorded.

The key assumptions used in the estimation of the value in use were as follows:

Assumptions in %	December 31, 2019 Sensors	December 31, 2019 Optronics	December 31, 2018 Sensors	December 31, 2018 Optronics
Discount rate (post-tax)	5.88%	5.88%	6.02%	6.02%
Sustainable growth rate	1.00%	1.00%	1.00%	1.00%
Projected sustainable EBIT margin	13.30%	13.30%	12.20%	12.20%

Discount rates - Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data. The corresponding pre-tax discount rate amounts to 7.95% (PY: 8.19%) for the CGU Sensors and 8.02% (PY: 8.25%) for the CGU Optronics.

The forecasted cash flows used by the Group in its discounted cash flow model are based on the operational business plan. This business plan includes a detailed planning horizon for three years and is extrapolated for five more years. Cash flows beyond this period are extrapolated using a growth value of 1%.

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

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

17. Property, plant and equipment

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

KEUR	Land, improvements and buildings, including buildings on third-party land	Technical equipment and machinery	Other equipment, operating and office equipment	Construction in progress	Total
COST					
As of Jan. 1, 2018 (1)	**5,985**	**66,527**	**23,113**	**16,921**	**112,546**
Acquisition through business combinations	0	351	272	0	623
Additions	224	6,878	5,652	8,101	20,855
Disposals	-132	-4,274	-2,031	0	-6,437
Reclassifications	2,929	5,438	1,228	-9,622	-27
Currency translation	-211	-866	-183	-17	-1,277
As of Dec. 31, 2018	**8,795**	**74,054**	**28,051**	**15,383**	**126,282**
Acquisition through business combinations	1,414	746	365	1,510	4,035
Additions	313	8,822	6,429	5,825	21,389
Disposals	-211	-777	-448	0	-1,436
Reclassifications	2,606	1,196	1,079	-5,048	-166
Currency translation	184	396	156	14	750
As of Dec. 31, 2019	**13,101**	**84,437**	**35,632**	**17,684**	**150,854**
ACCUMULATED DEPRECIATION AND IMPAIRMENT LOSSES					
As of Jan. 1, 2018 (1)	**-194**	**-15,080**	**-5,871**	**0**	**-21,144**
Additions	-450	-14,626	-7,046	0	-22,122
Disposals	98	3,847	1,923	0	5,868
Reclassifications	0	0	0	0	0
Currency translation	4	235	56	0	295
As of Dec. 31, 2018	**-541**	**-25,624**	**-10,938**	**0**	**-37,103**
Additions	-497	-14,201	-6,422	0	-21,120
Disposals	0	321	188	0	509
Reclassifications	0	0	0	0	0
Currency translation	-20	-171	-56	0	-247
As of Dec. 31, 2019	**-1,058**	**-39,675**	**-17,228**	**0**	**-57,961**
CARRYING AMOUNT					
As of Dec. 31, 2018	**8,254**	**48,430**	**17,113**	**15,383**	**89,180**
As of Dec. 31, 2019	**12,043**	**44,762**	**18,404**	**17,684**	**92,893**

(1) Including historical cost and accumulated depreciation of Orlando aquisition

In financial year 2019 and 2018, no impairment loss was recognized.

18. Other investments and other non-current financial assets

KEUR	Dec. 31, 2019	Dec. 31, 2018
Other investments	11,188	11,128
Other non-current financial assets	3,494	219
Other investments and other non-current financial assets	**14,682**	**11,347**
Other non-current financial assets, due at short-notice	**2,952**	**5,269**
Total	**17,634**	**16,616**

Other investments relate mainly to the investment in Deutsche Elektronik Gesellschaft für Algerien mbH of KEUR 9,344 (PY: KEUR 9,284).

The other non-current financial assets mainly include a loan to HENSOLDT Cyber GmbH.

Interests in other non-current financial assets due at short notice mainly include receivables to ADS GmbH.

19. Inventories

			Dec. 31, 2019	Dec. 31, 2018
KEUR	Gross amount	Impairment	Net carrying amount	Net carrying amount
Raw materials and supplies	208,345	-42,449	165,896	139,909
Work in process	258,256	-36,776	221,480	239,466
Finished goods and parts for resale	37,765	-14,059	23,706	27,627
Total	**504,366**	**-93,284**	**411,082**	**407,002**

The amounts relating to impairments recognized in profit or loss in the financial year equal KEUR 9.286 (PY: KEUR 1,121). No significant reversal of impairment losses was recognized as reduction of material cost in the financial year.

20. Trade receivables

KEUR	Dec. 31, 2019	Dec. 31, 2018
Receivables from the sale of goods and services	304,976	347,957
Impairment	-14,167	-9,885
Total	**290,809**	**338,072**

The reduction in trade receivables is mainly driven by new factoring arrangements. Trade receivables amounting to KEUR 48,787 (PY: KEUR 0) have been transferred and derecognized.

Trade receivables amounting to KEUR 4,715 (PY: KEUR 0) do not qualify for derecognition as the credit risk is not transferred. For the cash received by the factoring party, a corresponding liability is recognized and shown within other current financial liabilities.

The allowance for trade receivables developed as follows:

KEUR	2019	2018
As of Dec. 31	9,885	2,741
Adjustments due to initial application of IFRS 9	0	1,180
As of Jan. 1	9,885	3,921
Acquisition through business combinations	191	68
Additions	5,546	5,975
Utilization	0	-2
Reversals	-1,443	-77
Currency translation adjustments	-12	0
As of Dec. 31	**14,167**	**9,885**

The credit and market risks as well as impairment losses are presented in Note 35.

Contract assets and liabilities are presented in Note 11.

21. Trade payables

As in the prior year, all trade payables as of December 31, 2019, are due within one year.

22. Provisions

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

TEUR	Dec. 31, 2019	Dec. 31, 2018
Pension provisions (note 30)	358,628	266,093
Other provisions	240,096	255,079
Total	**598,724**	**521,172**
thereof non-current	413,641	310,272
thereof current	185,083	210,900

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

KEUR	Warranties	Personnel-related provisions (Note 29)	Contract losses	Outstanding costs	Other risks and costs	Total
Jan. 01, 2019	**89,458**	**49,170**	**1,277**	**30,530**	**84,645**	**255,079**
Utilized	-32,029	-28,411	-59	-18,484	-40,239	**-119,221**
Reversal	-24,303	-3,652	0	-443	-14,065	**-42,463**
Additions	47,498	32,171	1,045	11,956	51,344	**144,015**
exchange rates	188	29	0	509	126	**853**
Unwinding of discount	374	0	0	0	99	**473**
Assumption through business combinations	964	95	193	0	125	**1,377**
Reclassifications	280	-17	0	0	-280	**-17**
Dec. 31, 2019	**82,431**	**49,385**	**2,457**	**24,068**	**81,755**	**240,096**

Provisions for outstanding costs relate mainly to deferrals for supplies not yet invoiced and outstanding own services under long-term construction contracts.

The provisions for other risks and costs relate to contract-related provisions for subsequent work.

Breakdown of other provisions by term:

KEUR	current	non-current	Dec. 31, 2019 Total	current	non-current	Dec. 31, 2018 Total
Warranties	39,464	42,967	82,430	55,631	33,827	89,458
Personnel-related provisions	29,395	19,990	49,385	31,127	18,043	49,170
Contract losses	2,457	0	2,457	1,277	0	1,277
Outstanding costs	24,068	0	24,068	30,530	0	30,530
Other risks and costs	71,916	9,839	81,755	66,544	18,100	84,644
Total	**167,299**	**72,796**	**240,095**	**185,108**	**69,970**	**255,079**

For the non-current provisions of the Company, it is generally assumed that they will lead to cash outflows in the next 2 to 5 years.

22.1. Legal disputes and damage claims

Legal disputes and damage claims include various proceedings, official investigations and proceedings as well as damage claims that are pending or will be initiated or claimed against the Group in the future. These proceedings are subject to much uncertainty and the result of individual issues cannot be reliably predicted. The Group believes that it has recognized adequate provisions to cover current or potential litigation risks. It is quite possible that the final ruling in some cases could lead to expenses beyond those accounted for in the recognized provisions. The term ‘quite possible’ used here means that the chance of a future transaction or future occurrence of an event is more than unlikely, however less than likely.

Within the scope of its ordinary business operations, the HENSOLDT Group is involved in different court and arbitration proceedings from time to time. In November 2019, a major customer announced that it would appeal to the contractually agreed arbitration board regarding a partially fulfilled contract and demand refund of payments already made thereunder including compensation payments. HENSOLDT considers the claims made to be unfounded; however, it is not yet possible to make a sufficiently certain statement about the outcome of the arbitration.

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

23. Contingent assets and contingent liabilities

Due to the type of its transactions, the Group is exposed to the risk of contingent liabilities. The following table shows the undiscounted maximum amounts for which the HENSOLDT Group is liable as of the reporting date due to the type of guarantees (including sureties):

KEUR	Dec. 31, 2019	Dec. 31, 2018
Loan guarantees / sureties	38,422	28,373
Contractual guarantees / sureties	410,144	269,470
Other guarantees and sureties	37,076	35,912
Total	**485,641**	**333,755**

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

In addition, the HENSOLDT Group guarantees the fulfillment of its own contractual obligations, mainly due to advance payments and performance guarantees/sureties. If the HENSOLDT Group does not meet its contractual obligations, the HENSOLDT Group or one of its subsidiaries can be held liable up to an agreed maximum amount. Generally, the terms of these contingent liabilities run up to 10 years. In some cases, they run up to 20 years or there are indefinite guarantees/sureties.

The other guarantees and sureties relate to bid bonds, performance guarantees, custom guarantees and rental guarantees.

24. Other financial assets and other financial liabilities

24.1. Other financial assets

KEUR	Dec. 31, 2019	Dec. 31, 2018
Positive fair values of derivative financial instruments [1]	51,463	723
Miscellaneous other non-current financial assets	1,778	12
Total other non-current financial assets	**53,241**	**735**
Positive fair values of derivative financial instruments [1]	4,904	1,017
Receivables from employees	225	312
Miscellaneous other current financial assets	623	131
Total other current financial assets	**5,752**	**1,460**
Total	**58,993**	**2,195**

[1] See Note 35

24.2. Other financial liabilities

KEUR	Dec. 31, 2019	Dec. 31, 2018
Liabilities for derivative financial instruments [1]	0	3,355
Liability from put options	0	1,206
Miscellaneous other non-current financial liabilities	225	0
Total other non-current financial liabilities	**225**	**4,561**
Liabilities for derivative financial instruments [1]	10,933	13,299
Miscellaneous other current financial liabilities	7,455	0
Total other current financial liabilities	**18,388**	**13,299**
Total	**18,613**	**17,860**

[1] See Note 35

Other current financial liabilities of KEUR 4,715 relate to liabilities from recourse factoring agreements.

25. Other assets and liabilities

25.1. Other assets

KEUR	Dec. 31, 2019	Dec. 31, 2018
Capitalized costs to fulfil contracts	0	4,208
Other	4,881	4,917
Total other non-current assets	**4,881**	**9,125**
Advance payments	22,978	8,112
VAT	5,397	7,159
Creditors with debit balances	1,054	966
Miscellaneous other current assets	4,895	5,185
Total other current assets	**34,324**	**21,422**
Total	**39,205**	**30,547**

25.2. Other liabilities

KEUR	Dec. 31, 2019	Dec. 31, 2018
Other	7,677	3,399
Total other non-current liabilities	**7,677**	**3,399**
Tax liabilities (not incl. income tax)	23,701	25,234
Liabilities to employees	25,118	18,529
Other	18,298	12,531
Total other current liabilities	**67,118**	**56,294**
Total	**74,795**	**59,693**

26. Leases

26.1. Amounts recognized in the consolidated statement of financial position

The following amounts relate to leases as shown on the balance sheet as of December 31, 2019.

Right-of-use assets

KEUR	Dec. 31, 2019	Jan. 01, 2019
Land and buildings	147,249	142,621
Technical equipment and machinery	4,165	4,851
Other equipment, factory and office equipment	3,448	3,428
Total	**154,862**	**150,900**

Additions to right-of-use assets in 2019 were KEUR 21,409.

Lease liability

KEUR	Dec. 31, 2019	Jan. 01, 2019
Current	12,999	10,556
Non-current	147,521	140,344
Total	**160,520**	**150,900**

26.2. Amounts recognized in the consolidated income statement

Depreciation charge of right-of-use assets

KEUR	2019
Land and buildings	14,384
Technical equipment and machinery	835
Other fixtures, furnitures and equipment	1,761
Total depreciation charge	**16,980**

Other lease related income/expenses under IFRS 16

KEUR	2019
Interest on lease liabilities	9,769
Income from sub-leasing right-of-use assets presented in "other revenue"	-484
Expense related to short-term leases	2,657
Expense relating to leases of low-value assets that are not short-term leases	1,266
Total amounts recognised in profit or loss	**13,208**

Operating leases under IAS 17

KEUR	2018
Leases expenses	25,018
Contingent rent expenses	0
Sub-lease income	-42
Total	**24,976**

The total cash outflow for lease payments in 2019 amounted to KEUR 21,096.

HENSOLDT has several lease contracts that include extension options and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with HENSOLDT's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (see Note 3.9).

V. Expenses and employee benefits

27. Headcount

	2019	2018
Production, research and development, service	3,938	3,423
Sales and distribution	114	108
Administration and general services	550	475
Apprentices, trainees, etc.	395	365
Total [1]	**4,997**	**4,371**

(1) Average figures in FTE´s / Full Time Equivalents (end quarter)

28. Personnel expenses

KEUR	2019	2018
Wages, salaries	391,739	347,083
Social security contributions	56,214	47,847
Net periodic employee benefit expenses	21,781	22,163
Total	**469,734**	**417,093**

29. Personnel-related provisions

Several German group entities offer models for lifetime working or retirement accounts, which represent defined benefit plans due to a pledged interest on contributions or nominal contributions and are to be classified as post-employment benefits in accordance with IAS 19. The obligations of KEUR 16,114 (PY: KEUR 14,473) are fully offset against corresponding assets. The regular contributions of employees to their lifetime working accounts lead to a corresponding personnel expense in the reporting period which is recognized in personnel expenses.

Other personnel-related provisions developed as follows:

KEUR	Long service awards/ bonuses	Partial retirement	Other personnel expenses	Total
Jan. 1, 2019	**45,524**	**2,375**	**1,271**	**49,170**
Utilized	-27,362	-689	-360	-28,411
Reversal	-3,652	0	0	-3,652
Additions	31,517	654	0	32,171
rates	29	0	0	29
Assumption through business combinations	95	0	0	95
Reclassifications	0	-17	0	-17
Dec. 31, 2019	**46,151**	**2,323**	**911**	**49,385**

30. Pension benefits

KEUR	Dec. 31, 2019	Dec. 31, 2018
Provisions for employee benefits (see note 30.1)	225,697	164,281
Provisions for deferred compensation (see note 30.2)	132,931	101,812
Total	**358,628**	**266,093**

30.1. Provisions for pension plans

Provision for pension plans

Provisions for German pension obligations (defined benefit obligations or ‘DBO’) are recognized based on defined benefit plans for old-age, invalidity and survivor’s pension benefits. The benefits are based on the employee’s length of service and remuneration.

Most domestic employees are under the ‘P3 Plan’, which allows a choice between immediate payments of their accumulated savings, payment in installments or an annuity.

To finance domestic pension obligations, the Group introduced contractual trust arrangements or ‘CTA’. The structure of the contractual trust arrangement is based on mutual trust agreements. Assets transferred to the contractual trust arrangement are considered plan assets under IAS 19.

In terms of the significant accounting policies and significant estimates and assessments, e.g. actuarial assumptions, please refer to the Note 2.8 and Note 3.6.

Changes in the defined benefit obligation and plan assets

	DBO		Plan assets		Total	
KEUR	2019	2018	2019	2018	2019	2018
As of Jan. 1	**330,282**	**320,018**	**166,001**	**147,815**	**164,281**	**172,203**
Assumption due to business combinations	5,251	1,151	0	0	5,251	1,151
Expenses for pension benefit entitlements	16,449	16,468	0	0	16,449	16,468
Interest expenses/income	6,440	5,185	3,341	1,125	3,099	4,060
Payments	-3,214	-1,977	-2,801	0	-413	-1,977
Actuarial gains/losses deriving from						
■ Changes in demographic assumptions□	39,014	-908	0	0	39,014	-908
■ Changes in financial assumptions□	25,617	-16,061	0	0	25,617	-16,061
■ Adjustments based on experience□	12,331	7,444	0	0	12,331	7,444
■ Plan assets	0	0	36,499	16,483	-36,499	-16,483
Other changes in consolidation, transfers	-3,434	-1,039	0	578	-3,434	-1,617
As of Dec. 31	**428,737**	**330,282**	**203,040**	**166,001**	**225,697**	**164,281**

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

As of December 31, reported as:

KEUR	Pension plans 2019	2018
Defined benefit obligation	428,737	330,282
Plan assets	-203,040	-166,001
Total	**225,697**	**164,281**

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

	2019	2018
Active	81%	82%
Eligible employees	5%	6%
Pensioner	14%	12%
	100%	**100%**

The expected employer's contribution to defined benefit plans for the financial year 2020 amounts to KEUR 11,790 (PY: KEUR 15,410).

The following table shows how the present value of defined benefit obligations of pension plans and deferred compensation would be impacted by changes to actuarial assumptions as of December 31, 2019.

	Change in actuarial assumptions	Effect on defined benefit obligation			
		as of December 31, 2019		as of December 31, 2018	
KEUR		Increase	Decline	Increase	Decline
Present value of obligation					
Discount rate	by 0.5 percentage points	-44,429	62,547	-29,939	33,879
Wage increase rate	by 0.25 percentage points	946	-917	1,025	-997
Pension increase rate	by 0.25 percentage points	9,045	-52	4,580	-4,355
Life expectancy	by 1 year	12,571	-12,691	5,781	-5,892
Exercising of pension option	by 10 percentage points	21,503	-21,503	19,824	-19,824

Sensitivities are calculated using the same method (present value of the defined benefit obligation calculated using the projected unit credit method) as used for the calculation of post-employment benefits. The sensitivity analysis is based on a change of one assumption maintaining all other assumptions unchanged. This is very unlikely to occur in practice. Changes to more than one assumption can correlate which can have differing effects on the DBO as described above. If the assumptions change to different levels, the effects on the defined benefit obligation are not necessarily linear.

Asset-liability matching strategy

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

For this reason, the HENSOLDT Group implements a risk management plan that is aligned with the defined benefits obligations.

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

KEUR	Quoted prices 2019	2018	Unquoted prices 2019	2018	Total 2019	2018
Other investments	0	0	167,838	133,338	167,838	133,338
Pooled investment instruments	50,165	46,681	0	0	50,165	46,681
Total	**50,165**	**46,681**	**167,838**	**133,338**	**218,003**	**180,019**

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

The employer's contribution to state and private pension funds in Germany is considered as a defined contribution obligation. The contributions in 2019 amounted to KEUR 27,410 (PY: KEUR 21,216).

30.2. Provisions for deferred compensation

This amount represents obligations that arise when employees convert a part of their remuneration or bonus to an equivalent entitlement for deferred compensation, which is treated as a defined benefit plan upon termination of employment. The development of DBO and plan assets is as follows:

KEUR	DBO 2019	2018	Plan assets 2019	2018	Total 2019	2018
As of Jan. 1	**115,830**	**100,705**	**14,018**	**13,952**	**101,812**	**86,753**
Expenses for pension benefit entitlements	3,821	5,218	0	0	3,821	5,218
Interest expenses/income	2,209	1,644	280	184	1,929	1,460
Payments	-1,096	-571	103	384	-1,198	-955
Actuarial gains/losses deriving from assumptions	9,681	-108	0	0	9,681	-108
■ Changes in financial assumptions	10,356	-3,710	0	0	10,356	-3,710
■ Adjustments based on experience	4,667	4,953	0	0	4,667	4,953
■ Plan assets	0	0	562	-530	-562	530
Other changes in consolidation, transfers	-2,792	-576	0	0	-2,792	-576
Participant contributions	5,218	8,275	0	28	5,218	8,247
As of Dec. 31	**147,894**	**115,830**	**14,963**	**14,018**	**132,931**	**101,812**

As of December 31, reported as:

KEUR	Deferred compensation 2019	2018
Defined benefit obligation	147,894	115,830
Plan assets	-14,963	-14,018
Total	**132,931**	**101,812**

31. Compensation

As of November 29, 2019, HENSOLDT GmbH is the new parent company of the Group.

Key management personnel of HENSOLDT GmbH and the Group are the members of the management board of the Company and members of the supervisory board of HENSOLDT Holding GmbH. Till November 29, 2019 the key management personnel of the Group comprised the management team and the supervisory board at the level of HENSOLDT Holding GmbH. The management team of HENSOLDT Holding GmbH comprised the members of its management board and additional management positions. As of December 31, 2019 the supervisory board still exists at the level of HENSOLDT Holding GmbH.

31.1. Compensation – management[5]

KEUR	2019	2018
Salaries and other short-term benefits (including bonuses)	5,356	5,590
Termination benefits	0	352
Total	**5,356**	**5,942**

The amounts shown in the table were reported as an expense in the reporting period.

Remuneration of the members of the management board is not disclosed pursuant to the protective clause of Section 314 (3) in conjunction with Section 286 (4) HGB.

31.2. Compensation – supervisory board of HENSOLDT Holding GmbH

The currently applicable compensation policy for the supervisory board of HENSOLDT Holding GmbH was adopted by the Annual General Meeting of HENSOLDT Holding GmbH on May 24, 2017.

Each member of the supervisory board receives an annual base salary of EUR 40,000, each member of a standing committee receives additional annual compensation of EUR 10,000, irrespective of the number of committees.

If a supervisory board member is not employed for the full financial year, they receive a proportionate share of the compensation.

Remuneration of supervisory board members amounted to KEUR 536 for the financial year (PY: KEUR 540).

31.3. Management participation

The managing directors of HENSOLDT GmbH and other senior staff and members of governing bodies of HENSOLDT Group (collectively referred to as 'participants') can indirectly invest (in each case a 'management participation') in HENSOLDT GmbH by indirectly acquiring ordinary shares and in some cases also interest-bearing convertible preferred equity certificates ('CPECs') that have been issued by Square Lux Midco 1 & Co S.C.A. As of the reporting date, the managing directors of HENSOLDT GmbH indirectly held approx. 4.21% of the ordinary shares in Square Lux Midco 1 & Co S.C.A.. Other senior staff and members of governing bodies of HENSOLDT Group indirectly held, in aggregate, approx. 7.59% of the ordinary shares of Square Lux Midco 1 & Co S.C.A. and approx. 0.75% of the CPECs issued by Square Lux Midco 1 & Co S.C.A.

[5] Includes members of the management board of HENSOLDT GmbH and HENSOLDT Holding GmbH as well as members of the management team of HENSOLDT Holding GmbH until November 29, 2019.

The management participations via ordinary shares correspond to an (indirect) notional share of, in aggregate, approx. 11.80% in the share capital of HENSOLDT GmbH. Of this, approx. 4.21%-points are attributable to the managing directors of HENSOLDT GmbH.

The acquisition of the management participations took place in 2017, 2018 and 2019 at various dates, in each case from the participants' own funds.

By means of the management participations, the participants participate in the Company's development and thus the opportunities and risks of HENSOLDT Group. Accordingly, the participants as investors bear the risk underlying their management participation including the risk of full loss of the value of their management participation.

The realization of the value of the management participation occurs via a direct or indirect sale of the investment in HENSOLDT Group, e.g., in the course of an initial public offering of HENSOLDT Group or other sale of HENSOLDT Group (each an 'exit event'), whereby the participants themselves cannot determine the time and conditions (including the price) of such an exit event. Subject to potential lock-up agreements as part of an initial public offering, the participants can nevertheless generally participate in such sale on a pro-rata basis and in this respect have tag-along selling rights and are subject to drag-along selling obligations generally at the same terms and conditions (including the price for ordinary shares or CPECs) as Square Lux TopCo S.à.r.l., i.e. the majority shareholder of Square Lux Midco 1 & Co S.C.A.

In addition, the management participation is subject to a call option which can be exercised by Square Lux TopCo S.à.r.l. under certain conditions, in particular in the event of the participant ceasing to actively work for HENSOLDT Group ('call option'). The calculation of the purchase price upon exercising the call option is depending on the facts and circumstances which have triggered the call option (e.g. reaching the retirement age, termination by the participant or termination by the employing entity for cause). Depending on such facts and circumstances, the purchase price corresponds either to the acquisition cost of the management participation or the current fair market value of the management participation which is calculated on the basis of a contractually agreed valuation method. Depending on the facts and circumstances which have triggered the call option, the fair market value of the management participation of the managing directors of HENSOLDT GmbH and other senior staff and members of governing bodies of HENSOLDT Group is not paid for the entire management participation but rather only for a vested portion determined based on the time period the respective management participation was held. Such vested portion increases each quarter over a period of four years. For the remaining unvested portion of the management participation, the purchase price is determined based on the acquisition cost of the unvested portion. In 2019, the management participations of participants who are no longer employed by HENSOLDT Group were bought back by Square Lux TopCo S.à.r.l. The purchase price paid by Square Lux TopCo S.à.r.l. in connection with the repurchase of these management participations did not exceed the fair market value of the respective management participation.

HENSOLDT GmbH and its subsidiaries are not contracting parties to the agreements governing the management participations and are at no time obligated – whether in an exit event or upon the repurchase of the management participation from a participant – to make a payment to any participant.

In the course of the acquisition of the management shareholdings, the purchase price to be paid by the parties involved corresponded at least to the fair value of the management shareholding. As the parties involved pay at least the fair value of the participation at the time of acquisition or receive from Square Lux TopCo S.à.r.l. no more than the fair value of the management participation in connection with the repurchase of a management participation, no monetary advantage is granted at the time of the entry or exit of the parties involved. For this reason, at no time (neither in the case of an exit nor when the manager leaves) is an expense to be reported in the consolidated financial statements.

VI. Capital structure and financial instruments

32. Total equity and liabilities

32.1. Equity attributable to owners of the parent company

As of December 31, 2019, the group parent company was HENSOLDT GmbH. The previous year's figures relate to the share capital of the former parent company HENSOLDT Holding GmbH (see 2.1 Basis of Preparation).

By contribution agreement of November 29, 2019, the shareholder Square Lux Holding II S.à.r.l. contributed all shares of HENSOLDT Holding GmbH then held by Square Lux Holding II S.à.r.l. to HENSOLDT GmbH with effect as of the lapse of November 29, 2019. Of such shares, 681 shares were transferred as a contribution in kind against the issuance of 9,975,000 shares of the Company to Square Lux Holding II S.à.r.l. thereby increasing the share capital of HENSOLDT GmbH from KEUR 25 by KEUR 9,975 to KEUR 10,000, and 18,043 shares were transferred as a voluntary additional contribution of Square Lux Holding II S.à.r.l. to the capital reserve of HENSOLDT GmbH.

The transaction is considered as a business transaction under common control without revealing hidden reserves and led to a reclassification of the capital reserve of KEUR 9,950 to the share capital.

HENSOLDT GmbH's share capital is fully paid in and amounted to KEUR 10,000 as of December 31, 2019. The share capital consists of 10,000,000 shares at EUR 1.00 each.

Before execution of the transaction described above the shareholder Square Lux Holding II S.à.r.l. has contributed the Square Lux Finco S.à.r.l. loan receivable of KEUR 370,985 (including accrued interest of KEUR 21,418) to the capital reserve of HENSOLDT Holding GmbH (contribution agreement dated November 29, 2019). The loan has ceased to exist due to consolidation.

Other reserves include cumulative other comprehensive income.

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

32.2. Treasury shares

By way of shareholder resolution dated November 15, 2019, and with effect as of November 18, 2019, 6,275 treasury shares of HENSOLDT Holding GmbH amount of KEUR 10.563 were cancelled and offset against the capital reserve.

32.3. Non-controlling interests

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

December 31, 2019 KEUR	HENSOLDT Optronics (Pty) Ltd.	GEW Technologies (Pty) Ltd.	Midi Ingénierie S.A.S	Total	Intragroup eliminations/ adjustments	Dec. 31, 2019
Percentage of non-controlling interests	**30%**	**6.72%**	**15%**			
Non-current assets	13,077	7,756	103	20,935		
Current assets	56,416	56,505	5,779	118,700		
Non-current liabilities	-3,757	-430	-209	-4,396		
Current liabilities	-28,273	-26,931	-1,101	-56,304		
Net assets	**37,463**	**36,900**	**4,572**	**78,935**		
Net assets of non-controlling interests	**11,239**	**2,480**	**686**	**14,404**	**-830**	**13,574**
Revenue	50,200	38,057	1,823	90,079		
Profit	5,620	6,509	864	12,993		
Other comprehensive income/ loss	1,512	796	5	2,312		
Total comprehensive income/ loss	**7,132**	**7,305**	**869**	**15,306**		
Profit attributable to non-controlling interests	**1,686**	**437**	**130**	**2,253**	**0**	**2,253**
Other comprehensive income/ loss attributable to non-controlling interests	**454**	**53**	**1**	**507**	**0**	**507**
Cash flows from operating activities	-7,558	-2,790	1,383	-8,965		
Cash flows from investing activities	-3,338	-495	0	-3,833		
Cash flows from financing activities	10,486	-3,665	-361	6,460		
Net increase (decrease) in cash and cash equivalents	**-351**	**-5,876**	**1,022**	**-5,205**		

December 31, 2018

KEUR	HENSOLDT Optronics (Pty) Ltd.	GEW Technologies (Pty) Ltd.	Total	Intragroup eliminations/ adjustments	Dec. 31, 2018
Percentage of non-controlling interests	**30%**	**6.72%**			
Non-current assets	12,197	5,920	18,117		
Current assets	44,444	55,223	99,667		
Non-current liabilities	-1,152	-1,368	-2,520		
Current liabilities	-23,797	-27,775	-51,572		
Net assets	**31,692**	**32,000**	**63,692**		
Net assets of non-controlling interests	**9,508**	**2,150**	**11,658**	**-788**	**10,870**
Revenue	33,483	52,595	86,078		
Profit	986	5,785	6,771		
Other comprehensive income/ loss	-5,568	-2,717	-8,285		
Total comprehensive income/ loss	**-4,582**	**3,068**	**-1,514**		
Profit attributable to non-controlling interests	**296**	**389**	**685**		**685**
Other comprehensive income/ loss attributable to non-controlling interests	**-1,670**	**-183**	**-1,853**	**400**	**-1,453**
Cash flows from operating activities	-6,466	7,940	1,474		
Cash flows from investing activities	-2,926	-898	-3,824		
Cash flows from financing activities	3,150	-3,500	-350		
Net increase (decrease) in cash and cash equivalents	**-6,242**	**3,542**	**-2,700**		

Under company law, the non-controlling shareholder of GEW Technologies (Pty) Ltd. has a 25% interest in GEW Technologies (Pty) Ltd. and its subsidiary GEW Integrated Systems (Pty). The non-controlling shareholder was issued with 500 shares, of which 392 shares are treated as treasury shares until full payment of the purchase price. This results in a financial stake of non-controlling interests of 6.72%. In connection with the shares considered treasury shares, there is a put option in favor of the non-controlling shareholder which is recognized at market value under other non-current financial liabilities. KEUR 1,206 have been recognized in the income statement in the reporting year (PY: KEUR 234) and are shown within other finance result.

33. Capital management

The capital structure of the HENSOLDT Group is made up of equity capital attributable to the shareholders of the parent company and of debt capital. A capital structure that optimizes capital costs of equity and debt is being targeted. The Group is not subject to any capital requirements imposed by the Articles of Association.

The non-current syndicated loan agreement (Term Loan) is tied to compliance with a financial covenant that refers to the ratio of net senior liabilities to adjusted earnings before interest,

taxes, depreciation and amortization (consolidated EBITDA) as defined in the Senior Financing Agreement. In 2019 the financing conditions were met at all times. The availability and conditions of the loan are tied to this financial covenant. In the event of breach, the financing partners are authorized to terminate the syndicated loan. There are no indications that the covenant cannot be fully complied with in the foreseeable future (see Note 35).

The shareholder loans ceased to exist due to consolidation, see Note 32.1.

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

34. Net debt

KEUR	Dec. 31, 2019	Dec. 31, 2018
Cash and cash equivalents	137,389	227,550
Shareholder loans	0	-349,567
Long-term liabilities due to banks	-887,696	-880,364
Current financial liabilities	-11,338	-3,367
Total	**-761,645**	**-1,005,748**

34.1. Cash and cash equivalents

Cash and cash equivalents consist of the following items:

KEUR	Dec. 31, 2019	Dec. 31, 2018
Cash at bank and liquid funds	137,389	227,550
Total cash and cash equivalents	**137,389**	**227,550**

34.2. Financing liabilities

Financial liabilities consist of current and non-current loans.

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

Loans	Capital amount KEUR	Issue date	Coupon or interest rate	Interest	Effective interest rate	Due date
Loan (Term Loan)	920,000	02/28/2017 04/18/2017 07/26/2017 02/28/2018 12/06/2018	3MEuribor + 3.25%	variable	3.91%	02/28/2024
Loan (BPI France)	5,000	11/29/2017	zero-floored 1MEuribor + 1.00%	variable	1.07%	11/30/2020

The conditions and repayment schedules of the loans as of December 31, 2018, are as follows:

Loans	Capital amount KEUR	Issue date	Coupon or interest rate	Interest	Effective interest rate	Due date
Loan (Term Loan)	920,000	02/28/2017 04/18/2017 07/26/2017 02/28/2018 12/06/2018	3m EURIBOR + 3.25%	variable	3.99%	02/28/2024
Shareholder loans (Square Lux Finco S.à r.l.)	349,567	02/27/2017 02/28/2017	6.716%	fix		02/27/2027

The conditions of the term loan agreement, which is in place to finance the Group, were adjusted in favor of the Group in the prior year. The volume of lending commitments currently amounts to EUR 920 million with a contractual term till February 2024. The modification was not substantial as defined in terms of IFRS 9.

The loan agreement is secured by pledged shares in the subsidiaries HENSOLDT Sensors GmbH, HENSOLDT Optronics GmbH and HENSOLDT Holding France S.A.S., HENSOLDT UK Ltd., KH Finance No.2, KH Finance Ltd. and Kelvin Hughes Ltd..

For the variable interest-bearing loan ('Term Loan') interest rate caps and interest rate swaps were concluded in order to hedge the risk resulting from the variable interest charge on the loan. The variable interest charge on the loan was capped the half of the loan amount for the period until March 2019 and is fully replaced with a fixed interest rate for the period from March 2019 to March 2022. The loan includes an embedded derivative in the form of a repayment right and zero-floor clause that is accounted for separately. In determining the effective interest rate the transaction costs are allocated to the host contract.

The shareholder Square Lux Holding II S.á.r.l. has contributed the Square Lux Finco S.à.r.l. loan receivable including accrued interest to the capital reserve of HENSOLDT Holding GmbH (see Note 32.1)

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

KEUR	Up to 1 year	Between 1 and 5 years	More than 5 years	Total
Liabilities due to banks	11,338	887,696	0	899,034
Dec. 31, 2019	**11,338**	**887,696**	**0**	**899,034**

KEUR	Up to 1 year	Between 1 and 5 years	More than 5 years	Total
Liabilities due to banks	3,367	0	880,364	883,731
Shareholder loan	0	0	349,567	349,567
Dec. 31, 2018	**3,367**	**0**	**1,229,931**	**1,233,298**

34.3. The reconciliation of changes in financial liabilities to cash flows from financing activities

The following shows the cash flows from financing activities in a reconciliation from the opening balances to closing balances for the liabilities and equity components attributable to financing activities including the accompanying financial assets and liabilities from the hedging transactions of these financing activities.

			Other non-cash changes						
KEUR	Statement of financial position as of Jan. 1, 2019	Cash flow (net cash changes)	IFRS 16 adj.	Accrued / Capitized interest	Change in Consol. group	Transfers	Changes in fair value	Other changes	Statement of financial position as of Dec. 31, 2019
Non-current borrowing									
Shareholder loans	349,567	0	0	21,418	0	-370,985	0	0	0
Bank loans (net)	880,363	0	0	7,332	0	0	0	0	887,695
Current borrowing									
Current borrowing	3,367	3,593	0	146	4,231	0	0	0	11,338
Other liabilities	1,206	-1,206	0	0	4,707	0	0	2,974	7,681
Change in financial liabilities due to financing activities	**1,234,503**	**2,387**	**0**	**28,896**	**8,938**	**-370,985**	**0**	**2,974**	**906,713**
Change in lease liabilities	**0**	**-11,327**	**150,900**	**0**	**11,084**	**0**	**0**	**9,864**	**160,521**
Share capital	25	25	0	0	9,975	0	0	-25	10,000
Treasury shares	-10,563	0	0	0	0	10,563	0	0	0
Capital reserve	46,275	0	0	0	-9,975	360,422	0	25	396,748
Other reserves	-12,247	0	0	0	0	-40,536	0	3,014	-49,769
Retained earnings	-220,655	0	0	0	0	0	0	4,898	-215,757
Non-Controlling interests	10,870	-181	0	0	556	0	0	2,329	13,573
Change in equity due to financing activities	**-186,295**	**-156**	**0**	**0**	**556**	**330,449**	**0**	**10,241**	**154,795**
Interest rate swap liabilities	10,818	0	0	0	0	0	-1,280	0	9,539
Embedded derivative ((-) (asset) (+) liability)	3,283	0	0	0	0	0	-54,163	0	-50,880
Change in assets (-) and liabilities (+) to hedge non-current borrowing	**14,101**	**0**	**0**	**0**	**0**	**0**	**-55,443**	**0**	**-41,342**
Cash flows from financing activities		**-9,096**							

KEUR	Statement of financial position as of Jan. 1, 2018	Cash flow (net cash changes)	Other non-cash changes					Statement of financial position as of Dec. 31, 2018
			Adjustment IFRS 9 / 15	Accrued interest	Consolidation group	Changes in fair value	Other changes	
Non-current borrowing								
Shareholder loans	437,474	-109,830	0	21,923	0	0	0	349,567
Bank loans (net)	677,084	222,900	-14,950	-4,670	0	0	0	880,363
Current borrowing	15,024	-14,165	0	0	2,588	-80	0	3,367
Change in financial liabilities due to financing activities	**1,129,582**	**98,905**	**-14,950**	**17,253**	**2,588**	**-80**	**0**	**1,233,297**
Treasury shares		-10,563	0	0	0	0	0	-10,563
Capital reserve	46,275	0	0	0	0	0	0	46,275
Other reserves	-21,178	148	0	0	0	14,462	-5,679	-12,247
Retained earnings	-130,702	0	-30,710	0	0	0	-59,243	-220,655
Non Controlling interests	13,162	-304	0	0	0	-771	-1,217	10,870
Change in equity due to financing activities	**-92,443**	**-10,719**	**-30,710**	**0**	**0**	**13,691**	**-66,139**	**-186,320**
Interest rate swap assets	-2	0	0	0	0	2	0	0
Interest rate swap liabilities	4,078	0	0	0	0	6,740	0	10,818
Embedded derivative ((-) (asset) (+) liability)	-18,892	0	0	0	0	22,175	0	3,283
Change in assets (-) and liabilities (+) to hedge non-current borrowing	**-14,816**	**0**	**0**	**0**	**0**	**28,917**	**0**	**14,101**
Cash flows from financing activities		**88,187**						

35. Information on financial instruments

35.1. Financial risk management

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

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

The Group's financial risk management is generally carried out by Corporate Finance in compliance with the guidelines approved by the Chief Financial Officer.

Further information on risks relating to financial instruments can be found in the risk report of the group management report.

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

Market risk

Foreign exchange risk

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

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

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

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

In the financial year a gain on foreign currency translation of KEUR 2,124 (PY: KEUR 2,011) was recognized in profit or loss.

Sensitivity of foreign exchange risk

The sensitivity analysis approximately quantifies the risk that can occur based on set assumptions if certain parameters are changed to a defined extent. Currency risks pertain in particular to the US dollar (USD), South African rand (ZAR) and pound sterling (GBP).

The following disclosures describe the Group's view of the sensitivity of an increase or decrease in the USD, ZAR, etc., against the EUR. The change represents the Group's estimate of the impact of a potential change in the exchange rate. Currency exposures within the meaning of IFRS 7 result from financial instruments that are denominated in a currency other than the functional currency and are of a monetary nature. Translation differences from the translation of financial statements of foreign group entities into the Group's currency remain unrecognized. The sensitivity analysis includes the HENSOLDT Group's main financial instruments outstanding on the reporting date.

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

If the EUR had appreciated/depreciated by 10% against the USD, ZAR and GBP as of December 31, 2019/2018, the consolidated profit and other comprehensive income would have changed in the manner shown below:

		Dec. 31, 2019		Dec. 31, 2018	
KEUR		**Consolidated profit/loss**	**other comprehensive income/loss**	**Consolidated profit/loss**	**other comprehensive income/loss**
EUR/GBP	+/- 10%	-1,698 / 2,075	0	+/- 2,481	0
EUR/ZAR	+/- 10%	288 / -352	0	+/- 3,452	0
EUR/USD	+/- 10%	-743 / 908	0	+/- 1,540	+/- 1,349

The changes compared to the reported consolidated profit result mainly from financial instruments that are denominated in a foreign currency. Foreign currency exposure is hedged using a macro-hedging approach.

Interest rate risk

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

Interest rate caps and interest rate swaps were concluded for the variable interest-bearing syndicated loan. The loan also includes an embedded derivative in the form of a repayment right and zero-floor clause that must be accounted for separately.

The changes in the fair values of interest rate derivatives and embedded derivatives are recognized in the consolidated income statement.

Sensitivity of interest rate risk

A change of +/- 50 basis points in interest rates as of the reporting date would have decreased/increased equity and profit or loss by KEUR 4,754 (PY: KEUR 3,938). This analysis assumes that all other variables, in particular exchange rates, remain constant.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents at all times in order to be able to meet current and future obligations when due. The Group manages its liquidity by retaining a sufficient amount of liquid assets.

Adverse developments on the capital markets could increase the Group's borrowing costs and limit its financial flexibility. Management monitors the Group's cash reserves as well as expected cash flows from operating activities.

The contract terms of the Group's financial liabilities, based on undiscounted cash flows and including interest payments, where applicable, are as follows:

KEUR	**Carrying amount**	**Contract-ual cash flows**	**< 1 year**	**1 year to 5 years**	**> 5 years**
Non-derivative financial liabilities					
■ Banks	899,034	1,032,293	26,795	1,005,497	0
■ Other	176,431	176,431	176,431	0	0
Derivative financial liabilities					
■ Interest rate swaps	9,539	9,991	4,440	5,550	0
■ Forward exchange transactions	1,394	1,394	1,394	0	0
Lease liability	160,521	221,965	23,020	85,748	113,197
As of December 31, 2019	**1,246,919**	**1,442,074**	**232,081**	**1,096,796**	**113,197**

KEUR	**Carrying amount**	**Contract-ual cash flows**	**< 1 year**	**1 year to 5 years**	**> 5 years**
Non-derivative financial liabilities					
■ Banks and shareholders	1,233,297	1,690,504	27,555	109,545	1,553,404
■ Other	168,279	168,279	168,279	0	0
Derivative financial liabilities					
■ Interest rate swaps	14,101	16,652	3,379	9,991	3,282
■ Forward exchange transactions	2,553	2,554	2,480	74	0
As of December 31, 2018	**1,418,231**	**1,877,989**	**201,693**	**119,609**	**1,556,686**

HENSOLDT Group's main risks relate primarily to compliance with the financial covenants agreed with banks in the context of corporate financing, which were renegotiated in the favor of HENSOLDT Group in 2018.

The agreed financial covenants are only tested if one of the reasons specified in the Senior Financing Agreements is in place, i.e. when the usage of the revolving credit facility exceeds a specific threshold or additional external funding is taken up. In case the covenants must be tested and the financial performance indicators are non-compliant, the lenders are entitled to terminate the loan. This could result in a going concern risk for the HENSOLDT Group if no alternative funding were to be available at the time when the liabilities to banks fall due.

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

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

For short-term liquidity management, group-wide rolling liquidity planning, updated bi-weekly, is used and this constitutes the operative instrument for short-term liquidity management of the HENSOLDT Group. Moreover, liquidity is ensured at all times via a medium-term revolving credit facility of EUR 200.0 million.

Credit risk

The Group is exposed to a credit risk from non-fulfillment of financial instruments, either by customers or counterparties to the financial instruments. However, the Group prepared guidelines in order to avoid the concentration of credit risks and to ensure that the credit risk remains limited.

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

The Group monitors the development of individual financial instruments and the impact of market developments on their performance and takes appropriate measures in the event of foreseeable unfavorable developments on the basis of predefined procedures and escalation levels. Products and services are sold to customers following a proper internal credit check.

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

Assessment of the expected credit losses for customers

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

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

KEUR	Rating at Standard & Poor's	Loss rate (weighted average)	Gross carrying amount	Loss allowance	Impaired credit-worthiness
Rating 1-6: low risk	BBB- to AAA	2.07%	226,055	-4,687	No
Rating 7-9: moderate risk	BB- to BB+	3.66%	230,755	-8,450	No
Rating 10: below average	B- to CCC-	7.33%	14,050	-1,030	No
Classification 11: doubtful	C to CC	-	-	-	Yes
Classification 12: loss	D	-	-	-	Yes
As of Dec. 31, 2019			**470,860**	**-14,167**	

	Dec. 31, 2019
Contract assets	165,883
Trade receivables	290,809
	456,693

KEUR	Rating at Standard & Poor's	Loss rate (weighted average)	Gross carrying amount	Loss allowance	Impaired credit-worthiness
Rating 1-6: low risk	BBB- to AAA	1.72%	151,460	-2,603	No
Rating 7-9: moderate risk	BB- to BB+	2.14%	263,204	-5,629	No
Rating 10: below average	B- to CCC-	11.82%	13,981	-1,653	No
Classification 11: doubtful	C to CC	-	-	-	Yes
Classification 12: loss	D	-	-	-	Yes
As of Dec. 31, 2018			**428,645**	**-9,885**	

	31.12.2018
Contract assets	80,688
Trade receivables	338,072
	418,760

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

35.2. Carrying amounts and fair values of financial instruments

The Group's financial assets mainly consist of cash and cash equivalents, short and medium-term deposits and trade receivables. The financial liabilities include trade payables, payables to financial institutions (until 29, November 2019). All purchases and sales of financial assets are recorded on the settlement date in line with market convention.

Derivatives that are not designated as hedging instrument into a hedge accounting relationship are classified as 'measured at fair value with changes in value through profit or loss'.

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

KEUR Dec. 31, 2019	Category pursuant to IFRS 9	Carrying amount	Fair value	Level
Assets				
Other investments and other non-current financial assets[(1)]	FVtOCI	14,683	14,683	-
Other non-current financial assets, due at short-notice	AC	2,951	2,951	-
Trade receivables	AC	290,809	290,809	-
Other financial assets:				
■ Derivative instruments for cash flow hedges	FVtOCI	89	89	2
■ Other derivative instruments	FVtPL	56,278	56,278	2
■ Non-derivative instruments[(1)]	AC	2,626	2,626	-
Cash and cash equivalents	AC	137,389	137,389	1
Total financial assets		**504,825**	**504,825**	
Liabilities				
Financial liabilities				
■ Liabilities to banks	FLAC	899,034	961,894	2
Trade payables	FLAC	168,750	168,750	-
Other financial liabilities:		0	0	
■ Other derivative instruments	FVtPL	10,933	10,933	2
■ Liability from put option	FVtPL	0	0	3
■ Other miscellaneous financial liabilities	FLAC	7,681	7,681	-
Total financial liabilities		**1,086,398**	**1,149,258**	

FVtPL: Fair Value through Profit and Loss; AC: Amortized Cost; FVtOCI: Fair Value through OCI, FLAC: Financial Liability at Amortized cost

[(1)] Fair Value corresponds to historical cost due to materiality

KEUR Dec. 31, 2018	Category pursuant to IFRS 9	Carrying amount	Fair value	Level
Assets				
Other investments and other non-current financial assets[1]	FVtOCI	11,347	11,347	-
Other non-current financial assets, due at short-notice	AC	5,269	5,269	-
Trade receivables	AC	338,072	338,072	-
Other financial assets:				
■ Other derivative instruments	FVtPL	1,739	1,739	2
■ Non-derivative instruments[1]	AC	454	454	-
Cash and cash equivalents	AC	227,550	227,550	1
Total financial assets		**584,431**	**584,431**	
Liabilities				
Financial liabilities				
■ Liabilities to shareholders	FLAC	349,567	356,489	2
■ Liabilities to banks	FLAC	883,731	902,312	2
Trade payables	FLAC	167,073	167,073	-
Other financial liabilities:				
■ Derivative instruments for cash flow hedges	FVtOCI	1,024	1,024	2
■ Other derivative instruments	FVtPL	15,630	15,630	2
■ Liability from put option	FVtPL	1,206	1,206	3
Total financial liabilities		**1,418,230**	**1,443,734**	

FVtPL: Fair Value through Profit and Loss; AC: Amortized Cost; FVtOCI: Fair Value through OCI; FLAC: Financial Liability at Amortized cost

[1] Fair Value corresponds to historical cost due to materiality

The liability from a put option is in favor of the non-controlling shareholder of GEW Technologies (Pty) Ltd. (see Note 32.3).

The fair values of derivative financial instruments were as follows:

	Assets		**Liabilities**	
KEUR	**Dec. 31, 2019**	**Dec. 31, 2018**	**Dec. 31, 2019**	**Dec. 31, 2018**
Foreign exchange contracts				
■ Cashflow Hedges	89	0	0	1,025
■ not designated in a hedging relationship	5,397	1,740	1,394	1,528
Interest rate derivatives				
■ Component of embedded derivative	50,881	0	0	3,282
■ Interest rate swaps	0	0	9,539	10,819
Liability from put option	0	0	0	1,206
Total	**56,367**	**1,740**	**10,933**	**17,860**

35.3. Disclosures on hedge accounting

The development of hedging instruments for foreign exchange risks recorded in other comprehensive income as of December 31, 2019/2018, is as follows:

KEUR	Equity attributable to owners of the Parent Company	Non-controlling interests	Total
As of Dec. 31, 2017	**-533**	**-38**	**-571**
Unrealized valuation gains (+) and losses (-)	-5,668	-367	-6,035
Reclassification to consolidated income/loss	1,225	77	1,302
Deferred taxes on unrealized valuation gains	1,537	111	1,648
Change	**-2,906**	**-179**	**-3,085**
As of Dec. 31, 2018	**-3,439**	**-217**	**-3,656**
Unrealized valuation gains (+) and losses (-)	-1,449	-108	-1,557
Reclassification to consolidated income/loss	1,102	83	1,185
Deferred taxes on unrealized valuation gains	-324	-24	-348
Change	**-671**	**-49**	**-720**
As of Dec. 31, 2019	**-4,110**	**-266**	**-4,376**

The carrying amount of the derivatives used as hedging instruments is KEUR 89 (PY: TEUR -1,024) and is shown within other financial liabilities. In the financial year, an amount of KEUR 1,040 (PY: KEUR 1,908) from cash flow hedges due was reclassified from equity primarily to revenue. There were no material inefficiencies from hedging relationships in both 2018 and 2019.

The nominal value of derivative financial instruments used as hedging instruments amounts to KEUR 461 (PY: KEUR 12,449) and have a maturity of less than one year.

35.4. Net gains or net losses

The following net gains or net losses were recognized in profit or loss in 2019 and 2018.

KEUR	2019	2018
Financial assets or liabilities at fair value through profit or loss	650	633
Financial assets at amortized costs	1,885	511
Financial liabilities at amortized costs	-983	-17
Net gains or net losses	**1,552**	**1,127**

35.5. Impairment losses

The following impairment losses on financial assets were recognized in profit or loss in 2019 and 2018:

KEUR	Category	2019	2018
Impairment losses for:			
Trade receivables and contract assets	AC	5,534	5,975
Impairment losses (gross) on financial assets and contract assets		**5,534**	**5,975**
Reversals of impairment losses	AC	-1,443	-77
Impairment losses (net) on financial assets and contract assets		**4,092**	**5,898**

VII. Additional comments

36. Auditor's fee and services

The HENSOLDT Group, its subsidiaries and other companies included in the consolidated financial statements recognized the following expenses for the fees and services of KPMG AG for financial year 2019 and 2018:

	Parent company		Subsidiaries		Total	
KEUR	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Audit services	289	472	496	597	785	1,069
Other assurance services	0	0	160	0	160	0
Tax advisory services	0	75	138	365	138	440
Other services	0	3	600	253	600	256
Total	**289**	**550**	**1,394**	**1,214**	**1,683**	**1,765**

37. Events after the reporting date

No other significant events have occurred subsequent to the reporting date.

38. Future payment obligations

Purchase commitments especially for inventories and services amounted to KEUR 253,467 as of December 31, 2019 (PY: KEUR 302,543).

The following auditor's report, prepared in accordance with § 322 HGB "Handelsgesetzbuch"; "German Commercial Code", refers to the complete financial statements, comprising of statement of financial position, statement of profit and loss and notes to the annual financial statements of HENSOLDT GmbH, together with the management report of HENSOLDT GmbH for the financial year from 1 January to 31 December 2019. The management report is not included in this prospectus. The above-mentioned auditor's report and consolidated financial statements are both translations of the respective German-language documents.

Independent Auditor's Report

To HENSOLDT GmbH, Taufkirchen, District of Munich

Opinions

We have audited the consolidated financial statements of HENSOLDT GmbH, Taufkirchen, District of Munich, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as of December 31, 2019, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of HENSOLDT GmbH for the financial year from January 1 to December 31, 2019. In accordance with German legal requirements, we have not audited the remaining non-financials parts of the management report mentioned in chapter "other information" of the auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

– the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2019, and of its financial performance for the financial year from January 1 to December 31, 2019, and

– the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the remaining non-financials parts of the management report mentioned in chapter "other information" of the auditor's report.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) [Institute of Public Auditors in Germany]. Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Other Information

Management resp. Supervisory board are responsible for the other information. The other information comprises remaining non-financials parts of the management report not audited for content.

The other information does not include the consolidated financial statements, the group management report information audited for content and our auditor's report thereon.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

– is materially inconsistent with the consolidated financial statements, with the group management report information audited for content or our knowledge obtained in the audit, or

– otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is

responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

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

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in

compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

– obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

– evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.

– perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Munich, March 2, 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft)
(Original German version signed by:)

Leistner	Peschel
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

IFRS consolidated financial statements of

HENSOLDT Holding GmbH

as of December 31, 2018

HENSOLDT - Consolidated income statement

KEUR	Note	2018	2017
Revenue	10	1,110,117	917,093
Cost of sales	10	-900,422	-831,496
Impairment losses on trade receivables and contract assets		-5,898	197
Gross profit		**203,797**	**85,794**
Selling and distribution expenses		-76,848	-49,000
General administrative expenses		-68,849	-80,372
Research and development costs	11	-32,178	-29,767
Other operating income	12	32,724	23,390
Other operating expenses	12	-36,243	-19,104
Share of profit from investments accounted for using the equity method	8	-643	0
Earnings before interest and tax		**21,760**	**-69,059**
Interest income	13	14,855	12,369
Interest expense	13	-96,425	-55,528
Other finance income/costs	13	-5,275	-10,212
Finance income/costs		**-86,845**	**-53,371**
Earnings before income taxes		**-65,085**	**-122,430**
Income taxes	14	5,205	22,010
Consolidated profit/loss		**-59,880**	**-100,420**
thereof attributable to the owners of the Parent Company		-60,565	-101,374
thereof attributable to non-controlling interests		685	954

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

HENSOLDT - Consolidated statement of comprehensive income

KEUR	Note	2018	2017
Consolidated profit/loss		**-59,880**	**-100,420**
Other comprehensive income/loss			
Items that will not be reclassified to profit or loss			
Measurement of defined benefit plans	28	24,343	-23,442
Tax on items that will not be reclassified to profit or loss		-6,975	6,646
Subtotal		**17,368**	**-16,796**
Items that will be reclassified to profit or loss			
Difference from currency translation of financial statements of foreign entities		-6,805	-4,626
Cash flow hedge – unrealized gains/losses	33.4	-6,034	-4,491
Cash flow hedge – reclassified to profit or loss	33.4	1,302	2,663
Tax effect on unrealized gains/losses	33.4	1,648	1,257
Subtotal		**-9,889**	**-5,197**
Other comprehensive income/loss, net of tax		**7,479**	**-21,993**
Total comprehensive income/loss in the financial year		**-52,401**	**-122,413**
thereof attributable to the owners of the Parent Company		-51,633	-122,552
thereof attributable to non-controlling interests		-768	139

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

HENSOLDT - Consolidated statement of financial position

ASSETS

KEUR	Note	Dec. 31, 2018	Dec. 31, 2017
Non-current assets		**1,129,633**	**1,170,065**
Goodwill	15	593,860	584,050
Intangible assets	15	398,781	452,970
Property, plant and equipment	16	89,180	91,402
Investments accounted for using the equity method	8	1,570	63
Other investments and other non-current financial assets	17	11,347	5,143
Non-current other financial assets	23	735	18,904
Other non-current assets	24	9,125	3,145
Deferred tax assets	14	25,035	14,388
Current assets		**1,082,689**	**944,189**
Other non-current financial assets, due at short-notice	17	5,269	41,314
Inventories	18	407,002	386,656
Contract assets	10	80,688	0
Trade receivables	19	338,072	345,026
Current other financial assets	23	1,460	11,310
Current assets	24	21,422	16,464
Income tax receivables	14	1,226	5,445
Cash and cash equivalents	32	227,550	137,974
Total assets		**2,212,322**	**2,114,254**

EQUITY AND LIABILITIES

KEUR		Dec. 31, 2018	Dec. 31, 2017
Share capital		25	25
Capital reserve		46,275	46,275
Other reserves		-12,246	-21,178
Retained earnings		-220,655	-130,702
Treasury shares		-10,563	0
Equity held by shareholders of HENSOLDT Holding		**-197,164**	**-105,580**
Non-controlling interests		10,870	13,162
Equity, total	30	**-186,294**	**-92,418**
Non-current liabilities		**1,609,935**	**1,476,072**
Shareholder loans	32	349,567	437,474
Non-current provisions	21	310,272	294,069
Non-current financial liabilities	32	880,364	677,084
Non-current contract liabilities	10	24,767	0
Other non-current financial liabilities	23	4,561	983
Other non-current liabilities	24	3,399	21,118
Deferred tax liabilities	14	37,005	45,344
Current liabilities		**788,681**	**730,600**
Current provisions	21	210,900	310,201
Current financial liabilities	32	3,367	15,024
Current contract liabilities	10	332,800	0
Trade payables	20	167,073	146,562
Other current financial liabilities	23	13,299	18,049
Other current liabilities	24	56,294	240,754
Tax liabilities	14	4,948	10
Total equity and liabilities		**2,212,322**	**2,114,254**

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

HENSOLDT - Consolidated statement of cash flows

KEUR	Note	Jan. 1.- Dec. 31, 2018	Jan. 1.- Dec. 31, 2017
Profit/loss for the period (including minority interests)		-59,880	-100,420
Depreciation and amortization	15/16	124,414	91,686
Allowances on inventories, trade receivables and contract assets		6,984	3,390
Profit/loss from disposals of non-current assets		143	-57
Share of profit in entities recognized according to the equity method		643	0
Financial expenses (net)		81,570	43,159
Other non-cash expenses/income		4,853	1,072
Change in			
Provisions		31,501	48,645
Inventories		15,447	137,850
Contract balances		-112,406	-
Trade receivables		-14,533	-94,981
Trade payables		913	34,491
Other assets and liabilities		25,068	-56,876
Interest paid		-35,171	-27,075
Income tax expense		-5,205	-22,010
Payments or refunds of income taxes		1,336	-4,657
Change in tax receivables/payables, tax provisions including deferred taxes		0	-5,036
Cash flows from operating activities		**65,677**	**49,182**
Acquisition of intangible assets and property, plant and equipment	15/16	-60,084	-39,277
Proceeds from sale of intangible assets and property, plant and equipment	15/16	426	902
Acquisition of associates, other investments and other non-current investments	8/17	-8,324	-281
Disposal of associates, other investments and other non-current investments	17	24,182	0
Acquisition or subsidiaries net of cash acquired		-17,329	-1,012,440
Other		240	701
Cash flows from investing activities		**-60,889**	**-1,050,396**
Assumption of financial liabilities	32.3	222,900	1,116,827
Repayment of financial liabilities	32.3	-123,995	0
Changes in capital and changes in non-controlling interests	32.3	0	22,314
Purchase of treasury shares	30.2	-10,563	0
Dividend payments to non-controlling interests		-304	0
Other		149	0
Cash flows from financing activities		**88,187**	**1,139,141**
Effects of movements in exchange rates on cash and cash equivalents		-3,399	0
Net changes in cash and cash equivalents		**89,576**	**137,927**
Cash and cash equivalents			
Cash and cash equivalents on January 1	32.1	**137,974**	**46**
Cash and cash equivalents on December 31	32.1	**227,550**	**137,974**

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

HENSOLDT – Consolidated statement of changes in equity

KEUR	Note	Attributable to the owners of the Parent Company			Other reserves					Non-controlling interests	Total
		Subscribed capital	Capital reserve	Retained earnings	Measurement of pension plans	Cash flow hedge	Difference from currency translation	Treasury shares	Sub-total		
As of Jan. 1, 2017		**25**	**27**	**-29,328**	**0**	**0**	**0**	**0**	**-29,276**	**0**	**-29,276**
Consolidated profit/loss		0	0	-101,374	0	0	0	0	**-101,374**	954	**-100,420**
Other comprehensive income/loss		0	0	0	-16,796	-533	-3,849	0	**-21,178**	-815	**-21,993**
Total comprehensive income /loss in the financial year		**0**	**0**	**-101,374**	**-16,796**	**-533**	**-3,849**	**0**	**-122,552**	**139**	**-122,413**
Capital increase		0	46,248	0	0	0	0	0	**46,248**	0	**46,248**
Transactions with non-controlling interests and purchase by company acquisition		0	0	0	0	0	0	0	**0**	13,023	**13,023**
As of Dec. 31, 2017	**30**	**25**	**46,275**	**-130,702**	**-16,796**	**-533**	**-3,849**	**0**	**-105,580**	**13,162**	**-92,418**
Changes in accounting policies due to IFRS 9	**4**	0	0	9,873	0	0	0	0	**9,873**	**0**	**9,873**
Changes in accounting policies due to IFRS 15	**4**	0	0	-40,583	0	0	0	0	**-40,583**	**0**	**-40,583**
As of Jan. 1, 2018	**30**	**25**	**46,275**	**-161,412**	**-16,796**	**-533**	**-3,849**	**0**	**-136,290**	**13,162**	**-123,128**
Consolidated profit/loss		0	0	-60,565	0	0	0	**0**	**-60,565**	**685**	**-59,880**
Other comprehensive income/loss		0	0	0	17,368	-2,906	-5,530	0	**8,931**	**-1,453**	**7,479**
Total comprehensive income /loss in the financial year		0	**0**	**-60,565**	**17,368**	**-2,906**	**-5,530**	**0**	**-51,633**	**-768**	**-52,401**
Purchase of treasury shares	**30.2**	0	0	0	0	0	0	-10,563	**-10,563**	**0**	**-10,563**
Dividends for non-controlling interests		0	0	0	0	0	0	0	**0**	**-304**	**-304**
Other7		0	0	1,322	0	0	0	**0**	**1,322**	-1,220	**102**
As of Dec. 31, 2018	**30**	**25**	**46,275**	**-220,655**	**572**	**-3,439**	**-9,379**	**-10,563**	**-197,164**	**10,870**	**-186,294**

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

HENSOLDT - Notes to the consolidated financial statements

I. Basis of presentation

1. The Company

These IFRS consolidated financial statements comprise the financial position, financial performance and cash flows of HENSOLDT Holding GmbH (the 'Company' or 'HENSOLDT Holding') and its subsidiaries (the 'Group' or 'HENSOLDT Group) with its registered office in Taufkirchen, Germany (registered office: Willy-Messerschmitt-Str. 3, 82024 Taufkirchen, Germany, under file no. HRB 232418, Munich District Court).

The financial year is the calendar year.

Management released the IFRS consolidated financial statements for circulation to the Supervisory Board on March 8, 2019.

HENSOLDT Holding GmbH is a multinational company in the defense and security industry and is based in Germany. The main product areas are radars and optoelectronic systems, spectrum dominance and airborne solutions.

The consolidated financial statements of HENSOLDT Holding GmbH are included in the financial statements of Square Lux TopCo S.à r.l.; Luxembourg. Square Lux TopCo S.à r.l., Luxembourg prepares the consolidated financial statements for the smallest and largest group of companies. This company's registered office is located at Rue de Rollingergrund 59, 2440 Luxembourg, and listed at the Registre de Commerce et des Sociétés under number B204231.

2. Significant accounting policies

2.1. Basis of preparation

In accordance with Section 290 of the German Commercial Code [HGB], HENSOLDT Holding GmbH, as ultimate German parent company, prepares consolidated financial statements pursuant to Section 315e (3) HGB according to EU IFRS.

The Company's consolidated financial statements as of December 31, 2018, have been prepared voluntarily in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as these are to be applied in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in the European Union. The additional requirements of Section 315e (1) of the German Commercial Code [HGB] were taken into account.

These consolidated financial statements of the Company are the first financial statements in which IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments are applied. For the transition to the new standards, use was made of the option to present the comparative period according to the previous standards and thus no adjustments were made to the comparative information.

In addition, the period of operating activities in the prior year covered only 10 months owing to the assumption of business activities.

The current reporting period is thus comparable with the corresponding prior-year period only to a limited extent. Changes in important accounting policies are described in Section 4.

These consolidated financial statements are presented in euro (EUR), which is the Group's functional currency. Unless otherwise indicated, all financial figures presented in euro are rounded to the nearest thousand.

These financial statements were prepared based on the assumption of the Group's continuation as a going concern. In the Group's second year of operating activities a consolidated loss of EUR 60 million was generated as a result of expenses in connection with acquisitions, from separation costs and other non-recurring effects as well as the subsequent expenses arising from the purchase price allocation. This resulted in negative consolidated equity of EUR 186 million.

The Group's liquidity is ensured at all times due to cash flows from operating activities of EUR 66 million, cash and cash equivalents as of December 31, 2018, of EUR 228 million and via an existing revolving credit facility of EUR 200 million.

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

2.2. Consolidation policies

Business combinations

The Group accounts for business combinations using the acquisition method, provided the Group has gained control. The consideration transferred for the acquisition and the identifiable net assets acquired are generally recognized at fair value. Any goodwill arising is tested for impairment annually. Any gain on a bargain purchase is recognized directly in the consolidated income statement. Transaction costs are expensed as incurred unless they are related to the issue of debt or equity securities.

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

Subsidiaries

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

Non-controlling interests

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

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

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

Shares in investments accounted for using the equity method

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

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

Investments in associates and joint ventures are recognized as equity-accounted investees. They are initially recognized at cost, which also includes transaction costs. After initial recognition, the consolidated financial statements contain the Group's share in the total comprehensive income of the equity-accounted investee until the date at which significant influence or joint management ends.

Consolidation of intercompany transactions

Internal group balances and business transactions and all unrealized revenue and expenses from internal group business transactions are eliminated during preparation of the consolidated financial statements. Unrealized gains on transactions with equity-accounted investees are derecognized against the investment in the amount of the Group's share in the investment. Unrealized losses are eliminated in the same way as unrealized gains, but only if there are no indications of impairment.

2.3. Revenue recognition

Revenue recognition – approach from January 1, 2018

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

Revenue is equal to the transaction price to which HENSOLDT is expected to be entitled. Variable considerations (such as price escalations, contractual penalties, price audit) are included in the transaction price if it is highly probable that a significant reduction in revenue will not occur or when the uncertainty associated with the variable consideration no longer exists. The amount of the variable consideration is determined either according to the expected value method or using the most likely amount, depending on which method better predicts the variable consideration. If the length of time between the transfer of the goods or services and the payment date exceeds 12 months and a significant benefit from financing arises for the customer or HENSOLDT, the consideration under IFRS 15 would need to be adjusted by the time value of money. As there are significant other reasons leading to a divergence between the point in time of performance and payment, the financing component is not given from the perspective of management of HENSOLDT.

If a contract comprises several distinct goods or services, the transaction price is allocated to the performance obligation based on the relative stand-alone selling price. If stand-alone selling prices are not directly observable, HENSOLDT estimates these in an appropriate amount. HENSOLDT generally prices all performance obligations in each case with their stand-alone selling price, adjusted for increases in costs or improvements in efficiency where applicable; this price is calculated on the basis of expected costs plus a margin typical for this type of good or service. This means that a reallocation of transaction prices (deviating from the prices recorded in the contract) is generally not necessary. If there are specific indications in the individual case that the prices stipulated in the contract for the separate performance obligations do not correspond to their respective stand-alone selling price, further evaluation is necessary. The best evidence of a stand-alone selling price is the observable price at which HENSOLDT sells

the particular good or service separately and under similar conditions to similar customers. If stand-alone selling prices are not directly observable, HENSOLDT estimates these at the level of the separate performance obligation (and not at the level of the contract).

If no observable prices exist, particularly as the goods and services offered by HENSOLDT are highly complex and individual, the adjusted market assessment approach is also not possible. In these cases, HENSOLDT estimates the stand-alone selling price of each separate performance obligation based on the expected costs plus margin approach.

Revenue is recognized for each performance obligation either at a point in time or over time.

For each performance obligation to be satisfied over time pursuant to IFRS 15, HENSOLDT recognizes revenue over time by determining the progress towards complete satisfaction of that performance. HENSOLD applies one single method (percentage of completion) to determine the progress for each performance obligation to be satisfied over time, with the selected method being consistently applied to similar performance obligations and similar circumstances.

HENSOLDT provides performance obligations over time where one of the following criteria is met:

(a) Routine or recurring services, particularly maintenance contracts or training services In the case of routine or recurring services, progress is generally measured according to an output-based method (e.g. number of goods or services already rendered as a proportion of total goods or services to be rendered)

(b) Performance obligations for which the customer clearly controls the asset already during performance

(c) Performance obligations for which HENSOLDT in the course of performance creates or improves an asset without alternative benefit for HENSOLDT and at each point in time during performance HENSOLDT has an enforceable right to payment of performance already rendered including an appropriate profit margin.

In cases of criteria (b) and (c), progress is measured using an input-based method (e.g. costs already incurred to satisfy the performance obligation as a proportion of the total expected costs (percentage of completion method).

For the percentage of completion method (PoC), the estimate of total costs is of particular significance; in addition, the estimates regarding the extent of performance can include costs required for the fulfilment of contractual obligations. These main estimates include the estimated total costs, the estimated total revenue, contract risks and other significant parameters. According to the percentage of completion method, changes in estimates can increase or reduce revenue.

An expected loss on a contract is recognized immediately in profit or loss.

Costs for obtaining and fulfilling a contract: Costs capitalized for obtaining and fulfilling a contract are amortized in line with the transfer of control over the promised goods and services which relate to these capitalized costs. If there is a significant change in respect of HENSOLDT's expected period of transfer of control over the promised goods and services to which the capitalized costs refer, HENSOLDT is required to correspondingly adjust the amortization period and to recognize this as a change to the accounting-related estimates pursuant to IAS 8.

In addition, HENSOLDT is required to recognize impairment losses on capitalized costs for obtaining and fulfilling a contract if their residual carrying amount as of the reporting date

exceeds the expected consideration that HENSOLDT expects to receive in exchange for the transfer of the goods and services concerned less the remaining costs which relate directly to the performance of these goods and services.

Revenue from the provision of services: Revenue is recognized on a linear basis over time or – if performance is not linear – then corresponding to the provision of the services. Invoices are issued pursuant to the contractual terms; in this regard the payment terms typically provide for payment between 30 and 60 days after invoicing.

Revenue from the sale of goods: Revenue is recognized at the point in time at which the power of control transfers to the purchaser, generally upon delivery of the goods. Invoices are issued at that time; in this regard the payment terms typically provide for payment between 30 and 60 days after invoicing.

Contract assets, contract liabilities and trade receivables

If one of the contract parties has met its contractual obligations – depending on whether HENSOLDT has performed its contractual obligations or the customer has paid the agreed consideration – a contract asset, contract liabilities or a receivable is recognized.

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

If the customer pays a consideration or HENSOLDT has an unconditional entitlement to a specific consideration (i.e. a receivable) prior to the transfer of a good or a service to the customer, HENSOLDT recognizes a contract liability when the payment is made or due (depending on which point in time occurs first).

The distinction between contract asset and receivable includes diverse information on the risks of the company: both items include the default risk on the part of the customer, nevertheless only the contract asset also includes the risk of future performance. Receivables are shown when the entitlement to recovery of consideration is no longer subject to any condition.

HENSOLDT measures contract assets and receivables using the effective interest method at amortized cost less impairment losses. Impairment losses on contract assets and receivables include significant judgments and estimates of management based on the credit rating of individual customers, which are in turn based on the assessment of external rating agencies, on country-specific default risks, the current economic development and analysis of past bad debts.

Revenue recognition – approach until December 31, 2017

Sale of goods and services

Revenue is realized in the amount in which it is likely that the economic benefits from the Group's operating activities will be accrued by the HENSOLDT Group, the revenue can be reliably determined and the recognition criteria for each type of revenue generating activity are fulfilled (sale of goods and services as well as construction contracts). Revenue is measured at the fair value of the consideration received or to be received.

Revenue is recognized when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs

and possible returns can be estimated reliably, there is no continuing control over the goods, and the amount of revenue can be measured reliably. Revenue is recognized less returns, price deductions and volume discounts.

CONSTRUCTION CONTRACTS

Until December 31, 2017, the Group recognized long-term construction contracts pursuant to IAS 11 for some customers of HENSOLDT Group on the basis of customer-specific contracts.

Contract revenue includes the initial amount agreed in the contract plus all payments for variations in contract work, claims and incentives, to the extent that it is probable that they will result in revenue and can be measured reliably.

If the outcome of a construction contract can be reliably estimated, contract revenue is recognized in profit or loss in line with the stage of completion. The stage of completion is assessed by reference to surveys of work performed. If the outcome of a construction contract cannot be reliably estimated, contract revenue is recognized only in the amount of the contract costs incurred that are likely to be recoverable.

Contract costs are recognized as incurred unless they form an asset associated with the future order fulfillment. An expected loss from a contract is recognized immediately in profit or loss.

Receivables from long-term construction contracts (POC receivables) represent the gross amounts that can be demanded from customers for the service performed up until the reporting date. These are measured at the amount of costs incurred plus recognized profits less partial payments received and any recognized losses.

Receivables from long-term construction contracts are presented in the statement of financial position as a part of trade and other receivables for all contracts in which the costs incurred plus recognized profits exceed partial payments received and recognized losses. If the partial payments received and recognized losses exceed the costs incurred plus recognized profits, the difference is presented as other provision.

2.4. Intangible assets and goodwill

Intangible assets

The intangible assets with limited useful lives are generally amortized on a straight-line basis over their respective expected useful lives (3 to 10 years) to their estimated residual values. Brands with indefinite useful lives are not amortized but tested for impairment annually.

Goodwill

Goodwill arising from business combinations is measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually or if objective evidence of impairment exists.

Research and development

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

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

Research and development activities generally begin with a concept phase. In the concept phase the Group generally assumes that the criteria for recognition under IAS 38 are satisfied if the Preliminary Design Review (PDR: for established technologies) or Critical Design Review (CDR) was successfully completed.

Other development expenditure is recognized in the consolidated income statement as soon as it is incurred. Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses. An impairment test is carried out on an annual basis. Capitalized development expenditure is generally amortized over the estimated useful life of the internally generated intangible asset. Amortization of the capitalized development expenditure is recognized under cost of sales.

2.5. Inventories

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

Manufacturing costs include all costs directly attributable to the manufacturing process, such as material costs, wage and production-related overheads (based on normal operating capacity and normal use of materials, labor and other production costs) including write-downs. If any inventory risks exist, e.g. due to reduced usability after longer storage periods or lower replacement costs, suitable write-downs are recognized. Write-downs on inventories are recognized when it is probable that projected contract costs will exceed total contract revenue.

2.6. Employee benefits

Short-term employee benefits

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

Defined contribution plans

Obligations for contributions to defined contribution plans are recognized as expenses as soon as the associated work is performed. Prepaid contributions are recognized as an asset to the extent that there is an entitlement to a refund or a reduction in future payments.

Defined benefit plans

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

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

Remeasurements of the net defined benefit liability are recognized directly in other comprehensive income. Remeasurements of the net defined benefit liability comprise

actuarial gains and losses and the return on plan assets (excluding interest). The Group determines the net interest expense (income) on the net defined benefit liability (plan asset) for the reporting period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual reporting period. This discount rate is applied to the net defined benefit liability (asset) on that date. Any changes to the net defined benefit liability (asset) due to payment of contributions or benefits during the reporting period are taken into account. Net interest and other expenses relating to defined benefit plans are recognized in the consolidated income statement.

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

Other long-term employee benefits

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

2.7. Other provisions

Provision for onerous contracts

The Group recognized provisions for onerous (loss-making) contracts if it is probable that total contract costs will exceed the total contract revenue. The provision is measured at the lower amount of expected costs for terminating the contract and the expected net costs from performing the contract. Before a provision for onerous contracts is recognized the associated inventories are written down.

Onerous sales contracts are identified by monitoring the progress of the contract and the underlying project and by updating the estimate of contract costs, which involves significant and complex assumptions, assessments and estimates in connection with obtaining a certain performance standard and estimates relating to other costs (see note 3 'Key estimates and assessments', note 10 'Revenue, cost of sales, gross margins, contract assets and contract liabilities' and note 21 'Provisions').

Warranties

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on the individual assessment of future costs to be incurred taking account of cases of goodwill.

2.8. Hedge accounting

The HENSOLDT Group carries out some transactions in foreign currency. The income and cost risks resulting from currency fluctuation are limited by purchases and sales in corresponding foreign currencies as well as forward exchange transactions. Hedging contracts are concluded for foreign exchange risks of individual customer or supplier contracts. The Company concludes these forward exchange contracts with banks.

For foreign currency transactions the Group applies cash flow hedge accounting to its derivatives contracts if the corresponding criteria are met. Hedge accounting ensures that derivative gains or losses are recorded through profit or loss (primarily as a part of revenue) in the same period in which the hedged items or transactions are recognized through profit or

loss. By contrast, changes in the value of derivative contracts are recognized in total comprehensive income if the hedged items or transactions have not yet been recognized through profit or loss.

Derivative contracts that do not qualify for hedge accounting are accounted for at fair value through profit or loss and all associated gains and losses are recognized in finance income/ costs.

The Group's hedging strategy and hedge accounting policies are described in more detail in note 33 'Information on financial instruments'.

2.9. Financial instruments

Recognition and initial measurement

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

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

Classification and subsequent measurement

Financial assets – approach from January 1, 2018

For initial recognition, a financial asset is classified and measured as follows:

IFRS 9 includes a new classification and measurement approach for financial assets, which reflects the business model (in which the assets are held) and the characteristics of their cash flows. From January 1, 2018, the Group classifies its financial assets into the following measurement categories:

(i) "measured at amortized cost" (AC)

(ii) "at fair value with changes through profit or loss" (FVTPL) and

(iii) "at fair value through other comprehensive income" (FVTOCI).

Financial assets are not reclassified after initial recognition unless the Group changes its business model to manage financial assets. In this case all affected financial assets are reclassified on the first day of the reporting period following the change in the business model.

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

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

A debt instrument is designated at FVTOCI if both of the following conditions are met and it was not designated at FVTPL:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition of an equity instrument that is not held for trading, the Group can irrevocably elect to present subsequent value changes of the investment in other comprehensive income. This decision is made on a case-by-case basis for each investment. All financial assets that are not measured at amortized cost or at FVTOCI are measured at FVTPL. This includes all derivative financial assets (see note 33). For initial recognition the Group can irrevocably elect to designate at FVTPL financial assets which otherwise meet the conditions for measurements at amortized cost or at FVTOCI, if this otherwise results in measurement and recognition inconsistencies (accounting mismatch) that arise being eliminated or significantly reduced.

Financial assets – subsequent measures and gains and losses: approach from January 1, 2018

Financial assets at FVTPL: These assets are subsequently measured at fair value. Net gains and losses, inclusive of any interest and dividend income, are recognized in profit or loss. For derivatives designated as hedging instruments in an effective hedge, see note 33.

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

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

Equity instruments at FVTOCI: These assets are subsequently measured at fair value. Dividends are recognized as income in profit or loss unless the dividends clearly represent cover of a part of costs of the investment. Other net gains or losses are recognized in other comprehensive income and are never reclassified to profit or loss.

Financial assets – approach until December 31, 2017

Non-derivative financial assets – classification until December 31, 2017

Until December 31, 2017, the Group classified non-derivative financial assets in the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Available-for-sale financial assets.

The Group did not hold held-to-maturity investments.

Non-derivative financial liabilities – classification until December 31, 2017

The Group did not classify non-derivative financial liabilities as financial liabilities measured at amortized cost.

Non-derivative financial assets – measurement until December 31, 2017

A ***financial asset is measured at fair value through profit or loss*** if it is classified as held for trading or is designated as such on initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Changes in financial assets measured at fair value through profit or loss, which also include all interest and dividend income, are recognized in profit or loss.

Loans and receivables are initially recognized at fair value plus any directly attributable transactions costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

Available-for-sale financial assets are measured initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the available-for-sale financial assets are measured at fair value and any changes in value are recognized in OCI and shown in the revaluation reserve in equity. If an asset is derecognized, any accumulated related amounts disclosed as a component of other comprehensive income are reclassified to profit or loss.

Non-derivative financial liabilities – classification, subsequent measurement and gains and losses

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities.

Financial liabilities are classified and measured at amortized cost or at fair value through profit or loss (FVTPL). A financial liability is classified at FVTPL if it is classified as held for trading, is a derivative or is designated as such on initial recognition.

Financial liabilities measured at FVTPL are measured at fair value and net gains or losses, including interest expenses, are recognized in profit or loss.

Other financial liabilities are measured using the effective interest method for subsequent measurement at amortized cost. Interest expenses and foreign currency translation differences are recognized in profit or loss. Gains or losses arising from derecognition are also recognized in profit or loss.

See note 33.4 for financial liabilities, which were designated as hedging instruments.

Derecognition

Financial assets

The Group derecognizes a financial asset when the contractual rights to receive the cash flows of an asset expire or it transfers the rights to receive the cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are also transferred.

Assets are also derecognized when the Group does not retain substantially all the risks and rewards of ownership or control of the transferred asset.

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

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

Netting

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

Derivative financial instruments and hedge accounting

Derivative financial instruments and hedge accounting – approach from January 1, 2018

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract under certain circumstances and accounted for separately.

Derivatives are measured at fair value on initial recognition; attributable transaction costs are recognized in profit or loss when incurred. For the purposes of subsequent measurement, derivatives are measured at fair value. Any resulting changes are generally recognized in profit or loss.

Hedge accounting: Upon initial application of IFRS 9 the Group has the option of continuing to apply the accounting policies of IAS 39 for hedging transactions. The Group decided to continue to apply the existing requirements of IAS 39 for hedges for the time being.

To hedge cash flow fluctuations from highly probable forecast transactions due to changes in exchange rates and interest rates, the Group designates certain derivatives as hedging instruments.

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

Cash flow hedge

If a derivative is designated a cash flow hedging instrument, the effective portion of changes in the fair value is recognized in other comprehensive income and the cumulative change transferred to the hedging reserve. The effective portion of changes in fair value recognized in other comprehensive income is limited to the cumulative change of fair value of the hedged item (calculated on the basis of present value) from the inception of the hedge. An ineffective portion of changes in fair value of the derivative is recognized directly in profit or loss.

If a hedged forecast transaction later results in the recognition of a non-financial item, such as inventories, the accumulated amount from the hedging reserve and the costs of hedging reserve is included directly in the cost of the non-financial item when this is recognized.

For all other hedged forecast transactions, the accumulated amount, which was transferred to the hedging reserve and the costs of hedging reserve, is reclassified to profit or loss in the period or periods in which the hedged forecast future cash flows affect profit or loss.

If the hedge no longer meets the criteria for hedge accounting, or the hedging instrument is sold, expires, is terminated or exercised, then hedge accounting is discontinued prospectively.

If hedge accounting to hedge cash flows is terminated, the amount which was transferred to the hedging reserve remains within equity until

- for a hedging transaction which results in the recognition of a non-financial item: this amount is included in the cost of the non-financial items on initial recognition, or
- for other cash flow hedges: this amount is reclassified to profit or loss in the period or periods in which the hedged forecast future cash flows affect profit or loss.

If the hedged future cash flows are no longer forecast, the amounts that were transferred to the hedging reserve and the costs of hedging reserve are directly reclassified to profit or loss.

Derivative financial instruments and hedge accounting – approach before January 1, 2018

The approach used for comparative information for 2017 is similar to the approach applied for 2018. For all cash flow hedges, including those resulting in the recognition of a non-financial item, the amounts which were cumulatively transferred to the cash flow hedging reserve were reclassified in profit or loss in the period or periods in which the hedged forecast future cash flows affected profit or loss.

2.10. Taxes on income

Income tax expense comprises both actual income tax to be paid and deferred taxes.

Actual income tax receivables and liabilities are measured at the amount at which a refund from or a payment to the relevant tax authorities is expected. The amount is calculated on the basis of the tax rates and tax laws applicable as of the reporting date or will be applicable in the near future.

Applying the liability method of IAS 12 (Income taxes), **deferred taxes** are calculated on the basis of temporary differences between the tax and commercial valuation approaches including differences from consolidation, loss and interest carryforwards as well as tax credits. The calculation uses the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. The amount is calculated on the basis of the tax rates and tax laws applicable as of the reporting date or will be applicable in the near future.

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

- the initial recognition of goodwill; or
- an asset or liability from a transaction which is not a business combination and at the date of the transaction affects neither the income (loss) for the period nor taxable profit (taxable loss), and
- all taxable temporary differences associated with investments in subsidiaries, associates, interests in joint ventures, where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer likely that sufficient taxable earnings will be available against which the deferred tax asset could be offset at least in part. Deferred tax assets that are not recognized are reviewed at each reporting date and recognized to the extent to which it has become likely that future taxable earnings will permit the realization of the deferred tax asset.

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

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

2.11. Transactions in foreign currency

In the separate financial statements of the subsidiaries, transactions denominated in foreign currency are translated at the exchange rate applicable on the date the transaction is recorded. Gains and losses from settling such transactions and from the translation of monetary assets and liabilities with the exchange rate prevailing on the reporting date are recognized in profit or loss.

The financial statements of foreign subsidiaries are translated into euro on the basis of the functional currency method in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates. The functional currency is the respective local currency of the entity. Assets and liabilities as well as contingent liabilities and other financial obligations are translated at the exchange rate prevailing on the reporting date (closing rate). The items in the income statement and consequently the net income for the year recognized in the income statement are translated at the average monthly exchange rate of the accounting period. The equity in place at the date of initial consolidation is translated at historical exchange rates for the foreign entities included in the consolidated financial statements. Any resulting differences are recorded as a reserve in equity with no effect on profit or loss.

2.12. Statement of cash flows

Under the indirect determination of cash flow, the changes in items in the statement of financial position related to operating activities are adjusted by currency translation effects and by changes in the scope of consolidation. For this reason, they cannot be directly reconciled with the relevant changes on the basis of the published consolidated statement of financial position.

2.13. Impairment

(a) Non-derivative financial assets – approach from January 1, 2018

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

- financial assets at amortized cost
- contract assets.

Allowances on trade receivables and contract assets are always measured in the amount of the lifetime expected credit loss.

To assess whether the credit risk of a financial asset since initial recognition has significantly increased and for the assessment of expected credit losses the Group considers reasonable and supportable information which is relevant and available without undue cost or effort. This covers both quantitative and qualitative information and analysis, which is based on past experience of the Group and in-depth assessments, inclusive of forward-looking information.

Lifetime expected credit losses are expected credit losses which result from all possible default events over the expected lifetime of a financial instrument.

12-month credit losses are the share of expected losses resulting from default events which are possible within 12 months of the reporting date (or a shorter period if the expected term of the instrument is less than 12 months). The maximum period over which the ECL is to be estimated is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of expected credit losses

In this regard, the estimated expected losses on trade receivables were calculated on the basis of actual credit losses in recent years. Credit risks were segmented according to common credit risk attributes. These are the risk assessments on the basis of rating grades of the Standard & Poor's rating agency as well as the geographic location.

Financial assets with a deterioration in credit risk

At each reporting date, the Group assesses whether the credit risk of the financial assets measured at amortized cost has deteriorated. The credit risk of a financial asset has deteriorated if one or more events occurs which has adverse effects on the expected future cash flows of the financial asset:

Indicators of a financial asset having a deterioration in credit risk include the following observable data:

- significant financial difficulty of the issuer or the borrower,
- a breach of contract, such as a default or past-due situation of more than 90 days
- restructuring of a loan or credit by the Group which would not otherwise have been considered
- if it is probable that the borrower will become insolvent or enter into other bankruptcy proceedings, or
- the disappearance of an active market for a security because of financial difficulties.

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

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

Impairment

The gross carrying amount of a financial asset is impaired when according to an appropriate assessment the Group does not assume that the financial asset can be partly or wholly realized.

(b) Non-derivative financial assets – approach before January 1, 2018

A financial asset that is not measured at fair value through profit or loss, including the interest in an equity-accounted investee, was tested on every reporting date to determine whether there is objective indication of impairment.

Objective indications that financial assets are impaired included:

- default or payment delay by a debtor;
- restructuring of an amount payable to the Group at terms which the Group would not otherwise consider;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security due to financial difficulties or observable data indicating that there is a measurable decrease in estimated future cash flows from a group of financial assets.

Financial assets at amortized cost

The Group considered indications of impairment of these financial assets at both the individual asset and the collective level. All individually significant assets were tested for

specific impairment. Those that did not prove to be specifically impaired were then tested collectively for any impairment that has occurred but has not yet been identified. Assets that were not individually significant were tested collectively for impairment by grouping assets with similar risk characteristics.

To test for collective impairment, the Group used historical information on the timing of payments and the amount of losses incurred, adjusted in accordance with the management's judgment as to whether the current economic conditions and lending conditions are such that actual losses are likely to be greater or smaller than the losses expected on the basis of historical trends.

An impairment loss was calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows and discounted using the asset's original effective interest rate. Losses are expenses and recognized in an allowance account. Amounts are fully written off if the Group does not have any realistic prospects of recovering the asset. If an event that occurred after the recognition of impairment reduces the amount of the impairment, the impairment loss would have been reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets were recognized by reclassifying the losses accumulated in equity from the fair value reserve to profit or loss. The amount of the cumulative loss that was reclassified from equity to profit or loss was the difference between the cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. If, in a subsequent period, the fair value of an impaired debt instrument classified as available for sale increased and the increase could be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss was reversed, with the amount of the reversal being recognized in profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale were not reversed through profit or loss.

(c) Non-financial assets

The carrying amounts of the non-financial assets of the Group – with the exception of inventories and deferred tax assets – are reviewed at the end of each reporting period to determine if there are indications of impairment. If this is the case, the recoverable amount of the asset is estimated. Goodwill and intangible assets with indefinite useful lives are tested for impairment once a year.

To determine if an impairment has occurred, assets are combined into the smallest group of assets that generate cash inflows from continuing use and are largely independent from the cash inflows of other assets or cash generating units (CGUs). Goodwill acquired from a business combination is allocated to the CGUs or groups of CGUs which are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the higher of its value in use and its fair value less costs to sell. To assess the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the present market assessment of the time value of money and the specific risks relating to an asset or a CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount.

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

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

For further details, please refer to ‘3.4 Impairment testing’.

2.14. Assessment at fair value

A number of the Group’s accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The fair value is the price at which an asset would be sold or a liability transferred under current market conditions on the measurement date in an orderly transaction on the primary market or, if such a market is not available, the most advantageous market to which the Group has access at this point in time. The fair value of a liability reflects the non-performance risk.

The Group uses the following hierarchy to determine and present fair value of the financial instruments for each valuation method:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Methods by which input parameters that substantially impact the fair value determination are not based on observable market data

If an asset or liability measured at fair value has a bid or ask price then the Group measures assets or long positions at the bid price and liabilities and short positions at the ask price.

The best indication of the fair value at initial recognition of a financial instruments is generally the transaction price, i.e. the fair value of the consideration paid or received. If the Group determines that at initial recognition the fair value is different to the transaction price and the fair value can neither (a) be substantiated using a quoted price on an active market for an identical asset or liability nor (b) is based on a measurement technique in which all unobservable inputs can be considered immaterial, then this financial instrument is to be measured at fair value on initial recognition. This amount is adjusted to define the difference between the fair value and transaction price. For the purposes of subsequent measurement, this difference is recognized in profit or loss appropriately over the term of the instrument, however no later than upon full measurement using observable market data or upon derecognition of the transaction.

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

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

Equity instruments: the fair value of unlisted equity instruments cannot be reliably determined as the area of reasonable approximation of the fair value is decisive and the probabilities of the various estimates within the area cannot be appropriately assessed. With due consideration of materiality, these instruments are measured at cost and their carrying amounts are used in the place of fair value.

Assets from customer financing and other loans: the carrying amounts shown in the financial statements are used as rough estimates of the fair value.

Trade and other receivables, contract assets and other receivables: the carrying amounts shown in the financial statements are used as reasonable approximation of the fair value due to the relatively short period between the receivable arising and it falling due.

Cash and cash equivalents: comprise cash on hand, cash at bank and checks. The carrying amounts shown in the financial statements are used as reasonable approximation of the fair value due to the relatively short period between the instrument arising and its term or maturity.

Derivatives: the fair values of derivative instruments are based on quoted market prices where available but in most cases are determined using accepted measurement methods such as option pricing models and discounted cash flow models. Measurement is based on observable market data such as exchange rates, rates for forward exchange transactions, interest rates and yield curves.

The fair values of derivatives are measured on the basis of input parameters from Level 2.

Forward rate price determination for forward exchange transactions: the fair value is determined by using the quoted forward rate as of the reporting date and net present value calculations based on yield curves with high credit ratings in the relevant currencies.

Price determination for interest rate futures: the fair value is calculated as the present value of estimated future cash flows. Estimates of future cash flows from variable interest payments are based on quoted rates for interest rate futures, future prices and interbank interest rates. The estimated cash flows are discounted using a yield curve that was constructed from similar sources and reflects the relevant comparable interbank interest rate used by market participants for pricing the interest rate futures. The fair value estimate is adjusted for the credit risk which reflects the credit risk of the Group and the contracting party. This is calculated using credit spreads derived from credit default swap and bond prices.

Financial liabilities: the fair values recognized for financial liabilities, which are not bond or debt securities, are determined on the basis of input parameters from Level 2 in which planned or expected cash flows are discounted with corresponding market interest rates.

Trade payables, contract liabilities as well as current other financial liabilities: the carrying amounts of trade payables, contract liabilities and other current financial liabilities are seen as reasonable approximations of the fair value due to the relatively short period between the instrument arising and its maturity.

3. Key estimates and assessments

The preparation of consolidated financial statements requires the use of assumptions and estimates. In preparing the consolidated financial statements, management uses its best judgment based on its experience and the prevailing circumstances at that time. The estimates and assumptions are based on available information and conditions at the end of the accounting period and are regularly reviewed. The following key estimates and assessments have a significant influence on the amounts reported in the consolidated financial statements:

3.1. Revenue recognition for construction contracts (rendering of performance obligations over time)

Revenue from the rendering of performance obligations over time is recognized using the percentage of completion method (PoC method). Under this method, exact estimates of

contract results at the stage of completion and on the extent of progress to completion are very important. To determine the progress of the contract the key estimates include total contract costs, the remaining costs until completion, the overall contract revenue, the contract risks and other claims.

Management regularly reviews all estimates used for these contracts and adjusts them as required (for more information please refer to note 10 ‘Revenue, cost of sales, gross margin, contract assets and contract liabilities’ as well as note 19 ‘Trade receivables’).

3.2. Capitalization of development cost

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

3.3. Assets acquired and liabilities assumed as well as goodwill

Measurement of the fair value of assets acquired and liabilities assumed in the course of company acquisitions, which form the basis of the measurement of goodwill, requires significant estimates. Land, buildings and machinery are usually measured independently while marketable securities are measured at market prices. If intangible assets are identified, based on the type of intangible asset and the complexity of determining its fair value, the Group consults either an independent external valuation expert or develops the fair value internally using suitable valuation techniques that are based in general on the forecast of total expected future net cash flows.

These measurements are closely related to management’s assumptions regarding the future development of related assets and the discount rate to be applied.

3.4. Impairment testing

After initial recognition, goodwill is measured at cost less cumulative impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, starting from the acquisition date, allocated to the Group’s cash-generating units that are expected to benefit from the combination. This applies irrespective of whether other assets or liabilities of the entity acquired are assigned to these cash-generating units.

An impairment is recognized when the carrying amount of an asset or cash generating unit exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of fair value less costs to sell and value in use. The calculation of fair value less costs to sell is based on available data from binding sales transactions between independent business partners for similar assets or observable market prices less costs directly attributable to the sale of the asset. To calculate the value in use the discounted cash flow method is generally applied. Cash flows are generally derived from the financial plan for the next three years, which does not include restructuring measures to which the Group has not yet committed and material future investments that are not yet approved.

At the end of each reporting period the Group assesses whether there is an indication of impairment of a non-financial asset or CGU to which the asset belongs. In addition, intangible assets with indefinite useful lives, intangible assets not yet available for use as well as goodwill are tested for impairment in the fourth quarter of each financial year, regardless of whether there are any indications of impairment. For impairment testing, goodwill is allocated to a CGU or group of CGUs to thus reflect the manner in which goodwill is monitored for internal management purposes.

The discounted cash flow method is used to determine the recoverable amount of a CGU or group of CGUs to which goodwill is assigned. The discounted cash flow method is particularly sensitive to the selected discounting rates and management's estimates of future cash flows. The discount rates are based in each case on the weighted average cost of capital (WACC) for the group of cash generating units. The discount rates are calculated based on a risk-free interest rate and a market risk premium. In addition, the discount rates reflect the current market estimate of the specific risks for each group of cash generating units, in which specific peer group information on beta factors, leverage and borrowings costs are taken into account. Therefore, even minor changes to these elements can impact the resulting measurement and thus significantly impact the amount of a potential impairment.

These estimates are influenced by a number of assumptions including the assumptions on CGU, availability and breakdown of future defense budgets and institutional budgets as well as exchange rate fluctuations or effects resulting from the volatility of the capital markets. Cash flow projections take into account past experience and represent management's best estimate of future developments.

The HENSOLDT Group has two corporate sectors, Optronics and Sensors, which are each considered a CGU. Both corporate sectors are managed as independent subgroups under the subgroup parent HENSOLDT Optronics GmbH and HENSOLDT Sensors GmbH. HENSOLDT France S.A.S, acquired in 2018, and PentaTec Elektronische Systeme Gesellschaft mit beschränkter Haftung were allocated to the CGU Sensors.

3.5. Provisions

The measurement of provisions, e.g. for contract losses, guarantees, restructuring measures and legal proceedings, is based on best available estimates. Onerous contracts are determined by monitoring the progress of projects and updating estimates of contract costs, which also requires significant judgment in relation to reaching certain performance standards and estimates of guarantees and follow-up costs. The extent of the assumptions, assessments and estimates in these monitoring processes depends on the size and type of the Group's contracts and the associated projects.

3.6. Employee benefits

The Group recognizes pension and other retirement benefits in accordance with actuarial valuations. These valuations are based on statistical and other factors for anticipating future events. The assumptions can deviate significantly from actual developments due to changing market and economic conditions and thus lead to a significant change in employee benefits obligations and the related future costs (see note 28 'Pension benefits').

In addition to uncertainties arising from the estimate of exercising the payout option, the Group is exposed to other actuarial uncertainties relating to defined benefits obligations, including the following:

Market risk

The market values of plan assets are subject to fluctuations which can impact the net defined benefit obligation.

Interest rate risk

The value of the defined benefit obligation is significantly affected by the discount rate used. Lower interest rates, particularly market conditions linked to the euro, result in a relatively high net defined benefit obligation. If the decline in return on corporate bonds continues, the

defined benefit obligation will continue to increase in future reporting periods and can be only partially offset by the positive development in market values of these corporate bonds which are included in plan assets. In general, the defined benefit obligation is sensitive to movements in interest rates which leads to volatile results of the valuation.

Inflation risk

Defined benefit obligations can be sensitive to movements in the inflation rate, whereby a higher inflation rate could lead to an increase in the obligation. As some pension plans are directly tied to salary, pay increases can lead to an increase in pension obligations.

Longevity risk

Pension obligations are sensitive to the life expectancy of their beneficiaries. Increased life expectancy leads to an increase in the valuation of the pension obligation.

The weighted average assumptions for the most important pension plans used to calculate the actuarial value of the pension plans as of December 31, are as follows:

	Pension plans in Germany	
Assumptions in %	**31.12.2018**	**31.12.2017**
Discount rate	2.00%	1.70%
Wage increase rate (until age 36)	3.75%	3.75%
Wage increase rate (from age 36)	2.75%	2.75%
Inflation rate	1.50%	1.50%

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

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

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

Moreover, an assumption is made as to what extent the employees choose a one-off payment, installment payment or pension when the benefit falls due.

The calculation of pension obligations is based on the current 2018 G biometric reference tables provided by Heubeck, which replaced the previous 2005 G mortality tables. The new reference tables take into account in particular the decline in mortality and thus the increase in life expectancy which results in an increase in the cost of the company pension. The changes resulting from the application of the new 2018 G reference tables are included in the actuarial gain or losses from changes in the demographic assumptions. As of December 31, 2018, an actuarial loss from changes in these demographic assumptions of KEUR 1,106 is recognized.

3.7. Contingent legal liabilities

Group companies can be parties to legal disputes in a variety of ways as described in note 21 'Provisions'. The outcome of these issues can have a material impact on the Group's financial

position, operating profit and cash flows. Management regularly analyzes current information on these issues and recognizes provisions in the amount of likely cash outflows, including estimated legal costs. In deciding on the need for provisions, management takes into account the degree of probability of an unfavorable outcome and the possibility of reliably estimating the amount of damage. Filing an action or formally exercising damage claims against Group companies or the announcement of such an action or exercising of damage claims does not automatically mean that a provision is appropriate.

3.8. Income taxes

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

On the basis of individual company planning and taking into account tax adjustment effects, the Company assumes that the advantages of deferred tax assets can be realized in the next four to five years on the basis of sufficient, future taxable income. The main influencing factor for the occurrence of loss carryforwards were one-off transformation-related effects. In addition, the business plan is positively impacted by general business development and the establishment of a tax pooling arrangement for income tax in Germany.

4. Change in accounting policies and disclosure

4.1. Changes in accounting policies

The HENSOLDT Group applied IFRS 15 and IFRS 9 for the first time as of January 1, 2018. Amendments from other standards have no material effect on the consolidated financial statements of the HENSOLDT Group.

Effects on the financial statements

Changes in the accounting policies and adjustments in the amounts recognized in the financial statements resulted from the initial application of IFRS 15 from January 1, 2018. In accordance with the transition provisions in IFRS 15, comparative data for the consolidated financial statements were not retroactively adjusted. The following table summarizes the effects of the adoption of IFRS 9 and IFRS 15 on the consolidated financial statements as of January 1, 2018.

KEUR	Explanatory notes	Dec. 31, 2017 as reported	Adjustments to IFRS 9	Reclassification IFRS 15	Adjustments to IFRS 15	Jan. 1, 2018 adjusted
Assets						
Other non-current assets	(a, b)	3,145	0	0	15,319	18,464
Deferred tax assets	(a, b, d)	14,388	334	0	16,018	30,740
Inventories	(a, b)	386,656	0	0	26,634	413,290
Contract assets	(a, b, c)	0	0	17,589	35,778	53,367
Trade receivables	(c, d)	345,026	-1,180	-17,589	0	326,257
Other		1,365,039	0	0	0	1,365,039
Total assets		**2,114,254**	**-846**	**0**	**93,749**	**2,207,157**

KEUR	Explanatory notes	Dec. 31, 2017 as reported	Adjustments to IFRS 9	Reclassifi-cation IFRS 15	Adjustments to IFRS 15	Jan. 1, 2018 adjusted
Equity						
Retained earnings	(a, b, d, e)	-130,702	9,873	0	-40,583	-161,412
Other		38,284	0	0	0	38,284
Equity, total		**-92,418**	**9,873**	**0**	**-40,583**	**-123,128**
Liabilities						
Non-current financial liabilities	(e)	677,084	-14,950	0	0	662,134
Contract liabilities (non-current)	(c)	0	0	18,436	0	18,436
Other non-current liabilities	(c)	21,118	0	-18,436	0	2,682
Deferred tax liabilities	(e)	45,344	4,231	0	0	49,575
Current provisions	(a, b)	310,201	0	-13,546	-79,593	217,062
Contract liabilities (current)	(a, b, c)	0	0	205,668	213,925	419,593
Trade payables	(a, b)	146,562	0	13,546	0	160,108
Other current liabilities	(c)	240,754	0	-205,668	0	35,086
Other		765,609	0	0	0	765,609
Total liabilities		**2,206,672**	**-10,719**	**0**	**134,332**	**2,330,285**
Total equity and liabilities		**2,114,254**	**-846**	**0**	**93,749**	**2,207,157**

4.2. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, to what extent and when to recognize revenue. It replaces existing guidelines for the recognition of revenue, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. In accordance with IFRS 15, revenue is recognized when a customer obtains control over a promised good or service. At contract inception, whether control is transferred at a point in time or – particularly for specific customers – over time is determined for each identified performance obligation.

Reconciliation as of January 1, 2018

For transition to IFRS 15, the Group applied the modified retrospective method (without practical expedients), whereby the cumulative adjustment amounts are recognized under adjustments to retained earnings in the opening statement of financial position as of January 1, 2018.

Comparative information for 2017 was not adjusted. It was presented as before pursuant to IAS 18, IAS 11 and the corresponding interpretations thereof. Furthermore, the disclosure requirements pursuant to IFRS 15 have generally not been applied to the comparative information.

Due to the adjustments of IFRS 15, the Group's retained earnings were adjusted as of January 1, 2018, as follows:

KEUR	Explanatory notes	Jan. 1, 2018
Transition of milestone method to recognition of revenue at a point in	(a)	-34,391
Transition of milestone method to recognition of revenue over time	(b)	-22,210
Subtotal		-56,601
Increase in deferred tax assets		16,018
earnings		**-40,583**

Effects of the initial application on financial year 2018

The following tables summarize the effects of the initial application on the consolidated statement of financial position as of December 31, 2018 and on the consolidated statement of comprehensive income for 2018 for each of the items affected had IFRS 15 not been applied. No material effects occurred on the statement of cash flows as of December 31, 2018.

Impact on the consolidated statement of financial position

KEUR	Explanatory notes	Dec. 31, 2018, as reported	Reclassifi-cation IFRS 15	Adjustments to IFRS 15	Dec. 31, 2018, without adjustment
Assets					
Other non-current assets	(b)	9,125		-4,208	4,917
Deferred tax assets	(a, b)	25,035		-8,541	16,494
Inventories	(a)	407,002		18,191	425,193
Contract assets	(a)	80,688	-44,367	-36,321	0
Trade receivables		338,072	44,367		382,439
Other		1,352,400			1,352,400
Total assets		**2,212,322**	**0**	**-30,879**	**2,181,443**
Equity, total					
Retained earnings	(a, b)	-220,655		21,638	-199,017
Other		34,361			34,361
Equity, total		**-186,294**	**0**	**21,638**	**-164,656**
Liabilities					
Contract liabilities (non-current)		24,767	-24,767		0
Current provisions	(a)	210,900	13,546	79,593	304,039
Contract liabilities (current)	(a)	332,800	-200,690	-132,110	0
Trade payables	(a)	167,073	-13,546		153,527
Other		1,663,076	225,457		1,888,533
Total liabilities		**2,398,616**	**0**	**-52,517**	**2,346,099**
Total equity and liabilities		**2,212,322**	**0**	**-30,879**	**2,181,443**

Impact on the consolidated statement of comprehensive income

KEUR		2018	Adjustments to IFRS 15	Dec. 31, 2018, without adjustment
Revenue	(a)	1,110,117	-82,358	1,027,759
Cost of sales	(a, b)	-900,422	55,936	-844,486
Selling and distribution expenses		-76,848	0	-76,848
Finance income/costs		-86,845	0	-86,845
Income tax expense	(a, b)	5,205	7,477	12,682
Other		-111,086	0	-111,086
Consolidated profit/loss		**-59,879**	**-18,945**	**-78,824**
thereof attributable to the owners of the Parent Company		**-60,565**	**-18,945**	-79,510
Adjustment effects of IFRS 15 as of Jan. 1, 2018			**40,583**	
Adjustment of retained earnings			**21,638**	

Explanatory notes

IFRS 15 mainly requires that the various performance obligations assumed under a contract are identified and recognized separately on the basis of their relative retail prices. For all contracts, including long-term construction contracts for the most part previously recognized according to IAS 11 'Construction Contracts' and IAS 18 'Revenue' by HENSOLDT Group using the milestone method, revenue according to IFRS 15 can only be recognized when the control of the good or service is transferred under certain conditions to the customer.

Compared to the previous accounting treatment, the following changes largely resulted at HENSOLDT Group from the initial application of IFRS 15:

(a) Change in reporting method – transition from the milestone method to recognition of revenue at a point in time

If the criteria of IFRS 15.35 were not met, the HENSOLDT Group converted the contracts and the performance obligations contained therein from the previous milestone method to the method of recognizing revenue at a point in time. As a performance obligation generally comprises several milestones, a part of the revenue (milestone met, performance obligation not satisfied) needed to be canceled. As a consequence, revenue tended to be recognized later for these contracts under IFRS 15 than under IAS 18. The effects of this change on other items in the consolidated financial statements produce, depending on the contractual situation, a decrease in other provisions or an increase in inventories. In addition, the differences are presented initially in the new item 'contract liabilities'.

(b) Change in reporting method – transition from the milestone method to cost-to-cost method (recognition of revenue over time)

For contracts for which the HENSOLDT Group has no alternative use due to the highly customer-specific adjustment of products, recognition of revenue over time (cost-to-cost method) is to be applied according to IFRS 15.35. As a consequence, revenue under IFRS 15, depending on the progress of performance at the date of transition in the respective contract, was recognized earlier or later than the previous milestone method. The effects of this change on other items in the consolidated financial statements, depending on the contractual situation, produce a decline in inventories or in other provisions, while – depending on the contract balance – contractual assets or liabilities were to be recognized for the first time.

(c) Reclassifications

Owing to the adjustment in IFRS 15, the POC receivables and advance payments recognized as of December 31, 2017, were reclassified to the items contract assets and contract liabilities in the statement of financial position.

4.3. IFRS 9 Financial Instruments

IFRS 9, issued in July 2014, replaces the existing rules in IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 includes revised rules on classification and measurement of financial instruments, including a new model of expected losses for the calculation of impairments of financial assets and new rules on hedge accounting treatment. The standard also carries forward the guidelines for the recognition and derecognition of financial instruments from IAS 39.

Changes in the accounting policies and adjustments in the amounts recognized in the financial statements resulted from the initial application of IFRS 9 on January 1, 2018. The new accounting policies are presented under 2.10 Financial instruments.

Reconciliation as of January 1, 2018

Changes in accounting policies due to the application of IFRS 9 are always applied retroactively, except for the following exemption: comparative information for preceding periods with regard to changes in classification and measurement (including impairment) was not adjusted. Differences between the carrying amounts of financial assets and financial liabilities due to the application of IFRS 9 were always recognized in retained earnings as of January 1, 2018.

Due to the adjustments of IFRS 9, the Group's retained earnings were adjusted as of January 1, 2018, as follows:

KEUR	Explanatory notes	Jan. 1, 2018
Increase in allowances for trade receivables and assets	(d)	-1,180
Increase in deferred tax assets in view of impairment requirements	(d)	334
Adjustment through profit or loss within the scope of the effective interest method	(e)	14,950
Increase in deferred tax liabilities	(e)	-4,231
Adjustment of retained earnings		**9,873**

Classification and measurement of financial assets and financial liabilities

IFRS 9 contains three key classification categories for financial assets: (i) measured at amortized cost, (ii) at fair value with changes in value through profit or loss (FVTPL) and (iii) measured at fair value with changes in value through other comprehensive income (FVOCI). The standard eliminates the existing IAS 39 categories of "held to maturity", "loans and receivables" and "available for sale". Under IFRS 9, derivatives embedded in agreements, for which the basis is a financial asset within the scope of the standard, are not recognized separately. Instead, the hybrid financial instrument will be assessed overall with regard to classification.

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities.

At the date of initial application of IFRS 9 (January 1, 2018), the Group's management assessed which business models apply for the financial assets held by the Group, and classified the financial instruments into respectively appropriate IFRS 9 categories. The most important effects from this reclassification are as follows:

KEUR Jan. 1, 2018	Explanatory notes	Category pursuant to IAS 39	Category pursuant to IFRS 9	Original carrying amount according to IAS 39	Carrying amount according to IFRS 9
Assets					
Other investments and other non-current financial assets		FVTOCI	FVTOCI	5,143	5,143
Trade receivables [1]	(c,d)	LaR	AC	345,026	326,257
Other financial assets					
▪ Derivative instruments for cash flow hedges		no category	no category	8,904	8,904
▪ Other derivative instruments		FVTPL	FVTPL	20,281	20,281
▪ Non-derivative instruments		FVTPL	FVTPL	1,028	1,028
Total financial assets				**380,382**	**361,613**
Liabilities					
Financing liabilities					
▪ Liabilities to shareholders		FLAC	FLAC	437,474	437,474
▪ Liabilities to banks	(e)	FLAC	FLAC	692,109	677,159
Trade payables		FLAC	FLAC	146,562	146,562
Other financial liabilities					
▪ Derivative instruments for cash flow hedges		no category	no category	170	170
▪ Other derivative instruments		FVTPL	FVTPL	5,081	5,081
▪ Liability from put option		no category	no category	972	972
▪ Other		FLAC	FLAC	12,809	12,809
Total financial liabilities				**1,295,177**	**1,280,227**

LaR: Loans and Receivables
AC: Amortized cost
FLAC: Financial liabilities measured at amortized cost
FVTPL: Fair value through profit or loss
FVtOCI: Fair value through other comprehensive income
[1)] Figure according to IFRS 9 inclusive of reclassification pursuant to IFRS 15

Explanatory notes

(d) Impairment loss on trade receivables

IFRS 9 replaces the incurred loss model of IAS 39 with a prospective model of expected credit losses (ECL). The new impairment model is to be applied to financial assets measured at amortized cost, contract assets and debt instruments measured at FVOCI, however not to equity investments held as financial assets. Under IFRS 9 credit losses are recorded at an earlier stage than under IAS 39.

The HENSOLDT Group applies a simplified approach pursuant to IFRS 9 to measure expected credit losses; accordingly, lifetime expected losses are used for all trade

receivables. This requires considerable judgment regarding the issue of the extent to which expected credit losses are influenced by changes in economic factors. This estimate is determined on the basis of weighted probabilities.

The Group has identified additional impairment expenses of KEUR 1,180 (before deferred taxation) arising from the application of the impairment requirements of IFRS 9 as of January 1, 2018.

Details on the calculation of impairment are presented under 33.1 Financial risk management (credit risk).

(e) Adjustment of effective interest through profit or loss

Specific amendments of contractual terms and the resulting adjustments of the present value of a financial liability are generally to be recognized according to IFRS 9 at the point in time of the change through profit or loss. The adjustment of effective interest through OCI, as in prior years, is no longer permitted.

The application of the adjustment of the loan recognized under financial liabilities through profit or loss according to the effective interest method as of January 1, 2018, in comparison to the IAS 39 adjustments through OCI would have led to an approx. EUR 14.9 million lower expense in finance income/costs in financial year 2017. Having regard to deferred taxation of EUR 4.2 million, this resulted in an increase in retained earnings as of January 1, 2018, of approx. EUR 10.7 million.

Hedge accounting

Upon initial application of IFRS 9 the Group has the option of continuing to apply the accounting policies of IAS 39 for hedging transactions instead of applying the requirements of IFRS 9. The Group decided to continue to apply the existing requirements of IAS 39 until further notice.

For explanatory notes on how the Group's hedge accounting is carried out according to IAS 39, please refer to note 2.9.

5. New, revised and amended IFRS standards and interpretations issued but not yet adopted

A range of new or revised standards, changes and improvements to standards and interpretations are not yet applicable to the financial year ending December 31, 2018, and were not applied when preparing these consolidated financial statements.

Standard and changes	Date of effectiveness from IASB for the annual reporting period beginning on or after	EU Endorsement status
Amendments to IAS 19 Employee Benefits	January 1, 2019	Not yet confirmed
Amendments to IAS 28 Investments in Associates	January 1, 2019	Confirmed
Amendment to IFRS 9 Financial Instruments	January 1, 2019	Confirmed
IFRS 16 Leases	January 1, 2019	Confirmed
IFRIC 23 Uncertainty over Income Tax Treatments	January 1, 2019	Confirmed
Annual improvements 2015-2017	January 1, 2019	Not yet confirmed
IFRS 17 – Insurance Contracts	January 1, 2021	Not yet confirmed

Standard and changes	Date of effectiveness from IASB for the annual reporting period beginning on or after	EU Endorsement status
Amendments to References to the Conceptual Framework in IFRS Standards	January 1, 2020	Not yet confirmed
Amendments to IFRS 3 Business Combinations	January 1, 2020	Not yet confirmed
Amendments to IAS 1 and IAS 8: Definition of Material	January 1, 2020	Not yet confirmed

Further, other standards and interpretations have been adopted which are not expected to have a material effect on the consolidated financial statements. With the exception of the following standard amendment which is explained in detail, HENSOLDT Group does not expect a material effect on its consolidated financial statements from the amendments of other standards.

IFRS 16 Leases

The core idea of the standard IFRS 16 Leases issued in January 2016 is that the lessee records all leases and related contractual rights and obligations in the statement of financial position. For all lease arrangements, the lessee recognizes a lease liability for the obligation to pay future lease payments. At the same time, the lessee recognizes a right of use to the underlying asset that generally corresponds to the present value of future lease payments plus directly attributable costs. IFRS 16 abolishes the current classification of leases on the part of the lessee into operating and finance leases.

IFRS 16 is to be applied to annual reporting periods beginning on or after January 1, 2019. The HENSOLDT Group will retrospectively apply the standard for the financial year beginning on January 1, 2019. The cumulative effect of the application of IFRS 16 will thus be stated as adjustment to the opening balance as of January 1, 2019, with no restatement of comparative information. HENSOLDT intends to largely make use of the exemptions in place according to IFRS 16.

It is currently expected that the conversion effect will largely affect the properties leased by the HENSOLDT Group. With the application of IFRS 16, straight-line expenses for operating leases are replaced by amortization/deprecations for right-of-use assets and interest expenses for lease liabilities. This results in a deterioration of cash flows from financing activities and an improvement of cash flows from operating activities. Based on the information currently available, the HENSOLDT Group estimates that it will report additional right-of-use assets of EUR 152 million as well as lease liabilities in the equivalent amount as of January 1, 2019.

By contrast, the rules of the new standard for the lessor are similar to the requirements of IAS 17. Leases as still classified either as finance or operating leases. Leases, for which all the risks and rewards of ownership are transferred, are classified as finance leases and all other lease agreements are classified as operating leases. For classification under IFRS 16 the criteria of IAS 17 were adopted.

II. Group structure

6. Consolidated group

The consolidated financial statements include the financial statements of HENSOLDT Holding GmbH and the financial statements of all direct and indirect significant subsidiaries controlled by HENSOLDT Holding GmbH. The group entities prepare their financial statements for the same reporting date as the Group's consolidated financial statements. 24 (PY: 21) entities were fully consolidated. One entity was included in the Group using the equity method. 10 companies were not consolidated. The shareholdings as of December 31, 2018, are listed in the following table.

Company	Registered office	Equity interest	Consolidation method
HENSOLDT Holding GmbH	Taufkirchen / Germany	100.00%	PC
EuroAvionics Holding GmbH [2]	Pforzheim / Germany	100.00%	FC
EuroAvionics GmbH [2;5]	Pforzheim / Germany	100.00%	FC
EuroAvionics UK Ltd. [2]	Slinfold, West Sussex / United Kingdom	100.00%	FC
EuroAvionics Schweiz AG [2]	Sissach / Switzerland	100.00%	FC
EuroAvionics US HoldCo. Inc. [2]	Sarasota (Florida) / USA	100.00%	FC
EuroAvionics USA LLC [2]	Sarasota (Florida) / USA	100.00%	FC
GEW Integrated Systems (Pty) Ltd. [1;4]	Brummeria (Pretoria) / South Africa	75.00%	FC
GEW Technologies (Pty) Ltd. [1;4]	Brummeria (Pretoria) / South Africa	75.00%	FC
HENSOLDT Holding Germany GmbH	Taufkirchen / Germany	100.00%	FC
HENSOLDT Optronics (Pty) Ltd. [1]	Irene (Centurion) / South Africa	70.00%	FC
HENSOLDT Optronics GmbH [1]	Oberkochen / Germany	100.00%	FC
HENSOLDT Sensors GmbH [1]	Taufkirchen / Germany	100.00%	FC
KH Holdco Limited [3]	Enfield / United Kingdom	100.00%	FC
KH Finance No.2 [3]	Enfield / United Kingdom	100.00%	FC
KH Finance Ltd. [3]	Enfield / United Kingdom	100.00%	FC
Kelvin Hughes Ltd. [3]	Enfield / United Kingdom	100.00%	FC
Kelvin Hughes BV [3]	Rotterdam / The Netherlands	100.00%	FC
A/S Kelvin Hughes [3]	Ballerup / Denmark	100.00%	FC
Kelvin Hughes LLC [3]	Alexandria (Virginia) / USA	100.00%	FC
Kelvin Hughes PTE Ltd. [3]	Singapore / Singapore	100.00%	FC
HENSOLDT Holding France S.A.S.	Paris / France	100.00%	FC
HENSOLDT France S.A.S.	Paris / France	100.00%	FC
Kite Holding France S.A.S.	Paris / France	100.00%	FC
Hensoldt Cyber GmbH	Taufkirchen / Germany	51.00%	EQ
Atlas Optronics LLC [1]	Abu Dhabi / United Arab Emirates	49.00%	NC
Deutsche Elektronik Gesellschaft für Algerien (DEGFA) GmbH [1]	Ulm / Germany	66.66%	NC
EURO-ART Advanced Radar Technology GmbH [1]	Munich / Germany	25.00%	NC
EURO-ART International EWIV [1]	Munich / Germany	50.00%	NC
EUROMIDS S.A.S. [1]	Paris / France	25.00%	NC
LnZ Optronics Co., Ltd. [1]	Seoul / South Korea	50.00%	NC
Optronbras Segurança e Defesa Electrónica e Optica Ltda	Belo Horizonte / Brazil	99.00%	NC
Société Commune Algérienne de Fabrication de Systèmes Electroniques (SCAFSE) SPA [1]	Sidi Bel Abbès / Algeria	48.99%	NC
HENSOLDT Inc. [1]	Wilmington (Delaware) / USA	100.00%	NC
HENSOLDT Private Ltd. [1]	Bangalore / India	100.00%	NC

PC = Parent Company
FC = Fully consolidated
[1] Orlando Group
[2] EuroAvionics Group
EQ = Accounted for using the equity method
NC = Not consolidated due to minor importance
[3] Kelvin Hughes Group
[4] 93.28% taking into account treasury shares

Pursuant to Section 264 (3) HGB, EuroAvionics GmbH, Pforzheim, is released from its obligation to issue annual financial statements pursuant to German commercial law and a management report pursuant to the regulations applicable to corporations, to have these audited and to disclose them.

7. Acquisitions

7.1. Acquisition of HENSOLDT France SAS

With effect from April 26, 2018, HENSOLDT Holding Germany GmbH by way of HENSOLDT Holding France SAS (previously Square Holding France SAS) acquired 100% of the shares in HENSOLDT France S.A.S. (previously Airbus DS Electronics and Border Security SAS) from Airbus Defence and Space SAS.

The former business segment of Airbus Group comprises IFF systems and datalink solutions for guide missiles and airborne mission systems.

This acquisition ensures HENSOLDT a presence in France and fosters the expansion of its product portfolio.

The consideration paid amounted to EUR 15 million. Acquisition-related costs amounted to EUR 0.3 million.

The carrying amounts or fair values of the identifiable assets at the date of acquisition were as follows:

EUR million	Book value	Fair value
Assets		
Intangible assets	0.2	9.4
Property, plant and equipment	0.6	0.6
Deferred tax assets	2.4	2.4
Inventories	11.0	13.5
Receivables and other assets	8.3	8.3
Total assets	**22.5**	**34.2**
Deferred taxes	**0.0**	**-3.5**
Liabilities	**-23.9**	**-23.9**
Total identifiable net assets	**-1.4**	**6.8**
Goodwill		8.2
Consideration transferred		**15.0**

The purchase price allocation resulted in other intangible assets of EUR 9 million and deferred tax liabilities of EUR 3 million. The other intangible assets consist of technology of EUR 7 million and order volumes of EUR 2 million.

The residual amount is goodwill in the amount of EUR 8 million. This mainly represents the expected future prospects from the market position of the acquired group.

On the date of transfer of control the acquired companies had no cash and cash equivalents and had gross amounts from trade receivables of EUR 6 million, of which KEUR 68 was estimated as probably irrecoverable.

Taking account of amortization from the purchase price allocation, HENSOLDT France has contributed a loss of EUR 3 million to total comprehensive income and EUR 15 million to Group revenue since the acquisition date (April 26, 2018).

If HENSOLDT France had been included in the scope of consolidation already as of January 1, 2018, management estimates that this would have resulted in an increase in Group revenue for financial year 2018 of EUR 6 million and negative total comprehensive income taking account of amortization from the purchase price allocation in the amount of EUR 2 million.

7.2. Acquisition of PentaTec Elektronische Systeme GmbH

With effect from January 1, 2018, and retroactive effect from December 15, 2017, HENSOLDT Holding Germany GmbH acquired 100% of the shares in PentaTec Elektronische Systeme Gesellschaft mit beschränkter Haftung, Grasbrunn. The company complements the HENSOLDT product portfolio.

The carrying amounts or fair values of the identifiable assets at the date of acquisition were as follows:

EUR million	Book value	Fair value
Assets	**0.2**	**0.2**
Liabilities	**-0.3**	**-0.3**
Total identifiable net assets	**-0.1**	**-0.1**
Goodwill		1.6
Consideration transferred		**1.5**

The residual amount is goodwill in the amount of EUR 1.6 million. This mainly represents the expected future prospects from the market position of the acquired company.

On the date of transfer of control the acquiree had cash and cash equivalents of KEUR 95 and gross amounts from trade receivables of KEUR 18.

Acquisition-related costs of EUR 0.2 million were recognized as an expense under other expenses.

The Company was merged into the already fully consolidated HENSOLDT Sensors GmbH with retroactive effect from January 1, 2018.

7.3. Determination of fair values

The valuation methods used to determine the fair value of the significant assets acquired were as follows:

Acquired assets	Market approach and cost approach
Property, plant and equipment	The measurement model takes into account market prices for similar items, if available, and depreciated replacement cost, if applicable. Depreciated replacement costs reflect adjustments for physical deterioration as well as functional reconditioning and economic obsolescence.
Intangible assets	The relief from royalty method and multi-period excess earnings method: the relief from royalty method takes into account the discounted estimated royalty payments that are expected to be saved by patents and trademarks being kept in the Company's ownership. The multi-period excess earnings method takes into account the present value of the expected net cash flows generated by customer relationships, with the exception of all cash flows relating to the underlying assets.
Inventories	Market approach: the fair value is determined on the basis of the estimated sales price in the ordinary course of business less estimated production and selling costs as well as an appropriate profit margin based on the time and effort expended on producing and selling inventories.

If new information on the facts and circumstances that existed as of the acquisition date and that would have resulted in corrections of the above amounts or additional provisions become known within one year of the acquisition date, the accounting for the acquisition is adjusted.

8. Investments accounted for using the equity method

HENSOLDT Cyber GmbH, Taufkirchen, District of Munich, is a 51% joint venture founded in 2017 by HENSOLDT Holding Germany GmbH and Secure Elements GmbH, Munich. The equity of the company amounts to KEUR 25. On the part of HENSOLDT Holding Germany GmbH payments of KEUR 50 at end-2017 and an additional KEUR 2,150 in 2018 were made into the capital reserve. The valuation of the investment of KEUR 2,212 was reduced in 2018 by the pro-rated loss of KEUR 643.

The Company's purpose is the development, production, integration and sale of solutions in the areas hardware, software and services.

9. Transactions with related parties

In accordance with IAS 24, individuals or entities that control or are controlled by HENSOLDT Group must be disclosed unless they have already been included as consolidated entities in the consolidated financial statements. In addition, there is an obligation to disclose transactions with associates and persons who have significant influence over the operating and financial policies of the HENSOLDT Group. Significant influence here can mean a shareholding in HENSOLDT Holding of 20% or more, a position in management or on the Supervisory Board of HENSOLDT Holding or a key management position.

Related parties of HENSOLDT Holding GmbH are:

members of the **management** of HENSOLDT Holding GmbH:

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

as well as other members of the **management team**:

- Peter Schlote, COO
- Sabine K. Hipp, Head of Sales & Marketing
- Celia Pelaz, Head of Spectrum Dominance & Airborne Solutions
- Uwe Virkus, Head of Electronic Warfare/Situational Awareness (until December 31, 2018)
- Erwin Paulus, Head of Radar / IFF / Data links
- Andreas Hülle, Head of Optronics
- Solms U. Wittig, General Counsel
- Thomas Stocker, Head of Engineering & CTO (from January 1, 2018)

as well as the **members of the Supervisory Board:**

- Johannes P. Huth, Chairman of the Supervisory Board
- Christian Ollig
- Philipp Freise (until March 22, 2018)
- Martin Mix (from March 22, 2018)
- Ingrid Jägering
- Prof. Dr. Burkhard Schwenker
- Prof. Wolfgang Ischinger
- Armin Maier-Junker, Chairman of the Works Council and the General Works Council of HENSOLDT Sensors GmbH, Deputy Chairman of the Supervisory Board

- Winfried Fetzer, Chairman of the Works Council, Chairman of the General Works Council of HENSOLDT Optronics GmbH
- Thomas Hoepfner, Chairman of the Works Council / Deputy Chairman of the General Works Council of HENSOLDT Sensors GmbH
- Peter Härtle, Chairman of the Company Spokesperson Committee of senior management
- Jürgen Bühl, Trade Union Secretary of the IGM Management Board
- Helene Sommer, Second Authorized Representative of IGM Friedrichshafen (until December 10, 2018)
- Julia Wahl, Union Secretary of IG Metall (from January 31, 2019)

The Company is under the majority control of the investment company KKR Square Aggregator L.P., Canada, and its subsidiaries, which is advised by the private equity company Kohlberg Kravis Roberts & Co. L.P. (KKR).

The company is under the majority control of Square Lux MidCo 1 & Co S.C.A., Luxembourg, which is controlled by the private equity company Kohlberg Kravis Roberts & Co. L.P. (KKR). This means HENSOLDT Holding GmbH's related parties include Square Lux MidCo 1 & Co S.C.A., Luxembourg, as indirect shareholder, Square Lux Holding II. S.à r.l, Luxembourg, as majority shareholder, and its affiliate company Square Lux Finco S.à r.l, Luxembourg. In addition, the companies engaged by KKR, i.e. KKR Capstone LLP, USA, KKR Capital Markets Ltd., London, UK, and KKR & Co. LP, USA, are treated as related parties.

Airbus Defence and Space GmbH (ADS GmbH) was non-controlling shareholder until June 30, 2018. ADS GmbH and the subsidiaries of Airbus SE were related parties until June 30, 2018.

HENSOLDT Pension Trust e.V. (including its subsidiaries) as pension fund of HENSOLDT Sensors GmbH is an additional related party.

Related party transactions:

KEUR	Jan.1 - Dec. 31, 2018	Jan.1 - Dec. 31, 2017
Revenue and other income		
Non-consolidated companies	0	117
Associates	37,763	31,720
Joint ventures	60,961	0
Other related parties (Airbus)	75,248	212,762
(thereof ADS GmbH)	*33,499*	*98,252*
Other related parties (miscellaneous)	0	1,448
Expenses		
Non-consolidated companies	1,106	0
Associates	1,083	777
Joint ventures	307	0
Other related parties (Airbus)	7,400	62,931
(thereof ADS GmbH)	*4,520*	*39,285*
Other related parties (miscellaneous)	34,830	4,143

KEUR	Dec. 31, 2018	Dec. 31, 2018
Receivables		
Non-consolidated companies	167	587
Associates	25,922	10,200
Joint ventures	52,079	0
Other related parties (Airbus)	0	125,846
(thereof ADS GmbH)	*0*	*83,548*
Other related parties (miscellaneous)	0	391

Liabilities		
Non-consolidated companies	902	0
Associates	1,030	1,502
Joint ventures	14,236	0
Other related parties (Airbus)	0	275,328
(thereof ADS GmbH shareholder loan)	*0*	*109,810*
(thereof ADS GmbH)	*0*	*44,466*
Other related parties (miscellaneous)	353,577	327,876
(thereof Square Lux Finco S.à r.l. shareholder loans)	*349,567*	*327,664*

Receivables from non-consolidated companies relate to trade receivables.

The companies engaged by KKR, i.e. KKR Capstone LLP, USA, KKR Capital Markets Ltd., London, UK, and KKR & Co. LP, USA, rendered services of KEUR 175 (PY: KEUR 13,195) in 2018.

As majority shareholder Square Lux Holding II. S.à r.l., Luxembourg, has a controlling influence on the Company. For the transfer of the shareholder loan described under 32.2 ‘Financial liabilities’, interest expenses of KEUR 21,923 were recognized in favor of the shareholder in the financial year (PY: KEUR 18,572).

Further information regarding the **financing of pension plans** of the Group which are considered related parties are presented under note 28 ‘Pension benefits’.

Information on the compensation and benefits granted to members of the **management team** and the **Supervisory Board** are shown in note 29 ‘Remuneration’.

III. Group performance

Operating activities of the HENSOLDT Group only began in the prior year on February 28, 2017, with the acquisition of the 'Orlando' investments. In addition, considerable adjustment effects due to the modified retrospective application of IFRS 15 Revenue from Contracts with Customers are recorded in the financial year. This means comparability with prior year's figures is possible only to a limited extent.

10. Revenue, cost of sales, gross margin, contract assets and contract liabilities

Revenue

HENSOLDT generates revenue from contracts with customers for the development and production of products, the provision of installation, training and service performance and other services.

Revenue in the Sensors segment comprises Radar / Identification-Friend-or-Foe (IFF) / Datalink, Spectrum Dominance & Airborne Solutions and Customer Support. Revenue in the Optronics segment is mainly generated with optical and optronic products and systems for army, navy and air force and other public sector clients, such as aerospace agencies, and also police forces and border control.

KEUR	Sensors	Optronics	2018	Sensors	Optronics	2017
Revenue from contracts with customers						
Revenue from supplies	478,693	229,758	**708,451**	346,274	162,084	**508,358**
Revenue from services	382,478	19,235	**401,713**	358,414	51,426	**409,840**
	861,171	**248,993**	**1,110,164**	**704,688**	**213,510**	**918,198**
Other income						
Other revenue	677	-10	**667**	0	0	**0**
Exchange rate changes	-604	-110	**-714**	-2,371	1,266	**-1,105**
	73	-120	**-47**	-2,371	1,266	**-1,105**
Total	**861,244**	**248,873**	**1,110,117**	**702,317**	**214,776**	**917,093**

Point in time of revenue recognition	Sensors	Optronics	2018
Revenue recognition at a point in time	611,806	234,316	846,122
Revenue recognition over time	247,088	14,472	261,560
Other income	2,350	85	2,435
Total	**861,244**	**248,873**	**1,110,117**

Contract assets and contract liabilities

KEUR	Contract assets	Contract liabilities
Dec. 31, 2017	**0**	**0**
Adjustment to IFRS 15 as of Jan. 1, 2018	53,366	438,029
Jan. 1, 2018	**53,366**	**438,029**
Income recognized in the reporting period, which was included in the balance of contract liabilities at the beginning of the period	0	-266,580
Increases due to cash received, except for amounts which were recognized as revenue during the reporting period	0	173,770
Reclassifications from contract assets, which were recognized at the beginning of the period, to receivables	-11,919	0
Increases due to changes in the determination of stage of completion	32,776	0
Changes in the estimate of the transaction price or contract modification	0	288
Changes due to business combinations	6,443	11,256
Other	22	804
Dec. 31, 2018	**80,688**	**357,567**
thereof current	80,688	332,800
thereof non-current	0	24,767
Dec. 31, 2018	**80,688**	**357,567**

Revenue from performance obligations, which had been (partially) fulfilled in prior periods, in the amount of KEUR 1,158 was recognized in the reporting period.

Transaction price for remaining performance obligations

As of December 31, 2018, the total amount of the transaction price for the remaining performance obligations amounted to EUR 2,261 million. Management expects that 42% of this transaction price will be recognized as revenue in the next reporting period and an additional 30% in financial year 2020. The remaining 29% will be recognized in financial year 2021 and following years.

Capitalized costs which arise in the course of obtaining or fulfilling the contract (see 24 Other assets)

KEUR	
Dec. 31, 2017	**0**
Adjustment to IFRS 15 as of Jan. 1, 2018	15,319
Jan. 1, 2018	**15,319**
Additions	20,062
Amortization	-31,173
Dec. 31, 2018	**4,208**

HENSOLDT makes use of the practical expedient of IFRS 15.94 and waives capitalizing the costs arising in the course of obtaining the contract, which fulfil the recognition criteria of IFRS 15 but would nevertheless be written-off within one year.

Cost of sales and gross margin

Cost of sales includes amortization from adjustments to the fair values of assets as part of the purchase price allocations of KEUR 93,070 (PY: KEUR 126,201).

Impairment losses on trade receivables of KEUR 5,898 (PY: income from the reversal of KEUR 197) are shown separately from this reporting year.

Inventories recognized as an expense in the reporting period amounted to KEUR 246,085 (PY: KEUR 352,957), in each case excluding amortization from the purchase price allocation).

11. Research and development expenses

Research and development expenses amounted to KEUR 32,178 (PY: KEUR 29,767). For the capitalization of development costs, please refer to Section 15 'Intangible assets'.

12. Other operating income and expenses

Other operating income

KEUR	2018	2017
Recharged services	30,794	19,193
Other	1,930	4,197
Other operating income	**32,724**	**23,390**

Other operating income relates mainly to recharged building services including the modernization project of building 88 in Taufkirchen, IT services and supply of temporary employees.

Other operating expenses

KEUR	2018	2017
Recharged costs	32,772	17,709
Other	3,471	1,395
Other operating expenses	**36,243**	**19,104**

13. Finance income/costs

KEUR	2018	2017
Interest income from plan assets	1,309	2,281
Other interest income	12,595	10,089
Other	951	0
Interest income	**14,855**	**12,369**
Interest expense for shareholder loans and other financial liabilities		
Loan (Term Loan)	-54,129	-20,262
Revolving Credit Facility	-2,207	-657
Shareholder loan (Airbus Defense and Space GmbH)	-3,638	-6,123
Shareholder loan (Square Lux Finco S.à r.l.)	-21,923	-18,572
Interest expense from swap	-6,741	-4,167
Interest expenses on provisions for employee benefits	-6,829	-4,852
Other	-958	-896
Interest expense	**-96,425**	**-55,528**
Bank fees	-1,524	-7,436
Foreign currency translation monetary items	-3,064	744
Other	-687	-3,520
Other finance income/costs	**-5,275**	**-10,212**

14. Income tax

Income taxes are broken down as follows:

KEUR	2018	2017
Current tax expense (expenses - / income +)	-7,997	-2,339
(of which income tax attributable to the prior year)	*-1,125*	*253*
Deferred taxes (expense - / income +)	13,202	24,349
(thereof changes in temporary differences)	*8,166*	*18,380*
Recognized tax (expense - / income +)	**5,205**	**22,010**
Deferred tax expense recognized directly in equity (PY: tax income)	-5,326	7,903

At German companies, a corporation tax rate of 15% was used for the calculation of deferred taxes. In addition, a solidarity surcharge of 5.5% on corporation tax and a trade tax rate of 12.48% were taken into account. This resulted in an overall tax rate of 28.30% for German companies. At international group companies, the respective country-specific tax rates were used for the calculation of current and deferred taxes.

The following table presents the reconciliation of expected tax expense and reported tax expense. Expected tax expense is determined by multiplying consolidated profit before tax from continuing operations by the total tax rate of 28.30% applicable in 2018:

KEUR	2018	2017
Earnings before income tax (profit + / loss -)	-65,085	-122,430
Income tax rate	*28.30%*	*28.30%*
Expected income taxes on this (expense - / income +)	18,419	34,648
Effects deriving from differences to the expected tax rate	-365	-261
Change in the tax rate and tax laws	-524	50
Taxes for prior years	2,681	436
Non-deductible interest expenses	-1,957	-1,503
Other non-deductible expenses and taxes as well as effects from change from permanent balance sheet differences	3,567	-385
Tax-exempt income	0	1,539
Changes in the realization of deferred tax assets	-15,917	-12,213
Other	-699	-301
Income tax as per income statement (expense - / income +)	**5,205**	**22,010**
Effective tax rate in %	*8.00%*	*17.98%*

Deferred tax assets and liabilities are recognized in accordance with IAS 12 Income Taxes if future tax effects are to be expected that are due to temporary differences between the carrying amounts of existing assets and liabilities and their tax bases, on the one hand, or due to loss carryforwards on the other. Deferred tax assets and liabilities from valuation differences in items of the statement of financial position break down as follows:

KEUR	Dec. 31, 2018	Dec. 31, 2017
Deferred tax assets		
Assets		
Intangible assets	796	6
Property, plant and equipment	306	176
Financial assets	5,757	6,527
Inventories and contract assets	54,243	28,996
Receivables and other assets	7,727	1,312
Liabilities		
Provisions	66,053	53,394
Liabilities	26,777	4,604
Loss carryforwards	39,983	35,234
Tax credits	2,548	2,260
Other	2,939	248
Deferred tax assets (gross)	**207,129**	**132,757**
Netting	-182,094	-118,369
Deferred tax assets (net)	**25,035**	**14,388**

KEUR	Dec. 31, 2018	Dec. 31, 2017
Deferred tax liabilities		
Assets		
Intangible assets	88,568	94,588
Property, plant and equipment	1,640	1,726
Financial assets	0	2,489
Inventories and contract assets	67,572	41,168
Receivables and other assets	4,480	8,968
Liabilities		
Provisions	36,467	8,482
Liabilities	20,247	6,231
Other	125	61
Deferred tax liabilities (gross)	**219,099**	**163,713**
Netting	-182,094	-118,369
Deferred tax liabilities (net)	**37,005**	**45,344**
Excess of deferred tax liabilities	**11,970**	**30,956**

The change in the amount of deferred taxation includes an increase in deferred tax assets in the amount of KEUR 12,121 due to adjustments resulting from IFRS 9 and IFRS 15.

The assessment of impairment of deferred tax assets depends on the management's estimate of the utilization of the deferred tax assets. This is dependent on taxable profits in the periods when the tax measurement differences are reversed and the tax loss carryforwards can be utilized.

As of December 31, 2018, there were no deferred tax liabilities for taxes on profits not transferred from subsidiaries. The Group assumes that for the time being the profits of its subsidiaries not yet distributed will not be distributed in the foreseeable future. Temporary

differences in connection with investments in subsidiaries for which no deferred tax liabilities have been recognized totaled KEUR 539 (PY: KEUR 1,321). As of December 31, 2018, there were the following loss and interest carryforwards (gross):

KEUR	Dec. 31, 2018	Dec. 31, 2017
Corporation tax loss carryforwards	147,430	131,477
Trade tax loss carryforwards	146,863	129,693
Interest carry forwards	109,142	48,570
Tax credits	2,548	2,260

As of December 31, 2018, the Company reported loss carryforwards that are subject to restrictions on loss offsetting. For this reason, no deferred tax assets were recognized for the following matters as their use through future positive taxable earnings is not likely (gross amounts):

KEUR	Dec. 31, 2018	Dec. 31, 2017
Corporation tax loss carryforwards	8,459	8,058
Trade tax loss carryforwards	8,058	8,058
Interest carry forwards	109,142	48,570

The tax loss carryforwards for which no deferred tax assets were recognized are not subject to any limitations on use.

IV. Operating assets and liabilities

15. Intangible assets

Intangible assets comprise (i) goodwill (see note 6 'Scope of consolidation'), (ii) capitalized development costs (see note 2 'Significant accounting policies'), and (iii) other intangible assets, mainly acquired intangible assets.

Intangible assets (excluding goodwill) comprise the following as of December 31, 2018 and as of December 31, 2017:

KEUR	Licenses, patents and other rights	Other intangible assets	Capitalized development costs	Customer relationship, technology, order backlog, brand	Construction in progress	Total
COST						
As of Jan. 1, 2017	**0**	**0**	**0**	**0**	**0**	**0**
Purchase by company acquisition	3,780	0	4,931	496,582	189	505,482
Additions	1,101	0	19,942	0	2,163	23,206
Disposals	-1,395	0	0	0	0	-1,395
Reclassifications	281	0	0	0	-25	257
Currency translation	-2	0	17	0	0	15
As of Dec. 31, 2017	**3,766**	**0**	**24,890**	**496,582**	**2,327**	**527,565**
Purchase by company acquisition	0	169	0	9,168	0	9,337
Additions	1,663	113	36,575	0	879	39,230
Reclassifications	98	0	0	0	-71	27
Currency translation	1	0	-546	0	0	-545
As of Dec. 31, 2018	**5,528**	**282**	**60,919**	**505,750**	**3,135**	**575,614**
ACCUMULATED AMORTIZATION, DEPRECIATION AND WRITE-DOWNS						
As of Jan. 1, 2017	**0**	**0**	**0**	**0**	**0**	**0**
Additions	-1,338	0	-4,660	-69,416	0	-75,414
Disposals	814	0	0	0	0	814
Currency translation	0	0	5	0	0	5
As of Dec. 31, 2017	**-524**	**0**	**-4,655**	**-69,416**	**0**	**-74,596**
Additions	-2,103	-134	-10,170	-89,886	0	-102,292
Currency translation	0	0	55	0	0	55
As of Dec. 31, 2018	**-2,627**	**-134**	**-14,770**	**-159,302**	**0**	**-176,833**
CARRYING AMOUNT						
As of Dec. 31, 2017	**3,242**	**0**	**20,235**	**427,165**	**2,327**	**452,970**
As of Dec. 31, 2018	**2,901**	**148**	**46,149**	**346,448**	**3,135**	**398,781**

Development costs

The Group capitalized development costs in financial year 2018 of KEUR 36,575 (PY: KEUR 19,942) as internally generated intangible assets, primarily for development of various radar and sensor technologies (ASR, TRS-4D, Passive Radar, AMPS).

The impairment test resulted in a need to recognize impairment losses in the amount of KEUR 3,357 (PY: KEUR 0) for one project.

Goodwill

Goodwill developed as follows:

COST	EUR million
As of Jan. 1, 2017	**0**
Additions Orlando	471
Additions EuroAvionics	84
Additions Kelvin Hughes	29
As of Dec. 31, 2017	**584**
Additions PentaTec GmbH	2
Additions HENSOLDT France SAS	8
As of Dec. 31, 2018	**594**

ACCUMULATED AMORTIZATION, DEPRECIATION AND WRITE-DOWNS	EUR million
As of Jan. 1, 2017	**0**
As of Dec. 31, 2017	**0**
As of Dec. 31, 2018	**0**

CARRYING AMOUNT	EUR million
As of Dec. 31, 2017	**584**
As of Dec. 31, 2018	**594**

As of December 31, goodwill was allocated to CGUs or a group of CGUs, which are summarized here:

EUR million	Sensors	Optronics	Total
Goodwill as of Jan 1, 2017	0	0	0
Additions Orlando	388	83	471
Additions EuroAvionics	84	0	84
Additions Kelvin Hughes	29	0	29
As of Dec. 31, 2017	**501**	**83**	**584**
Additions PentaTec GmbH	2	0	2
Additions HENSOLDT France SAS	8	0	8
As of Dec. 31, 2018	**511**	**83**	**594**

General assumptions applied in the planning process

The basis for determining the recoverable amount is the value in use of the GCU. In general, the cash flow forecasts applied in the Group's impairment testing are based on the operational business plan. The operational planning used for impairment testing includes a detailed planning horizon of three years and is extrapolated for two more years. This is based on the following assumptions:

Assumptions in %	Dec. 31, 2018		Dec. 31, 2017	
	Sensors	Optronics	Sensors	Optronics
Discount rate (post-tax)	6.02%	6.02%	5.89%	5.89%
Sustainable growth rate	1.00%	1.00%	1.00%	1.00%
Projected sustainable EBIT margin	12.20%	12.20%	12.50%	11.50%

Based on the market position, management assumes further revenue growth of between 10% and 14%, and possible above this in the best case scenario. An increase in EBIT for 2019 is expected due to efficiency and cost saving measures.

Besides the macroeconomic developments described above, the forecast is based on the Group's multi-year business plan. The business plan from Q3/Q4 2018 includes in particular a projected US dollar rate of USD 1.28/EUR 1.00 (based on forecasts from Bloomberg/ Thomson Reuters) and an inflation rate and an increase in personnel expenses of an average 2%.

Cash flows beyond a period of five years are extrapolated using a growth rate of 1%.

16. Property, plant and equipment

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

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

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

KEUR	Land, improvements and buildings, including buildings on third-party land	Technical equipment and machinery	Other equipment, operating and office equipment	Construction in progress	Total
COST					
As of Jan. 1, 2017	**0**	**0**	**0**	**0**	**0**
Acquisition through business combinations	5,722	57,333	18,356	10,655	92,065
Additions	376	5,791	3,271	6,633	16,071
Disposals	0	-1,277	-359	0	-1,636
Reclassifications	0	101	0	-357	-257
Currency translation	-163	-454	-97	-9	-724
As of Dec. 31, 2017	**5,935**	**61,492**	**21,171**	**16,921**	**105,519**
Acquisition through business combinations	0	351	272	0	623
Additions	224	6,878	5,652	8,101	20,855
Disposals	-132	-4,274	-2,031	0	-6,437
Reclassifications	2,929	5,438	1,228	-9,622	-27
Currency translation	-211	-866	-183	-17	-1,277
As of Dec. 31, 2018	**8,745**	**69,019**	**26,109**	**15,383**	**119,256**
ACCUMULATED AMORTIZATION, DEPRECIATION AND WRITE-DOWNS					
As of Jan. 1, 2017	**0**	**0**	**0**	**0**	**0**
Additions	-144	-11,296	-4,024	0	-15,463
Disposals	0	1,273	99	0	1,372
Reclassifications	0	0	0	0	0
Currency translation	0	-22	-5	0	-26
As of Dec. 31, 2017	**-143**	**-10,045**	**-3,929**	**0**	**-14,117**
Additions	-450	-14,626	-7,046	0	-22,122
Disposals	98	3,847	1,923	0	5,868
Reclassifications	0	0	0	0	0
Currency translation	4	235	56	0	295
As of Dec. 31, 2018	**-491**	**-20,589**	**-8,996**	**0**	**-30,076**
CARRYING AMOUNT					
As of Dec. 31, 2017	**5,792**	**51,448**	**17,242**	**16,921**	**91,402**
As of Dec. 31, 2018	**8,254**	**48,430**	**17,113**	**15,383**	**89,180**

17. Other investments and other non-current financial assets

KEUR	Dec. 31, 2018	Dec. 31, 201
Other investments	11,128	4,956
Other non-current financial assets	219	187
Other investments and other non-current financial assets	**11,347**	**5,143**
Other non-current financial assets, due at short-notice	**5,269**	**41,314**
Total	**16,616**	**46,457**

Other investments relate mainly to the investment in Deutsche Elektronik Gesellschaft für Algerien mbH of KEUR 9,284 (PY: KEUR 3,110).

Interests in other non-current financial assets due at short notice mainly include loans to ADS GmbH.

18. Inventories

KEUR	Gross amount	Impairment	Dec. 31, 2018 Net carrying amount	Dec. 31, 2017 Net carrying amount
Raw materials and supplies	181,357	-41,448	139,909	135,686
Work in process	268,577	-29,111	239,466	230,187
Finished goods and parts for resale	41,067	-13,440	27,627	20,783
Total	**491,001**	**-83,999**	**407,002**	**386,656**

The amounts relating to impairments recognized in profit or loss in the financial year equal KEUR 1,121 (PY: KEUR 3,586). No significant reversal of impairment losses were recognized as reduction in the cost of materials in the financial year.

19. Trade receivables

Trade receivables

KEUR	Dec. 31, 2018	Dec. 31, 2017
Receivables from the sale of goods and services	347,957	347,767
Allowance for doubtful receivables	-9,885	-2,741
Total	**338,072**	**345,026**

The allowance for doubtful accounts in relation to trade receivables developed as follows over the course of the year:

KEUR	2018	2017
As of Dec. 31	2,741	0
Adjustments from the initial application of IFRS 9	1,180	0
As of Jan. 1	3,921	0
Acquisition through business combinations	68	2,941
Addition	5,975	832
Utilized	-2	-4
Reversal	-77	-1,028
As of Dec. 31	**9,885**	**2,741**

The credit and market risks as well as impairment losses are presented in Section 33. ‘Information on financial instruments’.

Contract assets and liabilities are presented in Section 10. Revenue, cost of sales, gross margin, contract assets and contract liabilities.

20. Trade payables

As in the prior year, all trade payables as of December 31, 2018, fall due within one year.

21. Provisions

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

KEUR	Dec. 31, 2018	Dec. 31, 2017
Pension provisions (note 28)	266,093	258,956
Other provisions	255,079	345,314
Total	**521,172**	**604,271**
thereof non-current portion	310,272	294,069
thereof current portion	210,900	310,201

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

KEUR	Warranties	Personnel-related provisions (note 27)	Contract losses	Outstanding costs	Other risks and costs	Total
Jan. 1, 2018	53,766	49,540	4,665	211,277	26,066	**345,314**
IFRS 15 adjustment	1,068	0	0	-105,229	11,022	**-93,139**
Utilized	-11,096	-27,754	-913	-98,474	-8,937	**-147,174**
Reversal	-6,364	-5,339	-4,187	-3,693	-16,912	**-36,495**
Additions	52,692	30,346	2,935	28,113	69,084	**183,169**
Effect of movements in exchange rates	-396	-77	0	-1,466	-115	**-2,054**
Unwinding of discount	-226	0	0	0	-22	**-248**
Assumption through business combinations	14	326	3,442	0	4	**3,786**
Reclassifications	0	2,129	-4,665	0	4,455	**1,919**
Dec. 31, 2018	**89,458**	**49,171**	**1,277**	**30,528**	**84,645**	**255,079**

Other provisions developed as follows in the prior year:

KEUR	Warranties	Personnel-related provisions (note 27)	Contract losses	Outstanding costs	Other risks and costs	Total
Jan. 1, 2017	0	0	0	0	5	**5**
Utilized	-7,913	-24,354	0	-96,379	-2,465	**-131,111**
Reversal	-1,757	-4,514	-1,291	-29,075	-7,352	**-43,988**
Additions	22,678	25,102	3,045	137,417	8,417	**196,659**
Effect of movements in exchange rates	-277	-41	0	-466	-109	**-893**
Unwinding of discount	-18	-2	0	0	0	**-20**
Assumption through business combinations	41,131	51,731	3,127	199,781	27,569	**323,339**
Reclassifications	-78	1,617	-216	0	0	**1,323**
Dec. 31, .2017	**53,766**	**49,540**	**4,665**	**211,277**	**26,066**	**345,314**

Provisions for outstanding costs relate mainly to deferrals for supplies not yet invoiced and outstanding own services under long-term construction contracts.

The provisions for other risks and costs relate to contract-related provisions for subsequent work for performance obligations already fulfilled.

Breakdown of other provisions by term:

	Dec. 31, 2018			Dec. 31, 2017		
KEUR	**current**	**non-current**	**Total**	**current**	**non-current**	**Total**
Warranties	55,631	33,827	89,458	33,413	20,353	53,766
Personnel-related provisions	31,127	18,043	49,170	28,467	21,073	49,540
Contract losses	1,277	0	1,277	2,157	2,508	4,665
Outstanding costs	30,530	0	30,530	211,277	0	211,277
Other risks and costs	66,544	18,100	84,644	13,433	12,633	26,066
Total	**185,109**	**69,970**	**255,079**	**288,746**	**56,567**	**345,314**

For the non-current provisions of the Company, it is generally assumed that they will lead to cash outflows in the next 2 to 5 years.

Legal disputes and damage claims

Legal disputes and damage claims include various proceedings, official investigations and proceedings as well as damage claims that are pending or will be initiated or claimed against the Group in the future. These proceedings are subject to much uncertainty and the result of individual issues cannot be reliably predicted. The Group believes that it has recognized adequate provisions to cover current or potential litigation risks. It is quite possible that the final ruling in some cases could lead to expenses beyond those accounted for in the recognized provisions. These cases can drag on for a long time and an amount cannot be reliably estimated. The term ‘quite possible’ used here means that the chance of a future transaction or future occurrence of an event is more than unlikely, however less than likely.

Within the scope of its ordinary business operations, the HENSOLDT Group is involved in different court and arbitration proceedings from time to time. The HENSOLDT Group is not currently aware of any official, judicial or arbitration proceedings (including pending and threatened proceedings) during the previous twelve months or longer that could significantly impact or significantly impacted on the Group’s assets, liabilities, financial position and financial performance. As of the reporting date provisions for legal disputes and damage claims of a negligible amount were recognized under other provision for other risks and costs.

22. Contingent assets and contingent liabilities

Due to the type of its transactions, the HENSOLDT Group is exposed to the risk of contingent liabilities. The following tables shows the undiscounted maximum amounts for which HENSOLDT Group is liable as of the reporting date due to the type of guarantees (including sureties):

KEUR	Dec. 31, 2018	Dec. 31, 2017
Loan guarantees / sureties	28,373	36,955
Contractual guarantees / sureties	269,470	146,855
Other guarantees and sureties	35,912	32,399
Total	**333,755**	**216,209**

The item loan guarantees/sureties shows to what extent the HENSOLDT Group is liable for financial obligations of third parties. For loan guarantees/sureties the Company guarantees in general that if the principal debtor does not pay the debt then the Company will fulfill its financial obligations. The maximum liability coverage corresponds to utilization of the outstanding liability of the credit or – in the event of credit facilities that can be utilized in variable amounts – the maximum amount that can be claimed. The table includes the maximum liability coverage. The terms of these guarantees/sureties extend up to 2 years.

In addition, HENSOLDT Group guarantees the fulfillment of its own contractual obligations, mainly due to advance payments and performance guarantees/sureties. If the HENSOLDT Group does not meet its contractual obligations, the HENSOLDT Group or one of its subsidiaries can claim up to an agreed maximum amount. Generally the terms of these contingent liabilities run to 8 years or in some cases there are indefinite guarantees/sureties.

The other guarantees and sureties relate to bid bonds, performance guarantees, customs guarantees and rental guarantees.

23. Other financial assets and other financial liabilities

23.1. Other financial assets

KEUR	Dec. 31, 2018	Dec. 31, 2017
Positive fair values of derivative financial instruments (1)	723	18,892
Miscellaneous other non-current financial assets	12	12
Total other non-current financial assets	**735**	**18,904**
Positive fair values of derivative financial instruments (1)	1,017	10,294
Receivables from employees	312	509
Miscellaneous other current financial assets	131	507
Total other current financial assets	**1,460**	**11,310**
Total	**2,195**	**30,214**

(1) See note 33 'Information on financial instruments'

23.2. Other financial liabilities

KEUR	Dec. 31, 2018	Dec. 31, 2017
Liabilities for derivative financial instruments (1)	3,355	0
Liability from put options	1,206	972
Miscellaneous other non-current financial liabilities	0	11
Total other non-current financial liabilities	**4,561**	**983**
Liabilities for derivative financial instruments (1)	13,299	5,251
Liabilities to related parties	0	12,380
Other	0	419
Total other current financial liabilities	**13,299**	**18,050**
Total	**17,860**	**19,033**

(1) See note 33 'Information on financial instruments'

Other current financial liabilities as of December 31, 2017, of KEUR 12,380 relate to a liability to ADS GmbH.

24. Other assets and liabilities

24.1. Other assets

KEUR	Dec. 31, 2018	Dec. 31, 2017
Capitalized costs to fulfil contracts	4,208	-
Other	4,917	3,145
Total other non-current assets	**9,125**	**3,145**
Advance payments	8,112	4,191
Retentions	2,954	3,673
Creditors with debit balances	966	1,687
VAT	7,159	5,223
Miscellaneous other current assets	2,231	1,690
Total other current assets	**21,422**	**16,464**
Total	**30,547**	**19,610**

24.2. Other liabilities

KEUR	Dec. 31, 2018	Dec. 31, 2017
Advances received [(1)]	0	18,436
Other	3,399	2,682
Total other non-current liabilities	**3,399**	**21,118**
Advances received [(1)]	0	203,703
Tax liabilities (not incl. income tax)	25,234	10,494
Liabilities to employees	18,529	20,948
Other	12,531	5,609
Total other current liabilities	**56,294**	**240,754**
Total	**59,693**	**261,872**

[(1)] From 2018 advances received are recognized under contract liabilities due to IFRS 15

V. Expenses and employee benefits

25. Headcount

	2018	2017
Production, research and development, service	3,423	3,152
Sales and distribution	108	89
Administration and general services	475	435
Apprentices, trainees, etc.	365	373
Total[1]	**4,371**	**4,049**

[(1)] Average figures (end quarter)

Due to start of the Group's operating activities on March 1, 2017, the average was calculated over a period of 10 months in the prior year.

26. Personnel expenses

KEUR	2018	2017
Wages, salaries	347,083	258,613
Social security contributions	47,847	39,572
Net periodic employee benefit expenses	22,163	16,181
Total	**417,093**	**314,367**

The prior-year figures comprise the period of operating activities from March 1 to December 31, 2017.

27. Personnel-related provisions

Several German group entities offer models for life-time working accounts, which represent defined benefit plans due to a pledged interest on contributions or nominal contributions and are to be classified as post-employment benefits in accordance with IAS 19. The obligations of KEUR 14,473 (PY: KEUR 13,765) are fully offset against corresponding assets. The regular contributions of employees to their life-time working accounts lead to a corresponding personnel expense in the reporting period which is recognized in personnel expenses.

Personnel-related provisions developed as follows:

KEUR	Long service awards/ bonuses	Partial retirement	Other personnel expenses	Total
Jan. 1, 2018	**44,547**	**3,457**	**1,536**	**49,540**
Utilized	-24,932	-2,557	-265	-27,754
Reversal	-4,610	-729	0	-5,339
Additions	30,271	75	0	30,346
Effect of movements in exchange rates	-77	0	0	-77
Assumption through business combinations	326	0	0	326
Reclassifications	0	2,129	0	2,129
Dec. 31, 2018	**45,525**	**2,375**	**1,271**	**49,171**

KEUR	Long service awards/ bonuses	Partial retirement	Other personnel expenses	Total
Jan. 1, 2017	**0**	**0**	**0**	**0**
Utilized	-19,804	-4,550	0	-24,354
Reversal	-3,764	0	-750	-4,513
Additions	23,223	1,879	0	25,102
rates	-41	0	0	-41
Assumption through business combinations	45,089	4,354	2,288	51,731
Unwinding of discount	0	0	-2	-2
Reclassifications	-157	1,774	0	1,617
Dec. 31, 2017	**44,547**	**3,457**	**1,536**	**49,540**

28. Pension benefits

KEUR	Dec. 31, 2018	Dec. 31, 2017
Provisions for employee benefits (see note 28.1)	164,281	172,203
Provisions for deferred compensation (see note 28.2)	101,812	86,753
Total	**266,093**	**258,956**

28.1. Provisions for pension plans

Provision for pension plans

Provisions for German pension obligations (defined benefit obligations or 'DBO') are recognized on the basis of defined benefit plans for old-age, invalidity and survivor's pension benefits. The benefits are based on the employee's length of service and remuneration.

Most domestic employees are under the 'P3 Plan', which allows a choice between immediate payment of the credit saved, payment in installments or an annuity.

To finance domestic pension obligations, the Group introduced several contractual trust arrangements or 'CTA'. The structure of the contractual trust arrangement is based on mutual trust agreements. Assets transferred to the contractual trust arrangement are considered plan assets under IAS 19.

In terms of the significant accounting policies and significant estimates and assessments, e.g. actuarial assumptions, please refer to the note 2.6 'Employee benefits' and note 3.6 'Employee benefits'.

Changes in the defined benefit obligation and plan assets

	DBO		Plan assets		Total	
KEUR	2018	2017	2018	2017	2018	2017
As of Jan. 1	**320,018**	**0**	**147,815**	**0**	**172,203**	**0**
Assumption due to business combinations	1,151	279,754	0	143,209	1,151	136,545
Expenses for pension benefit entitlements	16,468	11,322	0	0	16,468	11,322
Interest expense/income	5,185	3,898	1,125	2,124	4,060	1,774
Payments	-1,977	-615	0	0	-1,977	-615
Actuarial gains/losses deriving from						
■ Changes in demographic assumptions	-908	16,801	0	0	-908	16,801
■ Changes in financial assumptions	-16,061	-3,193	0	0	-16,061	-3,193
■ Adjustments based on experience	7,444	13,788	0	0	7,444	13,788
■ Plan assets	0	0	16,483	2,482	-16,483	-2,482
Other changes in consolidation, transfers	-1,039	-568	578	0	-1,617	-568
Benefits paid	0	-1,169	0	0	0	-1,169
As of Dec. 31	**330,282**	**320,018**	**166,001**	**147,815**	**164,281**	**172,203**

As of December 31, the defined benefit obligation or the assets amounted to:

KEUR	Pension plans Germany 2018	2017
Defined benefit obligation	330,282	320,018
Plan assets	-166,001	-147,815
Total	**164,281**	**172,203**

The weighted average duration of the defined benefit obligation for pensions and deferred compensation is 15 years.

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

	2018	2017
Assets	82%	90%
Eligible employees	6%	4%
Pensioner	12%	6%
	100%	**100%**

The expected employer's contribution to defined benefit plans for the 2019 financial year amounts to KEUR 15,410.

The following table shows how the present value of defined benefit obligations of pension plans and deferred compensation would be impacted by changes to actuarial assumptions as of December 31, 2018:

	Change in actuarial assumptions	Effect on defined benefit obligations			
		as of December 31, 2018		as of December 31, 2017	
KEUR		Increase	Decline	Increase	Decline
Present value of obligation					
Discount rate	by 0.5 percentage points	-29,939	33,879	-29,162	33,122
Wage increase rate	by 0.25 percentage point	1,025	-997	1,235	-1,201
Pension increase rate	by 0.25 percentage point	4,580	-4,355	4,097	-3,890
Life expectancy	by 1 year	5,781	-5,892	5,131	-5,199
Exercising of pension option	by 10 percentage points	19,824	-19,824	21,338	-21,338

Sensitivities are calculated using the same method (present value of the defined benefit obligation calculated using the projected unit credit method) as used for the calculation of post-employment benefits. The sensitivity analysis is based on a change of one assumption maintaining all other assumptions unchanged. This is very unlikely to occur in practice. Changes to more than one assumption can correlate which can have differing effects on the DBO as described above. If the assumptions change to various degrees, the effects on the defined benefit obligation are not necessarily linear.

Asset-liability matching strategy

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

For this reason, the HENSOLDT Group implements a risk management plan that is aligned with the defined benefits obligations.

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

KEUR	Quotedprices 2018	2017	Unquoted prices 2018	2017	Total 2018	2017
Other investments	0	0	133,338	113,826	133,338	113,826
Pooled investment instruments	46,681	47,941	0	0	46,681	47,941
Total	**46,681**	**47,941**	**133,338**	**113,826**	**180,019**	**161,766**

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

The employer's contribution to state and private pension funds in Germany is considered a defined contribution obligation. The contributions in 2018 amounted to KEUR 21,216 (PY: KEUR 18,046).

28.2. Provisions for deferred compensation

This amount represents obligations that arise when employees convert a part of their remuneration or bonus to an equivalent entitlement for deferred compensation, which is treated as a defined benefit plan upon termination of employment. The development of DBO and plan assets is as follows:

KEUR	DBO 2018	2017	Plan assets 2018	2017	Total 2018	2017
As of Jan. 1	**100,705**	**0**	**13,952**	**0**	**86,753**	**0**
Assumption due to business combinations	0	89,816	0	10,911	0	78,905
Expenses for pension benefit entitlements	5,218	4,189	0	0	5,218	4,189
Interest expense/income	1,644	954	184	157	1,460	797
Payments	-571	-204	384	0	-955	-204
Actuarial gains/losses deriving from						
■ Changes in demographic assumptions	-108	0	0	0	-108	0
■ Changes in financial assumptions	-3,710	-68	0	0	-3,710	-68
■ Adjustments based on experience	4,953	-1,648	0	0	4,953	-1,648
■ Plan assets	0	0	-530	-244	530	244
Other changes in consolidation, transfers	7,699	-28	0	0	7,699	-28
Benefits paid	0	-76	0	0	0	-76
Contributions	0	7,770	28	3,128	-28	4,642
As of Dec. 31	**115,830**	**100,705**	**14,018**	**13,952**	**101,812**	**86,753**

As of December 31, reported as:

KEUR	Deferred compensation 2018	2017
Defined benefit obligation	115,830	100,705
Plan assets	-14,018	-13,952
As of Dec. 31	**101,812**	**86,753**

29. Compensation

Employees in key positions in the Group include members of the management team including the management of HENSOLDT Holding GmbH and members of the Supervisory Board.

29.1. Compensation – Management team

KEUR	2018	2017
Salaries and other short-term benefits (including bonuses)	5,590	4,263
Termination benefits	352	0
Total	**5,942**	**4,263**

The amounts shown in the table were reported as an expense in the reporting period:

Remuneration of members of management is not disclosed pursuant to the protective clause of Section 314 (3) in conjunction with Section 286 (4) HGB.

29.2. Compensation – Supervisory Board

The currently applicable compensation policy for the Supervisory Board was adopted by the Annual General Meeting on May 24, 2017.

Each member of the Supervisory Board receives an annual base salary of EUR 40,000, each member of a standing committee receives additional annual compensation of EUR 10,000, irrespective of the number of committees.

If a Supervisory Board member is not employed for the full financial year, they receive a proportionate share of the compensation.

Remuneration of Supervisory Board members amounted to KEUR 540 for the financial year (PY: KEUR 400).

29.3. Management participation

Key management personnel and other senior staff and governing body members of the HENSOLDT Group (collectively referred to as ‘participants’) can indirectly invest (in each case a ‘management participation’) in HENSOLDT Holding GmbH by indirectly acquiring ordinary shares and in some cases also interest-bearing convertible preferred equity certificates (CPECs) that have been issued by Square Lux Midco 1 & Co S.C.A. As of the reporting date, key management personnel held approx. 7.48% of the ordinary shares in Square Lux Midco 1 & Co S.C.A. Other senior staff of the HENSOLDT Group indirectly hold approx. 4.34% of the ordinary shares of Square Lux Midco 1 & Co S.C.A. and overall approx. 0.67% of the CPECs issued by Square Lux Midco 1 & Co S.C.A.

Management’s participation via ordinary shares corresponds to a notional share of 11.82% in the share capital of HENSOLDT Holding GmbH (based on the share capital of HENSOLDT Holding GmbH which is held by itself but not in the form of treasury shares from HENSOLDT Holding GmbH). Of this, 7.48% is attributable to key management personnel.

The acquisition of the management participation took place in 2017 and 2018 at various dates, in each case from the participants’ own funds.

Management participations serve to involve participants in the Company’s development and thus the opportunities and risks of the HENSOLDT Group. In this sense the participants as investors bear that risk underlying their management participation including the risk of full loss of the value of their management participation.

The realization of the value of the management participation occurs via a direct or indirect sale of the investment in the HENSOLDT Group, in the course of an initial public offering of the HENSOLDT Group or other sale of the HENSOLDT Group (each an 'exit case'), whereby the participants themselves cannot determine the time and conditions (including the price) of such an exit case. Subject to certain market protection agreements as part of an initial public offering, the participants can nevertheless generally participate in such a sale in line with their shareholding and in this respect have the tag-along selling rights and are subject to drag-along selling obligations generally at the same conditions (including the price for ordinary shares or CPECs) as Square Lux TopCo S.à r.l., i.e. the majority owner of Square Lux Midco 1 & Co S.C.A..

In addition, the management participation is subject to a purchase right on the part of Square Lux TopCo S.à r.l. that can be exercised in the event of certain conditions, in particular in the event of the participant leaving their active employment at the HENSOLDT Group ('purchase option'). The calculation of the purchase price upon exercising the purchase option is determined by the reason for exercising the acquisition option (e.g. reaching the age limit, termination by the participant or termination without notice). Depending on the reason for exercising the purchase option, the purchase price corresponds to the cost of the management participation or the current market value of the management participation, which is calculated on the basis of a contractually agreed valuation method. Depending on the reason for exercising the purchase option the market value of the management participation for managers in key positions and individual other senior staff is not paid for the entire management participation but rather only a share determined on the basis of the length of time the respective management participation is held. This share increases each quarter over a period of four years. For the remaining share of the management participation, the purchase price is determined based on the cost of the related share. The management participations of several parties who are no longer employed by the HENSOLDT Group were bought back by Square Lux TopCo S.à r.l. in 2018. The purchase price paid by Square Lux TopCo S.à r.l. for the purposes of buying back these management participations exceeded the fair value of the respective management participation.

HENSOLDT Holding GmbH and its subsidiaries themselves are not a contracting party to the agreement on the management participation and are not at any time obligated – whether in an exit case or upon resignation of a participant – to make payment to the participant.

In the course of purchasing management participations the purchase price to be paid by the participants corresponded to at least the fair value of the management participation. As the participants pay at least the fair value of the participation at the time of purchase or receive from Square Lux TopCo S.à r.l. no more than the fair value of the management participation associated with the buyback of a management participation, there is no monetary advantage granted at the time the parties become or withdraw from being participants. For this reason, at no point is an expense recognized in the consolidated financial statements (whether in an exit case or upon resignation of the manager).

VI. Capital structure and financial instruments

30. Total equity and liabilities

30.1. Equity attributable to owners of the parent company

HENSOLDT Holding GmbH's share capital is fully paid and amounted to KEUR 25 as of December 31, 2018. The share capital consists of 25,000 shares at EUR 1.00 each.

The capital reserve is unchanged at KEUR 46,275 as of December 31, 2018.

Other reserves include cumulative other comprehensive income.

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

The Group's retained earnings were adjusted as of January 1, 2018, due to the adjustments to IFRS 15 (see Section 4 'Change in accounting policies and disclosure').

30.2. Treasury shares

With effect from June 30, 2018, 6,275 treasury shares were acquired for KEUR 10,563. The treasury shares are deducted in an amount equal to costs in a one-off sum from total equity and liabilities.

30.3. Non-controlling interests

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

KEUR	HENSOLDT Optronics (Pty) Ltd.	GEW Technologies (Pty) Ltd.	Total	Intragroup eliminations/ adjustments	Dec. 31, 2018
Percentage of non-controlling interests	**30%**	**6.72%**			
Non-current assets	12,197	5,920	18,117		
Current assets	44,444	55,223	99,667		
Non-current liabilities	-1,152	-1,368	-2,520		
Current liabilities	-23,797	-27,775	-51,572		
Net assets	**31,692**	**32,000**	**63,692**		
Net assets of non-controlling interests	9,508	2,150	11,658	-788	10,870
Revenue	33,483	52,595	86,078		
Profit	986	5,785	6,771		
Other comprehensive income/loss	-5,568	-2,717	-8,285		
Total comprehensive income/loss	**-4,582**	**3,068**	**-1,514**		
Profit attributable to non-controlling interests	296	389	685		685
Other comprehensive income/loss attributable to non-controlling interests	-1,670	-183	-1,853	400	-1,453
Cash flows from operating activities	-6,466	7,940	1,474		
Cash flows from investing activities	-2,926	-898	-3,824		
Cash flows from financing activities	3,150	-3,500	-350		
Net increase (decrease) in cash and cash equivalents	**-6,242**	**3,542**	**-2,700**		

KEUR	HENSOLDT Optronics (Pty) Ltd.	GEW Technologies (Pty) Ltd.	Total	Intragroup eliminations/ adjustments	Dec. 31, 2017
Percentage of non-controlling interests	**30%**	**6.72%**			
Non-current assets	11,963	5,066	17,029		
Current assets	38,034	63,768	101,801		
Non-current liabilities	-1,539	-2,314	-3,853		
Current liabilities	-14,383	-31,295	-45,678		
Net assets	**34,074**	**35,225**	**69,300**		
Net assets of non-controlling interests	10,222	2,367	12,589	572	13,162
Revenue	28,640	72,856	101,496		
Profit	4,106	8,073	12,179		
Other comprehensive income/loss	-2,093	3,828	1,734		
Total comprehensive income/loss	**2,013**	**11,900**	**13,913**		
Profit attributable to non-controlling interests	1,232	542	1,774	-822	953
Other comprehensive income/loss attributable to non-controlling interests	-628	257	-371	-445	-815
Cash flows from operating activities	6,172	33,174	39,346		
Cash flows from investing activities	2,094	-1,833	261		
Cash flows from financing activities	-420	-5,975	-6,395		
Net increase (decrease) in cash and cash equivalents	**7,846**	**25,366**	**33,212**		

Under company law, the non-controlling shareholder of GEW Technologies (Pty) Ltd. has a 25% interest under company law in GEW Technologies (Pty) Ltd. and its subsidiary GEW Integrated Systems (Pty). The non-controlling shareholder was issued with 500 shares, of which 392 shares are treated as treasury shares until full payment of the purchase price. This results in a financial stake of non-controlling interests of 6.72%. In connection with the shares considered treasury shares, there is a put option in favor of the non-controlling shareholder which is recognized at market value under other non-current financial liabilities.

31. Capital management

The capital structure of the HENSOLDT Group is made up of equity capital attributable to the shareholders of the parent company and of debt capital. A capital structure that optimizes capital costs of equity and debt is being targeted.

The Group is not subject to any capital requirements imposed by the Articles of Association.

The non-current syndicated loan agreement (Term Loan) is tied to compliance with a financial covenant that refers to the ratio of net liabilities to earnings before interest, taxes, depreciation and amortization (EBITDA). In the year under review the financing conditions were met at all times.

The availability and conditions of the loan are tied to this financial covenant. In the event of breach, the financing partners are authorized to terminate the syndicated loan. There are no indications that the covenant cannot be fully complied with at all times (see note 33 ‘Information on financial instruments’).

The term loan was increased by a nominal EUR 225 million to a total of EUR 920 million during the financial year, in order to take account of additional operating and strategic company growth.

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

In the Group's second year of operating activities a consolidated loss of EUR 60 million was generated as a result of expenses in connection with transactions, the expenses from the purchase price allocation, separation costs and other non-recurring effects.

32. Net debt

KEUR	Dec. 31, 2018	Dec. 31, 2017
Cash and cash equivalents	227,550	137,974
Shareholder loans	-349,567	-437,474
Long-term liabilities due to banks	-880,364	-677,084
Current financial liabilities	-3,367	-15,024
Total	**-1,005,748**	**-991,608**

32.1. Cash and cash equivalents

Cash and cash equivalents consist of the following items:

KEUR	Dec. 31, 2018	Dec. 31, 2017
Cash at bank and liquid funds	227,550	137,974
Total cash and cash equivalents	**227,550**	**137,974**

32.2. Financing liabilities

Financial liabilities to shareholders and banks consist of current and non-current loans.

The conditions and repayment schedules of the loans as of December 31, 2018, are as follows:

Loans	Capital amount KEUR	Issue date	Coupon or interest rate	Interest	Effective interest rate	Due date
Loan (Term Loan)	920,000	2017-02-28/ 2017-04-18/ 2017-07-26/ 2018-02-28/ 2018-12-06	3m EURIBOR + 3.25%	Floating rate	3.99%	2024-02-28
Shareholder loan (Square Lux Finco S.à r.l.)	349,567	2017-02-27/ 2017-02-28	6.716%	Fixed rate		2027-02-27

The conditions and repayment schedules of the loans as of December 31, 2017, are as follows:

Loans	Capital amount KEUR	Issue date	Coupon or interest rate	Interest	Effective interest rate	Due date
Loan (Term Loan)	695,000	2017-02-28/ 2017-04-18/ 2017-07-26	3m EURIBOR + 3.75%	Floating rate	3.65%	2024-02-28
Revolving Credit Facility	15,000	28.02.2017	3m EURIBOR + 3.75%	Floating rate		2023-02-27
Shareholder loan (Airbus Defence and Space GmbH)	107,419	28.02.2017	6.716%	Fixed rate		2027-02-28
Shareholder loan (Square Lux Finco S.à r.l.)	320,530	27.02.2017	6.716%	Fixed rate		2027-02-27

The conditions of the loan agreement, which is in place to finance the Group, were adjusted in favor of HENSOLDT in the reporting year. The volume of lending commitments currently amounts to EUR 920 million with a contractual term to February 2024. In addition, there is a credit facility of EUR 200 million which was available in full as of December 31, 2018.

The loan agreement is secured by pledging shares in the subsidiaries HENSOLDT Sensors GmbH, HENSOLDT Optronics GmbH and Square Holding France S.A.S., KH Holdco Ltd, KH Finance No.2, KH Finance Ltd. and Kelvin Hughes Ltd.

For the variable interest-bearing loan ('Term Loan'), interest rate caps and interest rate swaps were concluded in order to hedge the risk resulting from the variable interest charge on the loan. The variable interest charge on the loan is capped at half of the loan for the period until March 2019 and for the period from March 2019 to March 2022 is fully replaced with a fixed interest rate. The loan includes an embedded derivative in the form of a repayment right that and zero-floor clause that must be presented separately. In determining the effective interest rate, the transaction costs are allocated to the host contract.

The total amounts of financial liabilities due in the next five years and thereafter, as of December 31, 2018, amount to:

KEUR	Up to 1 year	Between 1 and 5 years	More than 5 years	Total
Liabilities to banks	3,367	0	880,364	883,731
Shareholder loans	0	0	349,567	349,567
Dec. 31. 2018	**3,367**	**0**	**1,229,931**	**1,233,298**

The total amounts of financial liabilities due in the next five years and thereafter, as of December 31, 2017, amount to:

KEUR	Up to 1 year	Between 1 and 5 years	More than 5 years	Total
Liabilities to banks	15,024	0	677,084	692,109
Shareholder loans	0	0	437,474	437,474
Dec. 31, 2017	**15,024**	**0**	**1,114,558**	**1,129,582**

The shareholder loan of a nominal amount of EUR 110 million (including incurred interest) from the former non-controlling shareholder Airbus Defence and Space GmbH (until June 30, 2018) was assumed as part of a call option being exercised on company shares of the former non-controlling shareholder in HENSOLDT Holding GmbH by the main shareholder Square Lux Holding II S.à r.l.

In this regard a proportionate share of the shareholder loan provided by Square Lux Finco S.à r.l. was repaid.

32.3. The reconciliation of changes in financial liabilities to cash flows from financing activities

The following shows the cash flows from financing activities in a reconciliation from the opening balances to closing balances for the liabilities and equity components attributable to financing activities including the accompanying financial assets and liabilities from the hedging transactions of these financing activities.

			Other non-cash changes					
KEUR	**of financial position as of Dec. 31, 2018**	**Cash flow (net cash changes)**	**IFRS 9 adjustment**	**Accrued interest**	**Capitalized interest**	**Change to consolidated group**	**Changes in fair value**	**of financial position as of Dec. 31, 2018**
Non-current borrowing								
Shareholder loans	437,474	-109,830	0	20	21,903	0	0	349,567
Bank loans (net)	677,084	222,900	-14,950	-4,670	0	0	0	880,364
Current borrowing	15,024	-14,165	0	0	0	2,588	-80	3,367
Change in financial liabilities due to financing activities	**1,129,582**	**98,905**	**-14,950**	**-4,650**	**21,903**	**2,588**	**-80**	**1,233,298**
Treasury shares	0	-10,563	0	0	0	0	0	-10,563
Capital reserve	46,275	0	0	0	0	0	0	46,275
Change in equity due to financing activities	**46,275**	**-10,563**	**0**	**0**	**0**	**0**	**0**	**35,712**
Interest rate swap assets	-2	0	0	0	0	0	2	0
Interest rate swap liabilities	4,078	0	0	0	0	0	6,740	10,818
Embedded derivative ((-) (asset) (+) liability)	-18,892	0	0	0	0	0	22,175	3,283
Change in assets (-) and liabilities (+) to hedge non-current borrowing	**-14,816**	**0**	**0**	**0**	**0**	**0**	**28,917**	**14,101**

KEUR	of financial position as of Jan. 1, 2017	Cash flow (net cash changes)	Other non-cash changes: Separation of embedded derivative	Accrued interest	Capitalized interest	Non-cash contributions	Changes in fair value	of financial position as of Dec. 31, 2017
Non-current borrowing shareholder loans	0	436,713	0	0	24,694	-23,934	0	437,474
bank loans (net)	0	665,113	10,303	1,668	0	0	0	677,084
Current borrowing	0	15,000	0	24	0	0	0	15,024
Change in financial liabilities due to financing activities	**0**	**1,116,826**	**10,303**	**1,692**	**24,694**	**-23,934**	**0**	**1,129,582**
Capital reserve	27	22,314		0	0	23,934	0	46,275
Change in equity due to financing activities	**27**	**22,314**	**0**	**0**	**0**	**23,934**	**0**	**46,275**
Interest rate swap assets	0	0	0	0	0	0	-2	-2
Interest rate swap liabilities	0	0	0	0	0	0	4,078	4,078
Embedded derivative (asset)	0	0	-10,303	0	0	0	-8,589	-18,892
Change in assets (-) and liabilities (+) to hedge non-current borrowing	**0**	**0**	**-10,303**	**0**	**0**	**0**	**-4,512**	**-14,815**

For non-current borrowing, transaction costs of KEUR 29,887 were deducted in the prior year.

33. Information on financial instruments

33.1. Financial risk management

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

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

The Group's financial risk management is generally carried out by Corporate Finance in the Group in compliance with the guidelines approved by the Chief Financial Officer.

Further information on risks relating to financial instruments can be found in the risk report of the group management report additionally prepared for the IFRS consolidated financial statements.

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

Market risk

Foreign exchange risk

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

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

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

To hedge its foreign currency transactions in South Africa, the Group uses the cash flow hedge model that requires (i) recognition of the effective portion of the change in fair value of the hedging derivative in equity (under other reserves) and (ii) recognition of the effect of the hedge in profit of loss if the hedged cash flows affect profit or loss.

In the financial year a gain on foreign currency translation of KEUR 2,011 (PY: KEUR 5,726) was recognized in profit or loss.

Sensitivity of foreign exchange risk

The sensitivity analysis approximately quantifies the risk that can occur based on set assumptions if certain parameters are changed to a defined extent. Currency risks pertain in particular to the US dollar (USD), South African rand (ZAR), pound sterling (GBP) and Canadian dollar (CAD).

The following disclosures describe the Group's view of the sensitivity of an increase or decrease in the USD, ZAR, etc., against the EUR. The change is the value used in internal currency risk reporting and represents the Group's estimate of the impact of a potential change in the exchange rate. Currency exposures within the meaning of IFRS 7 result from financial instruments that are denominated in a currency other than the functional currency and are of a monetary nature. Translation differences from the translation of financial statements of foreign group entities into the Group's currency remain unrecognized. The sensitivity analysis includes the HENSOLDT Group's main financial instruments outstanding on the reporting date.

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

If the EUR had appreciated/depreciated by 10% against the USD, ZAR, GBP and CAD as of December 31, 2018/2017, the consolidated profit and other comprehensive income would have changed in the manner shown below:

		Dec. 31, 2018		Dec. 31, 2017	
KEUR		Consolidated profit/loss	Other comprehensive income/loss	Consolidated profit/loss	Other comprehensive income/loss
EUR/GBP	+/- 10%	+/- 2,481	0	-/+ 954	0
EUR/ZAR	+/- 10%	+/- 3,452	0	+/- 1,923	0
EUR/USD	+/- 10%	+/- 1,540	+/- 1,349	+/- 2,458	+/- 1,451
EUR/CAD	+/- 10%	+/- 379	0	+/- 1,083	0

The changes compared to the reported consolidated profit result mainly from the market valuation of forward exchange transactions with new exchange rates, which are used to hedge planned items and which are not included in any hedging relationship under IAS 39. These changes in the fair value of derivatives are offset against the hedged order backlog. The changes in other comprehensive income result from the market valuation of forward exchange transactions for cash flow hedge accounting.

Interest rate risk

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

Interest rate caps and interest rate swaps were concluded for the variable interest-bearing syndicated loan. The loan also includes an embedded derivative in the form of a repayment right and zero-floor clause that must be presented separately.

The changes in fair values of interest rate derivatives and embedded derivatives are recorded in the consolidated income statement.

Sensitivity of interest rate risk

A change of +/- 50 basis points in interest rates as of the reporting date would have decreased/increased equity and profit or loss by KEUR 3,938 (PY: KEUR 2,424). This analysis assumes that all other variables, in particular exchange rates, remain constant.

Liquidity risk

The Group's business policy is to maintain sufficient cash and cash equivalents at all times in order to be able to meet current and future obligations when due. The Group manages its liquidity by retaining a sufficient amount of liquid assets and having additional cash inflows from unused credit facilities (EUR 200 million) on hand.

Adverse developments on capital markets could increase the Group's borrowing costs and limit its financial flexibility. Management monitors the Group's cash reserves as well as expected cash flows from operating activities.

The contract terms of the Group's financial liabilities, based on undiscounted cash flows and including interest payments, where applicable, are as follows:

KEUR	Carrying amount	Contractual cash flows	< 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years
Non-derivative financial liabilities	1,401,577	1,858,783	195,834	27,330	27,405	27,405
Derivative financial liabilities	16,654	16,654	2,480	74	0	10,818
As of Dec. 31, 2018	**1,418,231**	**1,875,437**	**198,314**	**27,404**	**27,405**	**38,223**

KEUR	Carrying amount	Contractual cash flows	< 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years
Non-derivative financial liabilities	1,289,926	1,817,323	198,898	22,947	20,653	21,569
Derivative financial liabilities	5,251	5,251	454	336	233	0
As of Dec. 31, 2017	**1,295,177**	**1,822,574**	**199,352**	**23,283**	**20,886**	**21,569**

KEUR	4 years to 5 years	> 5 years
Non-derivative financial liabilities	20,597	1,532,658
Derivative financial liabilities	4,228	0
As of Dec. 31, 2017	**24,825**	**1,532,658**

The non-derivative financial liabilities included in the above table include financial liabilities and trade payables as presented in the tables to note 33.2 'Carrying amounts and fair values of financial instruments'.

Besides the commercial opportunities from additional margins and cost savings realized, the HENSOLDT Group's main risks relate primarily to compliance with the financial covenants agreed with banks in the context of corporate financing, which were renegotiated in the HENSOLDT Group's favor in the reporting year.

The previous quarterly test of the agreed financial covenants was canceled. A test is now only carried out on an indication basis when the working capital line of credit exceeds an agreed threshold or in the event of taking up additional external funding.

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

For short-term liquidity management, group-wide rolling liquidity planning, updated weekly, is used and this constitutes the operative instrument for short-term liquidity management of the HENSOLDT Group.

The agreed financial covenants are only then tested if one of the reasons specified is in place. Where the covenants must be tested and the financial performance indicators are non-compliant, the respective lender is entitled to terminate the loan. This could result in a going concern risk for the HENSOLDT Group if no alternative funding were to be available at the time when the liabilities to banks fall due.

The probability of occurrence of the risk of non-compliance with financial covenants is considered low. Liquidity is ensured at all times via a medium-term revolving credit facility.

Credit risk

The Group is exposed to a credit risk from non-fulfillment of financial instruments, either by customers or counterparties to the financial instruments. However, the Group prepared guidelines in order to avoid the concentration of credit risks and to ensure that the credit risk remains limited.

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

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

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

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

Assessment of the expected credit losses for customers as of January 1, 2018 and December 31, 2018

Allowances on trade receivables and contract assets are always measured in the amount of the lifetime expected credit loss. Lifetime expected credit losses are expected credit losses which result from all possible default events over the expected lifetime of a financial instrument.

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

The following table includes information on the credit risk and the expected credit losses for trade receivables as well as contract assets as of December 31, 2018.

KEUR	Rating at Standard & Poor's	Loss rate (weighted average)	Gross carrying amount	Loss allowance	Impaired creditwort hiness
Rating 1-6: low risk	BBB- to AAA	1.72%	151,460	-2,603	No
Rating 7-9: moderate risk	BB- to BB+	2.14%	263,204	-5,629	No
Rating 10: below average	B- to CCC-	11.82%	13,981	-1,653	No
Classification 11: doubtful	C to CC	-	0	0	Yes
Classification 12: loss	D	-	0	0	Yes
			428,645	**-9,885**	

	Dec. 31, 2018
Contract assets	80,688
Trade receivables	338,072
	418,760

Based on the historical payment history and analysis of customer credit risk, including the credit ratings of customers where available, management is of the opinion that past due amounts not impaired are still collectible.

At year-end there were no indications that impairments are necessary for financial assets recognized at fair value that go beyond the amounts already recognized (see Section 19 'Trade receivables').

Comparative information under IAS 39

The analysis of the recoverability as well as the age structure of trade receivables that are not overdue nor impaired, as of December 31, 2017, is as follows:

KEUR	Dec. 31, 2017
Receivables, neither past due nor impaired	250,109
Receivables not impaired and ≤ 1 month past due	36,394
Receivables not impaired and >1 and ≤ 2 months past due	8,565
Receivables not impaired and >2 and ≤ 3 months past due	6,332
Receivables not impaired and >3 and ≤ 6 months past due	9,144
Receivables not impaired and >6 months past due	34,481
Specifically impaired receivables	2,630
	347,656
from: specific impairment allowances	-2,630
Total	**345,026**

33.2. Carrying amounts and fair values of financial instruments

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

Within the Group, only derivatives that do not serve hedging purposes are classified as 'measured at fair value with changes in value through profit or loss'.

The Group groups its financial instruments into classes on the basis of accounting categories. The following table includes the carrying amounts and fair values of financial instruments according to class and valuation category as of December 31:

KEUR Dec. 31, 2018	Category pursuant to IFRS 9	Carrying amount	Fair value	Level
Assets				
Other investments and other non-current financial	FVTOCI	11,347	11,347	2
Trade receivables	AC	338,072	338,072	2
Other financial assets				
■ Other derivative instruments	FVTPL	1,739	1,739	2
■ Non-derivative instruments	FVTPL	454	454	2
Total financial assets		**351,612**	**351,612**	
Liabilities				
Financing liabilities				
■ Liabilities to shareholders	FLAC	349,567	356,489	2
■ Liabilities to banks	FLAC	883,731	902,312	2
Trade payables	FLAC	167,073	167,073	2
Other financial liabilities				
■ Derivative instruments for cash flow hedges	FVTOCI	1,024	1,024	2
■ Other derivative instruments	FVTPL	15,630	15,630	2
■ Liability from put option	no category	1,206	1,206	2
■ Other	FLAC	0	0	2
Total financial liabilities		**1,418,231**	**1,443,734**	

KEUR Dec. 31, 2017	Category pursuant to IAS 39	Carrying amount	Fair value	Level
Assets				
Other investments and other non-current financial assets	FVTOCI	5,143	5,143	2
Trade receivables	LaR	345,026	345,026	2
Other financial assets				
■ Derivative instruments for cash flow hedges	FVTOCI	8,904	8,904	2
■ Other derivative instruments	FVTPL	20,281	20,281	2
■ Non-derivative instruments	FVTPL	1,028	1,028	2
Total financial assets		**380,383**	**380,383**	
Liabilities				
Financing liabilities				
■ Liabilities to shareholders	FLAC	437,474	449,237	2
■ Liabilities to banks	FLAC	692,109	714,139	2
■ Finance lease liabilities	FLAC			
Trade payables	FLAC	146,562	146,562	2
Other financial liabilities				
■ Derivative instruments for cash flow hedges	FVTOCI	170	170	2
■ Other derivative instruments	FVTPL	5,081	5,081	2
■ Liability from put option	no category	972	972	2
■ Other	FLAC	12,809	12,809	2
Total financial liabilities		**1,295,177**	**1,328,970**	

There are put options in favor of the non-controlling shareholder of GEW Technologies (Pty) Ltd. (see Section 30.3 Non-controlling interests).

33.3. Nominal value of derivative financial instruments

The following listed contract volumes or the nominal value of derivative financial instruments do not necessarily show the amount exchanged by the parties and are therefore not a measure of the risk the Group is exposed to due to the derivative financial instruments.

The nominal value of derivative interest and foreign currency financial instruments are broken down according to the year of expected maturity as follows:

	Remaining term nominal amounts					
	less than 1 year		more than 1 year		Total	
KEUR	2018	2017	2018	2017	2018	2017
Interest rate futures						
■ Swaps	0	0	920,000	695,000	920,000	695,000
■ Caps	460,000	0	2,650	351,250	462,650	351,250
■ Component of embedded derivative	0	0	920,000	695,000	920,000	695,000
Forward exchange transactions	97,206	126,479	38,540	28,624	135,746	155,104

33.4. Derivative financial instruments and disclosures on hedge accounting

Derivative instruments in the presentation of the Group's financial position consist of (i) instruments recorded as hedging operating group activities against foreign exchange risks or hedging the interest result, and (ii) embedded interest rate derivatives that result from the separation of the interest rate portion and the call options of certain loan agreements and (iii) put options for buying back the shares of external shareholders.

The development of hedging instruments for foreign exchange risks recorded in other comprehensive income as of December 31, 2018/2017, is as follows:

KEUR	Equity attributable to owners of the Parent Company	Non-controlling interests	Total
As of Jan. 1, 2017	0	0	0
Unrealized valuation gains (+) and losses (-)	-4,190	-302	-4,491
Reclassification to consolidated income/loss	2,484	179	2,663
Deferred taxes on unrealized valuation gains	1,173	85	1,258
Change	**-533**	-38	-571
As of Dec. 31, 2017	**-533**	**-38**	**-571**
Unrealized valuation gains (+) and losses (-)	-5,668	-367	-6,035
Reclassification to consolidated income/loss	1,225	77	1,302
Deferred taxes on unrealized valuation gains	1,537	111	1,648
Change	-2,906	-179	**-3,085**
As of Dec. 31, 2018	**-3,439**	**-217**	**-3,656**

In connection with trade with international customers and suppliers, forward exchange transactions were concluded to manage the currency risk.

In the financial year, an amount of KEUR 1,908 (PY: KEUR 5,914) from cash flow hedges due was reclassified from equity primarily to revenue. There were no material inefficiencies from hedging relationships.

The fair values corresponding to the carrying amounts of various types of financial instruments were as follows as of December 31, 2018/2017:

	Assets		Liabilities	
KEUR	**Dec. 31, 2018**	**Dec. 31, 2017**	**Dec. 31, 2018**	**Dec. 31, 2017**
Foreign exchange contracts				
■ Cash flow hedges	0	8,904	1,025	170
■ not designated in a hedging relationship	1,740	1,388	1,528	1,003
Interest rate swaps				
■ Component of embedded derivative	0	18,892	3,282	0
■ not designated in a hedging relationship	0	2	10,819	4,078
Liability from put option	0	0	1,206	972
Total	**1,740**	**29,186**	**17,860**	**6,223**

33.5. Net gains or net losses

The following net gains or net losses were recognized in profit or loss in 2018 and 2017.

KEUR	2018	2017
Financial assets or liabilities at fair value through profit or loss	633	0
Financial assets at amortized cost	511	2,965
Financial liabilities at amortized cost	-17	-473
Net gains or net losses	**1,127**	**2,492**

Interest income from financial assets and financial liabilities measured at fair value through profit or loss are included in the net gains or net losses.

33.6. Impairment losses

The following impairment losses on financial assets were recognized in profit or loss in 2018 and 2017:

(in KEUR)	Category	2018	2017
Impairment losses for: Other investments and other financial assets	FVTOCI	0	765
Trade receivables and contract assets	AC	5,975	832
Other loans	AC	0	200
Impairment losses (gross) on other financial assets and contract assets		**5,975**	**1,797**
Reversals of impairment losses	AC	-77	-1,028
Impairment losses (net) on other financial assets and contract assets		**5,898**	**769**

VII. Additional comments

34. Auditor's fee and services

The HENSOLDT Group, its subsidiaries and other companies included in the consolidated financial statements recognized the following expenses for the fees and services of KPMG AG for financial year 2018 and 2017:

	Parent Company		Subsidiaries		Total	
KEUR	2018	2017	2018	2017	2018	2017
Audit services	472	192	597	519	1,069	711
Other assurance services	0	0	0	0	0	0
Tax advisory services	75	0	365	317	440	317
Other services	3	0	253	360	256	360
Total	**550**	**192**	**1,214**	**1,197**	**1,765**	**1,389**

35. Events after the reporting date

No significant events have occurred subsequent to the reporting date.

36. Operating leases

The Group leases a range of offices and production areas as well as laboratories (including also combined leases of land and buildings) under operating leases. The leases typically run for a non-cancellable minimum term of lease of more than ten years, with an option to renew the lease after that date. The leases were largely assumed from the Airbus Group and partially adjusted in this regard. The rent paid to the lessor is adjusted at regular intervals and the HENSOLDT Group does not participate in the residual value of land and buildings. For certain operating leases the Group requires the approval of the lessor to sublet.

Leased real estate is partially sublet by the HENSOLDT Group. Both the lease and sublease run until 2029. Income from subleases of KEUR 1,587 is expected.

In addition to leases for office and production areas and laboratories, the HENSOLDT Group mainly leases vehicles, office equipment as well as technical machinery.

As of December 31, the future minimum lease payments from leases are:

KEUR	Dec. 31, 2018	Dec. 31, 2017
less than one year	24,006	20,419
between one and five years	70,698	34,626
more than five years	111,732	4,961
Total	**206,436**	**60,006**

Of this, future minimum lease payments from leases concern related parties in the amount of KEUR 155,140.

The amounts recognized in the financial year in the consolidated income statement are set out in the following table:

KEUR	Dec. 31, 2018	Dec. 31, 2017
Leasing expense	25,018	22,405
Expense for contingent lease payments	0	21
Income from subleases	-42	-16
Total	**24,976**	**22,410**

37. Future payment obligations

Purchase commitments amounted to KEUR 302,543 as of December 31, 2018 (PY: KEUR 246,389).

The following auditor's report, prepared in accordance with § 322 HGB"Handelsgesetzbuch"; "German Commercial Code", refers to the complete financial statements, comprising of statement of financial position, statement of profit and loss and notes to the annual financial statements of HENSOLDT Holding GmbH, together with the management report of HENSOLDT Holding GmbH for the financial year from 1 January to 31 December 2018. The management report is not included in this prospectus. The above-mentioned auditor's report and consolidated financial statements are both translations of the respective German-language documents.

Independent Auditor's Report

To HENSOLDT Holding GmbH, Taufkirchen, District of Munich

Opinions

We have audited the consolidated financial statements of HENSOLDT Holding GmbH, Taufkirchen, District of Munich, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as of December 31, 2018, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of HENSOLDT Holding GmbH for the financial year from January 1 to December 31, 2018. In accordance with German legal requirements, we have not audited the content of the corporate governance statement pursuant to Section 289f (4) HGB (information on female representation), which is included in Section VI of the management report.

In our opinion, on the basis of the knowledge obtained in the audit,

– the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as of December 31, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018, and

– the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) [Institute of Public Auditors in Germany]. Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the group management report.

Other Information

Management is responsible for the other information. The other information comprises:

– the corporate governance statement pursuant to Section 289f (4) HGB (information on female representation) and

– the remaining parts of the annual report, with the exception of the audited consolidated financial statements and group management report and our auditor's report.

Our opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

– is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or

– otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent

with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the group management report.

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

We exercise professional judgment and maintain professional scepticism throughout the audit. We also:

– identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

– obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

– evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

– conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

– evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- evaluate the consistency of the group management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- perform audit procedures on the prospective information presented by management in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Munich, March 8, 2019

KPMG AG
Wirtschaftsprüfungsgesellschaft
(Original German version signed by:)

Leistner Wirtschaftsprüfer (German Public Auditor)	Peschel Wirtschaftsprüfer (German Public Auditor)

IFRS consolidated financial statements of

HENSOLDT Holding GmbH

as of December 31, 2017

HENSOLDT - Consolidated income statement

KEUR	Note	2017	2016
Revenue	9	917,093	0
Cost of sales	9	-831,299	0
Gross profit on sales		**85,794**	**0**
Selling and distribution expenses		-49,000	0
Administrative expenses		-80,372	-29,237
Research and development costs	10	-29,767	0
Other operating income	11	23,390	0
Other operating expense	11	-19,104	0
Earnings before interest and tax		**-69,059**	**-29,327**
Interest income	12	12,369	0
Interest expense	12	-55,528	0
Other finance income/expense	12	-10,212	0
Finance income/expenses		**-55,371**	**0**
Earnings before income taxes		**-122,430**	**-29,327**
Income taxes	13	22,010	0
Consolidated income/loss		**-100,420**	**-29,327**
thereof attributable to the owners of the Parent Company (consolidated loss)		-101,374	-29,327
thereof attributable to non-controlling interests		954	0

HENSOLDT - Consolidated statement of comprehensive income

KEUR	2017	2016
Consolidated income/loss	**-100,420**	**-29,327**
Other comprehensive income/loss		
Items that will not be reclassified to profit or loss in the future		
Measurement of defined benefit plans	-23,442	0
Tax on items not reclassified to profit or loss	6,646	0
Subtotal	**-16,796**	**0**
Items that will be reclassified to profit or loss in the future		
Difference from currency translation of financial statements of foreign entities	-4,626	0
Changes in fair values of cash flow hedges (net) recognized in profit or loss	-571	0
Subtotal	**-5,197**	**0**
Other comprehensive income/loss, net of tax	**-21,993**	**0**
Total comprehensive income/loss in the financial year	**-122,413**	**-29,327**
thereof attributable to the owners of the Parent Company (consolidated loss)	-122,552	-29,327
thereof attributable to non-controlling interests	139	0

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

HENSOLDT - Consolidated statement of financial position

ASSETS

KEUR	Note	Dec. 31, 2017	Dec. 31, 2016	Jan. 1, 2016
Non-current assets		**1,170,065**	**2**	**1**
Goodwill	14	584,050	0	0
Intangible assets	14	452,970	0	0
Property, plant and equipment	15	91,402	0	0
Investments accounted for using the equity method	7	63	0	0
Other investments and other non-current financial assets	16	5,143	2	1
Non-current other financial assets	22	18,904	0	0
Other non-current assets	23	3,145	0	0
Deferred tax assets	13	14,388	0	0
Current assets		**944,189**	**228**	**25**
Other non-current financial assets, due at short-notice	16	41,314	0	0
Inventories	17	386,656	0	0
Trade receivables	18	345,026	0	0
Current other financial assets	22	11,310	0	0
Current assets	23	16,465	182	0
Income tax receivables	13	5,445	0	0
Cash and cash equivalents	31	137,974	46	25
Total assets		**2,114,254**	**230**	**26**

EQUITY AND LIABILITIES

KEUR		Dec. 31, 2016	Dec. 31, 2016	Jan. 1, 2016
Share capital		25	25	25
Capital reserve		46,275	27	1
Other reserves		-21,178	0	0
Revenue reserves		-130,702	-29,328	0
Equity held by shareholders of HENSOLDT Holding	29	**-105,580**	**-29,276**	**26**
Non-controlling interests	29.2	13,162	0	0
Equity, total		**-92,418**	**-29,276**	**26**
Non-current liabilities		**1,476,072**	**0**	**0**
Shareholder loans	31	437,474	0	0
Non-current provisions	20	294,069	0	0
Non-current financial liabilities	31	677,084	0	0
Other non-current financial liabilities	22	983	0	0
Other non-current liabilities	23	21,118	0	0
Deferred tax liabilities	13	45,344	0	0
Current liabilities		**730,600**	**29,506**	**0**
Current provisions	20	310,201	5	0
Current financial liabilities	31	15,024	0	0
Trade payables	19	146,562	29,501	0
Other current financial liabilities	22	18,049	0	0
Other current liabilities	23	240,754	0	0
Tax liabilities	13	10	0	0
Total equity and liabilities		**2,114,254**	**230**	**26**

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

HENSOLDT - Consolidated statement of cash flows

KEUR	Note	Jan. 1 - Dec. 31, 2017	Jan. 1 - Dec. 31, 2016
Profit/loss for the period (including minority interests)		-100,420	-29,327
Depreciation and amortization	14/15	91,686	0
Impairment losses on inventories and trade receivables		3,390	0
Profit/loss from disposals of non-current assets		-57	0
Other non-cash expenses/income		17,157	0
Change in			
Provisions		48,645	5
Inventories		137,850	0
Trade receivables		-94,981	0
Trade payables		34,491	29,500
Other assets and liabilities		-56,876	-1
Income tax expense		-22,010	0
Payments or refunds of income taxes		-4,657	0
Change in tax receivables/payables, tax provisions including deferred taxes		-5,036	-180
Cash flows from operating activities		**49,182**	**-3**
Acquisition of intangible assets and property, plant and equipment	14/15	-39,277	0
Proceeds from sale of intangible assets and property, plant and equipment	14/15	902	0
Purchase of long-term investments			
Acquisition of associates, other investments and other non-current investments	16	-281	
Acquisition or subsidiaries net of cash acquired		-1,012,440	0
Other		701	0
Cash flows from investing activities		**-1,050,396**	**0**
Proceeds from loans and borrowings	31.3	1,116,827	0
Changes in capital and changes in non-controlling interests	31.3	22,314	25
Cash flows from financing activities		**1,139,141**	**25**
Net changes in cash and cash equivalents		**137,927**	**22**
Cash and cash equivalents			
Cash and cash equivalents on January 1	31.1	**46**	**25**
Cash and cash equivalents on December 31	31.1	**137,974**	**46**

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

HENSOLDT – Consolidated statement of changes in equity

KEUR	Note	Attributable to the owners of the Parent Company							Non-controlling interests	Total
					Other reserves					
		Subscribed capital	Capital reserve	Revenue reserve	Measurement of pension funds	Cash flow hedge	Difference from currency translation	**Sub-total**		
As of Jan. 1, 2016		**25**	**1**	**0**	**0**	**0**	**0**	**26**	**0**	**26**
Consolidated income/loss		0	0	-29,328	0	0	0	**-29,328**	0	**-29,328**
Capital increase		0	26	0	0	0	0	**26**	0	**26**
As of Jan. 1, 2017		**25**	**27**	**-29,328**	**0**	**0**	**0**	**-29,276**	**0**	**-29,276**
Consolidated income/loss		0	0	-101,374	0	0	0	**-101,374**	954	**-100,420**
Other comprehensive income/loss		0	0	0	-16,796	-533	-3,849	**-21,178**	-815	**-21,993**
Total comprehensive income		**0**	**0**	**-101,374**	**-16,796**	**-533**	**-3,849**	**-122,552**	**139**	**-122,413**
Capital increase		0	46,248	0	0	0	0	**46,248**	0	**46,248**
Transactions with non-controlling interests and purchase by company acquisition		0	0	0	0	0	0	**0**	13,023	**13,023**
As of Dec. 31, 2017	**29**	**25**	**46,275**	**-130,702**	**-16,796**	**-533**	**-3,849**	**-105,580**	**13,162**	**-92,418**

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

HENSOLDT - Notes to the consolidated financial statements

I. Basis of presentation

1. The Company

These IFRS consolidated financial statements comprise the financial position, financial performance and cash flows of HENSOLDT Holding GmbH (the 'Company' or 'HENSOLDT Holding') and its subsidiaries (the 'Group' or 'HENSOLDT Group) with its registered office in Taufkirchen, Germany (registered office: Willy-Messerschmitt-Str. 3, 82024 Taufkirchen, Germany, under file no. HRB 232418, Munich District Court).

The financial year is the calendar year.

Management released the IFRS consolidated financial statements for circulation to the Supervisory Board on March 8, 2018.

HENSOLDT Holding GmbH is a multinational company in the defense and security industry and is based in Germany. The main product areas are radars and optoelectronic systems, electronic warfare and avionics.

2. Significant accounting policies

2.1. Basis of preparation

The Company's consolidated financial statements as of December 31, 2017, have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB), as these are to be applied in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council on the application of international accounting standards in the European Union. The additional requirements of Section 315e (1) of the German Commercial Code [HGB] were taken into account.

These consolidated financial statements are presented in euro (EUR), which is the Group's functional currency. Unless otherwise indicated, all financial figures presented in euro are rounded to the nearest thousand.

These financial statements were prepared based on the assumption of the Group's continuation as a going concern. In the Group's first year of operating activities a consolidated loss of EUR 100 million was generated as a result of expenses in connection with transactions, the subsequent expenses from purchase price allocation, separation costs and other non-recurring effects of EUR 213 million. This resulted in negative group equity of EUR 106 million. The Group's liquidity is ensured at all times due to cash flows from operating activities of EUR 49 million, cash and cash equivalents of EUR 138 million as of December 31, 2017, and via an existing revolving credit facility of EUR 150 million.

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

2.2. First-time adoption of IFRS

The German holding structure was formed in 2016 as a result of the contribution of HENSOLDT Holding Germany GmbH to HENSOLDT Holding GmbH as of February 19, 2016.

With effect from February 28, 2017, HENSOLDT Holding Germany GmbH acquired all of the shares in Airbus DS Electronics and Border Security GmbH (now HENSOLDT Sensors GmbH) and Airbus DS Optronics GmbH (now HENSOLDT Optronics GmbH) including their subsidiaries.

With the acquisition of shares in HENSOLDT Sensors GmbH and HENSOLDT Optronics GmbH including their subsidiaries, HENSOLDT Holding as the ultimate German parent company is required in accordance with Section 290 HGB to prepare consolidated financial statements as of December 31, 2017, as it exceeds the size criteria. Preparation in accordance with EU IFRS is voluntary pursuant to Section 315e (3) HGB.

According to IFRS 1.3, an entity's first IFRS financial statements are the first annual financial statements in which the entity adopts IFRSs, by an explicit and unreserved statement in those financial statements of compliance with IFRSs, meaning the HENSOLDT Group is a first time adopter.

With the exception of presentation of a third statement of financial position as of January 1, 2016, the provisions of IFRS 1 have no effect as there are no issues at the time of conversion upon which IFRS and HGB differentiate.

HENSOLDT Holding prepared an IFRS opening statement of financial position as of January 1, 2016, and comparative financial statements as of December 31, 2016. The comparative financial statements as of December 31, 2016, cover the activities of HENSOLDT Holding GmbH, their subsidiary HENSOLDT Holding Germany GmbH as well as two non-operating French subsidiaries in advance of the subsequent acquisitions. The prior year's financial statements are therefore only comparable to a limited extent.

2.3. Consolidation policies

Business combinations

The Group accounts for business combinations using the acquisition method, provided the Group has gained control. The consideration transferred for the acquisition and the identifiable net assets acquired are generally recognized at fair value. Any goodwill arising is tested for impairment annually. Any gain on a bargain purchase is recognized directly in the consolidated income statement. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

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

Subsidiaries

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

Non-controlling interests

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

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

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

Shares in investments accounted for using the equity method

The Group's shares in investments accounted for using the equity method (equity-accounted investees) include investments in associates and in a joint venture.

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

Investments in associates and joint ventures are recognized as equity-accounted investees. They are first carried at the cost of acquisition, which also includes transaction costs. After first-time recognition, the consolidated financial statements contain the Group's share in the total comprehensive income of the equity-accounted investee until the date at which significant influence or joint management ends.

Consolidation of intercompany transactions

Internal Group balances and business transactions and all unrealized revenue and expenses from internal Group business transactions are eliminated at the preparation of the group financial statements. Unrealized gains on transactions with equity-accounted investees are derecognized against the investment in the amount of the Group's share in the investment. Unrealized losses are eliminated in the same way as unrealized gains, but only if there are no indications of impairment.

2.4. Revenue recognition

Sale of goods and services

Revenue is realized in the amount in which it is likely that the economic benefits from the Group's operating activities will be accrued by the HENSOLDT Group, the revenue can be reliably determined and the recognition criteria for each type of revenue generating activity are fulfilled (sale of goods and services as well as construction contracts). Revenue is measured at the fair value of the consideration received or to be received.

Revenue is recognized when significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible returns can be estimated reliably, there is no continuing control over the goods, and the amount of revenue can be measured reliably. Revenue is recognized less returns, price deductions and volume discounts.

Construction contracts

The recognition of long-term construction contracts under IAS 11 is applied for some customers of the HENSOLDT Group on the basis of customer-specific agreements.

Contract revenue includes the initial amount agreed in the contract plus all payments for variations in contract work, claims and incentives, to the extent that it is probable that they will result in revenue and can be measured reliably.

If the outcome of a construction contract can be reliably estimated, contract revenue is recognized in profit or loss in line with the stage of completion. The stage of completion is assessed by reference to appraisal of services rendered. If the outcome of a construction contract cannot be reliably estimated, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable.

Contract costs are recognized as incurred unless they form an asset associated with the future order fulfillment. An expected loss of a contract is recognized immediately in profit or loss.

Receivables from long-term construction contracts (POC receivables) represent the gross amounts that can be demanded from customers for the service performed up until the reporting date. These are measured at the amount of costs incurred plus recognized profits less partial payments received and any recognized losses.

Receivables from long-term construction contracts are presented in the statement of financial position as a part of trade and other receivables for all contracts in which the costs incurred plus recognized profits exceed partial payments received and recognized losses. If the partial payments received and recognized losses exceed the costs incurred plus recognized profits, the difference is presented as other provision.

2.5. Intangible assets and goodwill

Goodwill

Goodwill arising from business combinations is measured at cost less accumulated impairment losses. Once a year or if objective evidence of impairment exists, goodwill is tested for impairment.

Research and development

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

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

Research and development activities generally begin with a concept phase. In the concept phase the Group generally assumes that the criteria for recognition under IAS 38 are satisfied if the Preliminary Design Review (PDR: for established technologies) or Critical Design Review (CDR) was successfully completed.

Other development expenditure is recognized in the consolidated income statement as soon as it is incurred. Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses. An impairment test is carried out on an annual basis. Capitalized development expenditure is generally amortized over the estimated useful life of the internally generated intangible asset. Amortization of the capitalized development expenditure is recognized under cost of sales.

2.6. Inventories

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

Manufacturing costs include all costs directly attributable to the manufacturing process, such as material costs, wage and production-related overheads (based on normal operating capacity and normal use of materials, labor and other production costs) including write-downs. If any inventory risks exist, e.g. due to reduced usability after longer storage periods or lower replacement costs, suitable write-downs are recognized. Write-downs on inventories are recognized when it is probable that projected contract costs will exceed total contract revenue.

2.7. Employee benefits

Short-term employee benefits

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

Defined contribution plans

Obligations for contributions to defined contribution plans are recognized as expenses as soon as the associated work is performed. Prepaid contributions are recognized as an asset to the extent that there is an entitlement to a refund or a reduction in future payments.

Defined benefit plans

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

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

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

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

Other long-term employee benefits

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

2.8. Other provisions

Provision for onerous contracts

The Group recognized provisions for onerous (loss-making) contracts if it is probable that total contract costs will exceed the total contract revenue. The provision is measured at the lower amount of expected costs for terminating the contract and the expected net costs from performing the contract. Before a provision for onerous contracts is recognized the associated inventories are written down. Onerous sales contracts are identified by monitoring the progress of the contract and the underlying project and by updating the estimate of contract costs, which involves significant and complex assumptions, assessments and estimates in connection with obtaining a certain performance standard and estimates relating to other costs (see note 3 'Key estimates and assessments', note 9 'Revenue, cost of sales and gross margins' and note 20 'Provisions, contingent liabilities and contingent assets').

Warranties

A provision for warranties is recognized when underlying revenue from the sale of the products or performance of services is realized. The provision is based on previous warranty data and/or the measurement of individual risks.

Provision for outstanding costs

In recognizing construction contracts, contract earnings are generally recognized with reference to the stage of completion and achievement of milestones. The provision for outstanding costs takes into account those contract costs for which there is not yet an invoice or for which own work is still to be performed.

2.9. Hedge accounting

The HENSOLDT Group carries out some transactions in foreign currency. The income and cost risks resulting from currency development are limited by purchases and sales in corresponding foreign currencies as well as forward exchange transactions. Hedging contracts are concluded for foreign exchange risks of individual customer or supplier contracts. The Company concludes these forward exchange contracts with banks.

For foreign currency transactions the Group applies cash flow hedge accounting to its derivatives contracts if the corresponding criteria are met. Hedge accounting ensures that derivative gains or losses are recorded through profit or loss (primarily as a part of revenue) in the same period in which the hedged items or transactions are recognized through profit or loss. By contrast, changes in the value of derivative contracts are recognized in total comprehensive income if the hedged items or transactions have not yet been recognized through profit or loss.

Derivative contracts that do not qualify for hedge accounting are accounted for at fair value through profit or loss and all associated gains and losses are recognized in finance income/costs.

The Group's hedging strategy and hedge accounting policies are described in more detail in note 31 'Information on financial instruments'.

2.10. Financial instruments

The Group classifies non-derivative financial assets in the following categories:

- Financial assets at fair value through profit or loss
- Loans and receivables
- Available-for-sale financial assets.

The Group does not hold held-to-maturity investments.

The Group classifies non-derivative financial liabilities as financial liabilities that are measured at amortized cost.

Non-derivative financial assets and liabilities – recognition and derecognition

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

The Group derecognizes a financial asset when the contractual rights to receive the cash flows of an asset expire or it transfers the rights to receive the cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are also transferred. Assets are also derecognized when the Group does not retain substantially all the risks and rewards of ownership or control of the transferred asset. Any interest in such transferred financial assets that arises or remains in the Group is recognized as a separate asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged, canceled or expire.

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

Non-derivative financial assets – measurement

A ***financial asset is measured as at fair value through profit or loss*** if it is classified as held for trading or is designated as such on initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets are measured at fair value through profit or loss and changes therein, which also include all interest and dividend income, are recognized in profit or loss.

Loans and receivables are initially recognized at fair value plus any directly attributable transactions costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

Available-for-sale financial assets are measured initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, the available-for-sale financial assets are measured at fair value and any changes in value and recognized in OCI and shown in the revaluation reserve in equity. If an asset is derecognized, any accumulated related amounts disclosed as a component of other comprehensive income are reclassified to profit or loss.

Non-derivative financial liabilities – measurement

A financial liability is classified as at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Directly attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, which take into account all interest expenses, are recognized in profit or loss.

Other non-derivative financial liabilities are initially recognized at fair value less any directly attributable transaction costs. In the subsequent measurement, these liabilities are measured at amortized cost using the effective interest method. For each (periodic) reassessment of cash flows, the effective interest rate is recalculated to recognized market interest rates.

Derivative financial instruments and hedge accounting

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. Embedded derivatives are separated from the host contract under certain circumstances and accounted for separately.

Derivatives are measured at fair value on initial recognition; attributable transaction costs are recognized in profit or loss when incurred. For the purposes of subsequent measurement, derivatives are measured at fair value. Any resulting changes are generally recognized in profit or loss.

Cash flow hedge

When a derivative is designated as a hedging instrument against the risk of variability in cash flows, the effective portion of changes in the fair value of the derivative is recognized in OCI and shown in the hedging reserve in equity. The ineffective portion of the changes in fair value is recognized directly in profit or loss.

The amount accumulated in equity is initially retained in OCI and reclassified to profit or loss in the same period or periods during which the hedged expected cash flows or hedged item affects profit or loss.

If the hedging instrument no longer meets the requirements for recognition as a hedge, expires or is sold, terminated, exercised or no longer defined as a hedging instrument, hedge accounting ceases. If a forecast transaction is no longer expected to occur, the cumulative amount previously recognized in equity is reclassified to profit or loss.

2.11. Income taxes

Income tax expense comprises both actual income tax to be paid and deferred taxes.

Actual income tax receivables and liabilities are measured at the amount at which a refund from or a payment to the relevant tax authorities is expected. The amount is calculated on the basis of the tax rates and tax laws applicable as of the reporting date or will be applicable in the near future.

Applying the liability method of IAS 12 (Income taxes), **deferred taxes** are calculated on the basis of temporary differences between the tax and commercial valuation approaches including differences from consolidation, loss and interest carryforwards as well as tax credits. The calculation uses the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. The amount is calculated on the basis of the tax rates and tax laws applicable as of the reporting date or will be applicable in the near future.

A deferred tax liability is recognized for all taxable temporary differences, except to the extent that the deferred tax liability arises from:

- the initial recognition of goodwill; or
- an asset or liability from a transaction which is not a business combination and at the date of the transaction affects neither the income (loss) for the period nor taxable profit (taxable loss), and
- all taxable temporary differences associated with investments in subsidiaries, associates, interests in joint ventures, where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer likely that sufficient taxable earnings will be available against which the deferred tax asset could be offset at least in part. Deferred tax assets that are not recognized are reviewed at each reporting date and recognized to the extent to which it has become likely that future taxable earnings will permit the realization of the deferred tax asset.

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

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

2.12. Transactions in foreign currency

In the separate financial statements of the subsidiaries, transactions denominated in foreign currency are translated at the exchange rate applicable on the date the transaction is recorded. Gains and losses from settling such transactions and from the translation of monetary assets and liabilities with the exchange rate prevailing on the reporting date are recognized in profit or loss.

The financial statements of foreign subsidiaries are translated into euro on the basis of the functional currency method in accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates. The functional currency is the respective local currency of the entity. Assets and liabilities as well as contingent liabilities and other financial obligations are translated at the exchange rate prevailing on the reporting date (closing rate). The items in the income statement and consequently the net income for the year recognized in the income statement are translated at the average monthly exchange rate of the accounting period. The equity in place at the date of initial consolidation is translated at historical exchange rates for the foreign entities included in the consolidated financial statements. Any resulting differences are recorded as a reserve in equity with no effect on profit or loss.

2.13. Statement of cash flows

Under the indirect determination of cash flow, the changes in items in the statement of financial position related to operating activities are adjusted by currency translation effects and by changes in the scope of consolidation. For this reason, they cannot be directly reconciled with the relevant changes on the basis of the published consolidated statement of financial position.

2.14 Impairment

Non-derivative financial assets

A financial asset that is not measured at fair value through profit or loss, including the interest in an equity-accounted investee, is tested on every reporting date to determine whether there is objective indication of impairment.

Objective indications that financial assets are impaired includes:

- default or delay by a debtor;
- restructuring of an amount payable to the Group at terms which the Group would not otherwise consider;
- indications that a debtor or issuer will enter bankruptcy;
- adverse changes in the payment status of borrowers or issuers;
- the disappearance of an active market for a security because of financial difficulties; or
- observable data indicating that there is a measurable decrease in estimated future cash flows from a group of financial assets.

Financial assets measured at amortized cost

The Group considers indications of impairment of these financial assets at both the individual asset and the collective level. All individually significant assets are tested for specific impairment. Those that prove not to be specifically impaired are then tested collectively for any impairment that has occurred but not yet been identified. Assets that are not individually significant are tested collectively for impairment by grouping assets with similar risk characteristics.

To test for collective impairment, the Group uses historical information on the timing of payments and the amount of losses incurred, adjusted in accordance with the management's judgment as to whether the current economic conditions and lending conditions are such that actual losses are likely to be greater or smaller than the losses expected on the basis of historical trends.

The impairment loss is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. Amounts are fully written off if the Group does not have any realistic prospects of recovering the asset. If an event occurring after the recognition of impairment reduces the amount of the impairment, the impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by reclassifying the cumulative losses that had been recognized in the fair value reserve from equity to profit or loss. The amount of the cumulative loss that is reclassified from equity to profit or loss is the difference between the cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that financial asset previously recognized in profit or loss. If, in a subsequent period, the fair value of an impaired debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. Impairment losses recognized in profit or loss for an investment in an equity instrument classified as available for sale are not reversed through profit or loss.

Investments accounted for using the equity method

An impairment expense regarding an investment accounted for using the equity method is measured by comparing the recoverable amount of the shares with their carrying amount. An

impairment expense is recognized in profit or loss. Impairment expense is reversed if advantageous changes occur in estimates that are used for the determination of the recoverable amount.

Non-financial assets

The carrying amounts of the Group's non-financial assets – with the exception of investment property, inventories and deferred tax assets – are reviewed at the end of each reporting period to determine if there are indications of impairment. If this is the case, the recoverable amount of the asset is estimated. Goodwill and intangible assets with indefinite useful lives are tested for impairment once a year.

To determine if an impairment has occurred, assets are combined into the smallest group of assets that generate cash inflows from continuing use and are largely independent from the cash inflows of other assets or cash generating units (CGUs). Goodwill acquired from a business combination is allocated to the CGUs or groups of CGUs which are expected to benefit from the synergies of the combination.

For more details, please see '3.4 Impairment'.

2.15 Fair value measurement

A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The fair value is the price at which an asset would be sold or a liability transferred under current market conditions on the measurement date in an orderly transaction on the primary market or, if such a market is not available, most advantageous market to which the Group has access at this point in time. The fair value of a liability reflects the non-performance risk.

The Group uses the following hierarchy to determine and present fair value of the financial instruments for each valuation method:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities,

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Methods by which input parameters that substantially impact the fair value determination are not based on observable market data

If an asset or liability measured at fair value has a bid or ask price then the Group measures assets or long positions at the bid price and liabilities and short positions at the ask price.

The best indication of the fair value at initial recognition of a financial instruments is generally the transaction price, i.e. the fair value of the consideration paid or received. If the Group determines that at initial recognition the fair value is different to the transaction price and the fair value can neither (a) be substantiated using a quoted price on an active market for an identical asset or liability nor (b) is based on a measurement technique in which all unobservable inputs can be considered immaterial, then this financial instrument is to be measured at fair value on initial recognition. This amount is adjusted to define the difference between the fair value and transaction price. For the purposes of subsequent measurement, this difference is recognized in profit or loss appropriately over the term of the instrument,

however no later than upon full measurement using observable market data or upon derecognition of the transaction.

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

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

Equity instruments: the fair value of unlisted equity instruments cannot be reliably determined as the area of reasonable approximation of the fair value is decisive and the probabilities of the various estimates within the area cannot be appropriately assessed. These instruments are measured at cost and their carrying amounts are used in the place of fair value.

Assets from customer financing and other loans: the carrying amounts shown in the financial statements are used as rough estimates of the fair value.

Trade and other receivables: the carrying amounts shown in the financial statements are used as reasonable approximation of the fair value due to the relatively short period between the receivable arising and falling due.

Cash and cash equivalents comprise cash on hand, cash at bank and checks. The carrying amounts shown in the financial statements are used as reasonable approximation of the fair value due to the relatively short period between the instrument arising and its term or maturity.

Derivatives: the fair values of derivative instruments are based on quoted market prices where available but in most cases are determined using accepted measurement methods such as option pricing models and discounted cash flow models. Measurement is based on observable market data such as exchange rates, rates for forward exchange transactions, interest rates and yield curves.

The fair values of derivatives are measured on the basis of input parameters from Level 2.

Forward rate price determination for forward exchange transactions: the fair value is determined by using the quoted forward rate as of the reporting date and net present value calculations based on yield curves with high credit ratings in the relevant currencies.

Price determination for interest rate futures: the fair value is calculated as the present value of estimated future cash flows. Estimates of future cash flows from variable interest payments are based on quoted rates for interest rate futures, future prices and interbank interest rates. The estimated cash flows are discounted using a yield curve that was constructed from similar sources and reflects the relevant comparable interbank interest rate used by market participants for pricing the interest rate futures. The fair value estimate is adjusted for the credit risk which reflects the credit risk of the Group and the contracting party. This is calculated using credit spreads derived from credit default swap and bond prices.

Financial liabilities: the fair values recognized for financial liabilities, which are not bond or debt securities, are determined on the basis of input parameters from Level 2 in which planned or expected cash flows are discounted with corresponding market interest rates.

Trade payables and other current financial liabilities The carrying amounts of trade payables and other current financial liabilities are seen as reasonable approximations of the fair value due to the relatively short period between the instrument arising and its maturity.

3. Key estimates and assessments

The preparation of consolidated financial statements requires the use of assumptions and estimates. In preparing the consolidated financial statements, management uses its best judgment based on its experience and the prevailing circumstances at that time. The estimates and assumptions are based on available information and conditions at the end of the accounting period and are regularly reviewed. The following key estimates and assessments have a significant influence on the amounts reported in the consolidated financial statements:

3.1. Revenue recognition for construction contracts

Construction contract revenue has been determined based on the percentage of completion method (PoC method). Under this method, exact estimates of results at the stage of completion and on the extent of progress to completion are very important. To determine the progress of construction contracts the key estimates include overall contract costs, the remaining costs until completion, the overall contract revenue, the contract risks and other claims.

Management regularly reviews all estimates used for these construction contracts and adjusts them as required (for more information see note 18 ‘Trade receivables and trade payables’).

3.2. Capitalization of development cost

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

3.3. Assets acquired and liabilities assumed as well as goodwill

Measurement of the fair value of assets acquired and liabilities assumed in the course of company acquisitions, which form the basis of the measurement of goodwill, requires significant estimates. Land, buildings and machinery are usually measured independently while marketable securities are measured at market prices. If intangible assets are identified, based on the type of intangible asset and the complexity of determining its fair value the Group consults either an independent external valuation expert or develops the fair value internally using suitable valuation techniques that are based in general on the forecast of total expected future net cash flows.

These measurements are closely related to management’s assumptions regarding the future development of related assets and the discount rate to be applied.

3.4. Impairment testing

After initial recognition, goodwill is measured at cost less accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, starting from the acquisition date, allocated to the Group’s cash-generating units that are expected to benefit from the combination. This applies irrespective of whether other assets or liabilities of the entity acquired are assigned to these cash-generating units.

An impairment is recognized when the carrying amount of an asset or cash generating unit exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is the higher of fair value less costs to sell and value in use. The calculation of fair value less costs to sell is based on available data from binding sales transactions between independent business partners for similar assets or observable market prices less costs

directly attributable to the sale of the asset. To calculate the value in use the discounted cash flow method is generally applied. Cash flows are generally derived from the financial plan for the next three to five years, which does not include restructuring measures to which the Group has not yet committed and material future investments that are not yet approved.

At the end of each reporting period the Group assesses whether there is an indication of impairment of a non-financial asset or CGU to which the asset belongs. In addition, intangible assets with indefinite useful lives, intangible assets not yet available for use as well as goodwill are tested for impairment in the fourth quarter of each financial year, regardless of whether there are any indications of impairment. For impairment testing, goodwill is allocated to a CGU or group of CGUs which reflects the manner in which goodwill is monitored for internal management purposes.

The discounted cash flow method is used to determine the recoverable amount of a CGU or group of CGUs to which goodwill is assigned. The discounted cash flow method is particularly sensitive to the selected discounting rates and management's estimates of future cash flows. The discount rates are based on the weighted average cost of capital (WACC) for the group of cash generating units. The discount rates are calculated based on a risk-free interest rate and a market risk premium. In addition, the discount rates reflect the current market estimate of the specific risks for each group of cash generating units, in which specific peer group information on beta factors, leverage and borrowings costs are taken into account. Therefore, even minor changes to these elements can impact the resulting measurement and thus significantly impact the amount of a potential impairment.

These estimates are influenced by a number of assumptions including the assumptions on CGU, availability and breakdown of future defense budgets and institutional budgets as well as exchange rate fluctuations or effects resulting from the volatility of the capital markets. Cash flow projections take into account past experience and represent management's best estimate of future developments.

The HENSOLDT Group has two corporate sectors, Optronics and Sensors, which are each considered a CGU. Both corporate sectors are managed as independent subgroups under the subgroup parent HENSOLDT Optronics GmbH and HENSOLDT Sensors GmbH. The EuroAvionics group and Kelvin Hughes group acquired in 2017 were allocated to the CGU Sensors.

3.5. Provisions

The measurement of provisions, e.g. for contract losses, guarantees, restructuring measures and legal proceedings, is based on best available estimates. Onerous contracts are determined by monitoring the progress of projects and updating estimates of contract costs, which also requires significant judgment in relation to reaching certain performance standards and estimates of guarantees and follow-up costs. The extent of the assumptions, assessments and estimates in these monitoring processes depends on the size and type of the Group's contracts and the associated projects.

3.6. Employee benefits

The Group recognizes pension and other retirement benefits in accordance with actuarial valuations. These valuations are based on statistical and other factors for anticipating future events. The assumptions can deviate significantly from actual developments due to changing market and economic conditions and thus lead to a significant change in employee benefits obligations and the related future costs (see note 27 'Pension benefits').

In addition to uncertainties arising from the estimate of exercising the payout option, the Group is exposed to other actuarial uncertainties relating to defined benefits obligations, including the following:

Market price risk

The market values of plan assets are subject to fluctuations which can impact the net defined benefit obligation.

Interest rate risk

The value of the defined benefit obligation is significantly affected by the discount rate used. Lower interest rates, particularly market conditions linked to the euro, result in a relatively high net defined benefit obligation. If the decline in return on corporate bonds continues, the defined benefit obligation will continue to increase in future reporting periods and can be only partially offset by the positive development in market values of these corporate bonds which are included in plan assets. In general, the defined benefit obligation is sensitive to movements in interest rates which leads to volatile results of the valuation.

Inflation risk

Defined benefit obligations can be sensitive to movements in the inflation rate, whereby a higher inflation rate could lead to an increase in the obligation. As some pension plans are directly tied to salary, pay increases can lead to an increase in pension obligations.

Longevity risk

Pension obligations are sensitive to the life expectancy of their beneficiaries. Increased life expectancy leads to an increase in the valuation of the pension obligation.

The weighted average assumptions for the most important pension plans used to calculate the actuarial value of the pension plans as of December 31, 2017, are as follows:

Assumptions in %	**Pension plans in Germany Dec. 31, 2017**
Discount rate	1.70%
Wage increase rate (until age 36)	3.75%
Wage increase rate (from age 36)	2.75%
Inflation rate	1.50%

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

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

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

Moreover, an assumption is made as to what extent the employees choose a one-off payment, installment payment or pension when the benefit falls due.

The calculation of pension obligations is based on the current 2005G reference tables provided by Prof. Klaus Heubeck.

3.7. Contingent legal liabilities

Group companies can be parties to legal disputes in a variety of ways as described in note 20 'Legal disputes and damage claims'. The outcome of these issues can have a material impact on the Group's financial position, operating profit and cash flows. Management regularly analyzes current information on these issues and recognizes provisions in the amount of likely cash outflows, including estimated legal costs. In deciding on the need for provisions, management takes into account the degree of probability of an unfavorable outcome and the possibility of reliably estimating the amount of damage. Filing an action or formally exercising damage claims against Group companies or the announcement of such an action or exercising of damage claims does not automatically mean that a provision is appropriate.

3.8. Income tax

In terms of income taxes, material estimates and assessments arise in respect of deferred tax assets. Management's estimate of the utilization of deferred tax assets is decisive for assessing the impairment of deferred tax assets. This is dependent on taxable profits in the periods when the tax measurement differences are reversed and the tax loss carryforwards can be utilized.

On the basis of individual company planning and taking into account tax adjustment effects, the Company assumes that the advantages of deferred tax assets can be realized in the next four to five years on the basis of sufficient, future taxable income. The main influencing factor for the occurrence of loss carryforwards were one-off transformation-related effects. In addition, the business plan is positively impacted by general business development and the establishment of a tax pooling arrangement for income tax in Germany.

4. Change in accounting methods and publication

4.1. First-time adoption of IFRS

HENSOLDT Holding GmbH as the ultimate German parent company prepares consolidated financial statements in accordance with Section 290 HGB. The consolidated financial statements are voluntary prepared in accordance with EU IFRS pursuant to Section 315e (3) HGB.

The assets recognized in the opening statement of financial position of HENSOLDT Holding GmbH as of January 1, 2016, relate to an investment in a French holding company and to cash and cash equivalents. Equity equaled KEUR 26.

HENSOLDT Holding Germany GmbH was contributed to HENSOLDT Holding GmbH in 2016. At the end of 2016 the Group consisted of two German and two French holding company which bore advisory fees of EUR 29 million in advance of the acquisition of the investments in companies of the defense electronics segment ('Orlando group') of the Airbus Group (Airbus SE and its subsidiaries).

With the acquisition of the Orlando group as of February 28, 2017, business operations began.

Besides the transactions of the German holding companies, the consolidated income statement includes the activities of the Orlando group from February 28, 2017, the EuroAvionics group from August 16, 2017, as well as the Kelvin Hughes Group from September 28, 2017 (see Section 6 Acquisitions).

The first-time adoption of IFRS resulted in no adjustments.

4.2. New, revised and amended IFRS standards and interpretations issued but not yet adopted

A range of new or revised standards, changes and improvements to standards and interpretations are not yet applicable to the financial year ending December 31, 2017, and were not applied when preparing these consolidated financial statements.

Standard and changes	Date of effectiveness from IASB for the annual reporting period beginning on or after	EU Endorsement Status
IFRS 9 Financial Instruments	January 1, 2018	Confirmed
IFRS 15 Revenue from Contracts with Customers	January 1, 2018	Confirmed
Clarification on IFRS 15 Revenue from Contracts with Customers	January 1, 2018	Confirmed
Amendments to IFRS 2 Classification and measurement of share-based payment transactions	January 1, 2018	Confirmed
IFRIC 22 Foreign Currency Transactions and Advance Consideration	January 1, 2018	Not yet confirmed
Amendments to IAS 40 Transfer of Investment Property	January 1, 2018	Not yet confirmed
Annual improvements 2014-2016: Amendments to IFRS 1 and IAS 28	January 1, 2018	Confirmed
Amendments to IAS 19 Employee Benefits	January 1, 2019	Not yet confirmed
Amendments to IAS 28 Interests in Associates	January 1, 2019	Not yet confirmed
Amendments to IFRS 9 Financial Instruments.	January 1, 2019	Not yet confirmed
IFRS 16 Leases	January 1, 2019	Confirmed
IFRIC 23 Uncertainty over Income Tax Treatments	January 1, 2019	Not yet confirmed
Annual improvements 2015-2017	January 1, 2019	Not yet confirmed

With the exception of the following standard amendments which are explained in detail, HENSOLDT Group does not expect a material effect on its consolidated financial statements from the amendments of other standards.

4.3. IFRS 9 Financial Instruments

IFRS 9, published in July 2014, replaces the existing rules in IAS 39 Financial instruments: Recognition and Measurement. IFRS 9 includes revised rules on classification and measurement of financial instruments, including a new model of expected losses for the calculation of impairments of financial assets and new rules on hedge accounting treatment. The standard also carries forward the guidelines for the recognition and derecognition of financial instruments from IAS 39.

Classification – financial assets

IFRS 9 includes a new classification and measurement approach for financial assets, which reflects the business model (in which the assets are held) and the characteristics of their cash flows.

IFRS 9 contains three key classification categories for financial assets: (i) measured at amortized cost, (ii) at fair value with changes in value through profit or loss (FVTPL) and (iii) measured at fair value with changes in value through other comprehensive income (FVOCI). The standard eliminates the existing IAS 39 categories of “held to maturity”, “loans and receivables” and “available for sale”.

Under IFRS 9, derivatives embedded in agreements, for which the basis is a financial asset in the scope of the standard, are not recognized separately. Instead, the hybrid financial instrument will be assessed overall with regard to classification.

On the basis of its assessment the Group is of the opinion that the new classification requirements will have no material effect on the accounting of its trade receivables and loans. Because of this, all changes to fair values will be recognized in OCI.

Impairment – financial assets and contractual assets

IFRS 9 replaces the incurred losses model of IAS 39 with a forward-looking expected loss model. This requires considerable judgment regarding the issue of the extent to which expected credit losses are influenced by changes in economic factors. This estimate is determined on the basis of weighted probabilities.

The new impairment model is to be applied to financial assets measured at amortized cost or at FVOCI and to contractual assets.

Under IFRS 9 impairments are measured on the following basis:

- 12-month credit losses: these relate to expected credit losses due to possible default events within twelve months after the reporting date.
- Lifetime credit losses: these relate to expected credit losses due to possible default events during the expected term of the financial instrument.

The lifetime credit loss approach is to be applied if the credit risk of a financial asset on the reporting date has significantly increased since initial recognition; otherwise the 12-month credit risk approach is to be applied for measurement. An entity may determine that a financial asset’s credit risk has not increased significantly if the asset has a low credit risk at the reporting date. However, the lifetime credit loss approach is always to be applied to trade receivables and for contractual assets without a significant financing component.

The Group believes that impairment losses will probably increase and become more volatile for assets in the scope of the IFRS 9 impairment model. The preliminary assessment by the Group found that adoption of the IFRS 9 impairment requirements as of December 31, 2017, in comparison to impairments recognized under IAS 39, would have likely led to an increase in impairments of KEUR 1,200 to KEUR 1,400 at that time. This mainly relates to trade receivables.

In this regard, the estimated expected credit losses on trade receivables were calculated on the basis of actual credit losses in the past 2.5 years. Credit risks were segmented according to common credit risk attributes. These are the risk assessments on the basis of rating grades of the rating agencies Moody’s, Fitch and S&P as well as the geographical area.

Recognition – financial liabilities

Under IFRS 9, the adjustment of the effective interest rate through OCI due to a minor change in contract conditions and a resulting adjustment of the present value of a financial liability is no longer permissible. IFRS 9 stipulates that such changes are generally to be recognized at the time of the change through profit or loss.

The preliminary assessment by the Group found that the application of the adjustment of the effective interest rate through profit or loss under IFRS 9 as of December 31, 2017, in comparison to the IAS 39 adjustment of the effective interest rate through OCI would have led to an approx. EUR 14.9 million lower expense in finance income/costs in the 2017 financial year.

Classification – financial liabilities

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities.

However, under IAS 39 all changes in the fair value of liabilities that are designated "as at fair value through profit or loss" were recognized in the income statement whereas the changes in the fair value under IFRS 9 are generally presented as follows:

- The change in the fair value that is attributable to changes in the credit risk of the entity is presented in OCI.
- The remaining change in the fair value is presented in the income statement.

The Group has not designated any financial liabilities as "at fair value through profit or loss" and currently does not intend to do so. The assessment by the Group shows no significant effect of the classification of financial liabilities as of January 1, 2018.

Hedge accounting

Upon initial application of IFRS 9 the Group has the option of continuing to apply the accounting policies of IAS 39 for hedging transactions instead of applying the requirements of IFRS 9. The Group decided to continue to apply the existing requirements of IAS 39 until further notice.

Disclosures in the notes

IFRS 9 requires extensive new disclosures, in particular on the recognition of hedges, on the credit risk and on expected credit losses. The assessment by the Group included an analysis for identifying whether there are data gaps compared to the current method. The Group intends to introduce system and control changes that in its opinion are necessary for the requisite data collection.

Transition

Changes to the accounting policies due to adoption of IFRS 9 are generally applied retroactively, except for in the following case:

The Group avails itself of the option of not adjusting comparative information for preceding periods in terms of changes to classification and measurement (including impairment losses). Differences between the carrying amounts of financial assets and financial liabilities due to the adoption of IFRS 9 are generally recognized in revenue reserves and other reserves as of January 1, 2018.

4.4. IFRS 15 Revenue from Contracts with Customers

The IASB published IFRS 15 in May 2014; this sets out a single overarching framework for determining the timing and amount of revenue recognized from contracts with customers. The standard replaces all existing IFRS requirements for revenue recognition, in particular IAS 11 Construction contracts and IAS 18 Revenue.

IFRS 15 mainly requires that the various performance obligations assumed under a contract are identified and recognized separately on the basis of their relative retail prices. For all contracts,

including long-term construction contracts that for the most part are currently recognized by HENSOLDT Group using the milestone method, revenue can only be recognized when under certain conditions the control of the good or service is transferred to the customer.

The HENSOLDT Group reviewed the effects of these and other financial reporting changes that result from IFRS 15. Based on analyses conducted, the main changes compared to the previous accounting treatment are as follows:

- Identification of performance obligations: while up until now revenue from long-term construction contracts was generally recognized according to the milestone method, IFRS 15 stipulates that different performance obligations are to be identified. Depending on the individual contract situation a milestone can reflect one performance obligations, several performance obligations or several milestones can comprise one performance obligation.
- Determining the transaction price: the new requirements on accounting for variable compensation components in the transaction price will mean that negative variable compensation components (in particular contractual penalties) will tend to have the effect of lowering revenue at an earlier stage and positive variable compensation components (in particular price escalations) will tend to have the effect of increasing revenue at a later stage.
- Revenue recognition: provided one of the criteria of IFRS 15.35 for an identified performance obligation is met and revenue is recognized over time, the HENSOLDT Group tends to recognize revenue earlier relative to the previous milestone method. In other cases where a performance obligation, for which revenue is recognized over time under IFRS 15, consists of several milestones, HENSOLDT Group will be able to recognize revenue only at a later date.

The implementation of IFRS 15 will lead to adjustments to the IT systems. This leads to changes in the statement of financial position (e.g. contractual assets and liabilities) and to significantly more extensive disclosures in the notes. The HENSOLDT Group will apply the standard for the financial year beginning on January 1, 2018, and retroactively present earlier reporting periods in compliance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Based on analyses conducted, the main changes compared to the previous accounting treatment are as follows:

The HENSOLDT Group will convert the contracts or the performance obligations contained therein from the previous milestone method to the cost-to-cost method (recognition of revenue over time), provided one of the criteria of IFRS 15.35 is met. Inventories or other provisions decline depending on the progress of the performance obligation as of the date of conversion in the respective contract, while contractual assets or liabilities are to be recognized for the first time depending on the contract balance.

If the criteria of IFRS 15.35 are not met, the HENSOLDT Group will convert the contracts or the performance obligations contained therein from the previous milestone method to the method of recognizing revenue at a point in time. As a performance obligation under IFRS 15 often consists of several milestones, other provisions will tend to decline while inventories increase.

Due to the individual contract portfolio of the HENSOLDT Group as of January 1, 2018, there is an overall negative equity effect of approx. EUR 56 million, which is partially offset by deferred taxes accrued on this of approx. EUR 16 million.

4.5. IFRS 16 Leases

The core idea of the new standard IFRS 16 Leases is that the lessee records all leases and related contractual rights and obligations in the statement of financial position. For all lease arrangements, the lessee recognizes a lease liability for the obligation to pay future lease

payments. At the same time, the lessee recognizes a right of use to the underlying asset that generally corresponds to the present value of future lease payments plus directly attributable costs. The distinction between finance and operating leases, hitherto necessary under IAS 17, is thus no longer required for the lessee. By contrast, the rules of the new standard for the lessor are similar to the requirements of IAS 17. Leases as still classified either as finance or operating leases. Leases, for which all the risks and rewards of ownership are transferred, are classified as finance leases and all other lease agreements are classified as operating leases. For classification under IFRS 16 the criteria of IAS 17 were adopted. The HENSOLDT Group is currently assessing the effects of the application of IFRS 16 on the consolidated financial statements and will likely retrospectively adopt the transition in a modified state.

II. Group structure

5. Scope of consolidation

The consolidated financial statements include the financial statements of HENSOLDT Holding GmbH and the financial statements of all direct and indirect significant subsidiaries controlled by HENSOLDT Holding GmbH. The group entities prepare their financial statements for the same reporting date as the Group's consolidated financial statements. 21 companies were fully consolidated and one company was accounted for in the Group using the equity method. 12 companies were not consolidated. The shareholdings as of December 31, 2017, are listed in the following table.

Company	Registered office	Equity interest	Consolidation method
HENSOLDT Holding GmbH	Taufkirchen / Germany	100.00%	PC
EuroAvionics Holding GmbH[2]	Pforzheim / Germany	100.00%	FC
EuroAvionics GmbH[2]	Pforzheim / Germany	100.00%	FC
EuroAvionics UK Ltd.[2]	Slinfold, West Sussex / United Kingdom	100.00%	FC
EuroAvionics Schweiz AG[2]	Sissach / Switzerland	100.00%	FC
EuroAvionics US HoldCo. Inc.[2]	Sarasota (Florida) / USA	100.00%	FC
EuroAvionics USA LLC[2]	Sarasota (Florida) / USA	100.00%	FC
GEW Integrated Systems (Pty) Ltd.[1;4]	Brummeria (Pretoria) / South Africa	75.00%	FC
GEW Technologies (Pty) Ltd.[1;4]	Brummeria (Pretoria) / South Africa	75.00%	FC
HENSOLDT Holding Germany GmbH	Taufkirchen / Germany	100.00%	FC
HENSOLDT Optronics (Pty) Ltd.[1]	Irene (Centurion) / South Africa	70.00%	FC
HENSOLDT Optronics GmbH[1]	Oberkochen / Germany	100.00%	FC
HENSOLDT Sensors GmbH[1]	Taufkirchen / Germany	100.00%	FC
KH Holdco Limited[3]	Enfield / United Kingdom	100.00%	FC
KH Finance No.2 [3]	Enfield / United Kingdom	100.00%	FC
KH Finance Ltd.[3]	Enfield / United Kingdom	100.00%	FC
Kelvin Hughes Ltd.[3]	Enfield / United Kingdom	100.00%	FC
Kelvin Hughes BV[3]	Rotterdam / The Netherlands	100.00%	FC
A/S Kelvin Hughes[3]	Ballerup / Denmark	100.00%	FC
Kelvin Hughes LLC[3]	Alexandria (Virginia) / USA	100.00%	FC
Kelvin Hughes PTE Ltd.[3]	Singapore / Singapore	100.00%	FC
Hensoldt Cyber GmbH	Taufkirchen / Germany	51.00%	EQ

Company	Registered office	Equity interest	Consolidation method
Atlas Optronics LLC[1]	Abu Dhabi / United Arab Emirates	49.00%	NC
Deutsche Elektronik Gesellschaft für Algerien (DEGFA) GmbH[1]	Ulm / Germany	66.66%	NC
EURO-ART Advanced Radar Technology GmbH[1]	Munich / Germany	25.00%	NC
EURO-ART International EWIV[1]	Munich / Germany	50.00%	NC
EUROMIDS S.A.S.[1]	Paris / France	25.00%	NC
LnZ Optronics Co., Ltd.[1]	Seoul / South Korea	50.00%	NC
Optronbras Segurança e Defesa Electrónica e Optica Ltda	Belo Horizonte / Brazil	99.00%	NC
Société Commune Algérienne de Fabrication de Systèmes Electroniques (SCAFSE) SPA[1]	Sidi Bel Abbés / Algeria	48.99%	NC
HENSOLDT Inc.[1]	Wilmington (Delaware) / USA	100.00%	NC
HENSOLDT Private Ltd.[1]	Bangalore / India	100.00%	NC
Kite Holding France S.A.S.	Paris / France	100.00%	NC
Square Holding France S.A.S.	Paris / France	100.00%	NC

PC = Parent Company
FC = Fully consolidated
EQ = accounted for using the equity method
NC = Not consolidated due to minor importance
[1] Acquistion of the Orlando group Feb 28, 2017
[2] Acquisition of the EuroAvionics group Aug. 16, 2017
[3] Acquisition of the Kelvin Hughes group Sep. 30, 2017
[4] 93.28% taking into account treasury shares

6. Acquisitions and disposals

6.1. Acquisition of the defense electronics segment of the Airbus Group

With effect from February 28, 2017, HENSOLDT Holding GmbH acquired the investments in the companies of the defense electronics segment ('Orlando'; see list of shareholdings of the consolidated group) of the Airbus Group (Airbus SE and its subsidiaries). These former segments of the Airbus Group comprise sensor technologies in the areas defense, security and aerospace sector. The main product areas are radars and optoelectronic systems, electronic warfare and avionics. The consideration paid amounted to EUR 763 million. Acquisition-related costs amounted to EUR 90 million. Thereof, EUR 28 million in 2016 and EUR 35 million in 2017 was recorded as an expense under administrative expenses. Of the financing costs of EUR 52 million, EUR 27 million was allocated over the term according to the effective interest method.

The carrying amounts or fair values of the identifiable assets at the date of acquisition of the defense electronics segment were as follows:

MEUR	Carrying amount	Fair value
Assets		
Intangible assets	17	425
Property, plant and equipment	84	88
Investments	39	40
Inventories	454	507
Receivables and other assets	267	267
Cash and cash equivalents	13	13
Other assets	117	117
Total assets	**991**	**1,457**

MEUR	Carrying amount	Fair value
Deferred taxes	**0**	**-129**
Liabilities	**-1,019**	**-1,022**
Total identifiable net assets incl . minority interests	-27	306
less minority interests	-5	-13
Total identifiable net assets	**-32**	**293**
Goodwill		471
Consideration transferred		**763**

The purchase price allocation resulted in other intangible assets of EUR 408 million and deferred tax liabilities of EUR 129 million. The other intangible assets consist of technology of EUR 220 million, order volumes of EUR 133 million and trademarks of EUR 55 million.

The residual amount is goodwill in the amount of EUR 471 million. This mainly represents the expected future prospects from the market position of the acquired group.

On the date of transfer of control the acquired companies had cash and cash equivalents of EUR 13 million and gross amounts from trade receivables of EUR 249 million, of which EUR 3 million is estimated to be likely irrecoverable at the date of acquisition.

Since the acquisition date (February 28, 2017), Orlando has contributed EUR -127 million to the Group's total comprehensive income and EUR 901 million to Group revenue.

If Orlando had been included in the scope of consolidation already as of January 1, 2017, management estimates that this would have resulted in an increase in Group revenue for the 2017 financial year of EUR 102 million and a decrease in the Group's total comprehensive income of EUR 6 million due to amortization from the purchase price allocation.

6.2. Acquisition of the EuroAvionics group

The EuroAvionics group with registered offices in Pforzheim was acquired with effect from August 16, 2017. The EuroAvionics group ('EuroAvionics'; see list of shareholdings of the consolidated group) is active in the market for civil certified avionic equipment for helicopters with interfaces to avionic and sensor systems of third party providers. The EuroAvionics group is specialized in the area of avionic systems for helicopters and drones. The group produces flight management systems as well as avionic computers and autopilot systems for drones in particular. The EuroAvionics group had approx. 100 employees in the 2016 financial year and generated revenue of approx. EUR 19 million. The EuroAvionics group was integrated into the 'Sensors' cash generating unit. The consideration paid amounted to EUR 126 million. Acquisition-related costs of EUR 2 million were recognized as an expense under other expenses in accordance with IFRS 3. The companies were fully consolidated in the consolidated financial statements of HENSOLDT Holding GmbH from the date of acquisition.

The fair value and corresponding carrying amounts of the identifiable assets and liabilities of the EuroAvionics group at the date of acquisition were as follows:

MEUR	Book value	Fair value
Assets		
Intangible assets	6	56
Property, plant and equipment	1	1
Inventories	5	5
Receivables and other assets	3	3
Cash and cash equivalents	6	6
Total assets	**21**	**71**

MEUR	Book value	Fair value
Deferred taxes	**0**	**-15**
Liabilities	**-14**	**-14**
Total identifiable net assets	**7**	**41**
Goodwill		84
Consideration transferred		**126**

The purchase price allocation resulted in other intangible assets of EUR 50 million and deferred tax liabilities of EUR 15 million. The other intangible assets consist of technology of EUR 22 million and customer relationships of EUR 28 million.

The residual amount is goodwill in the amount of EUR 84 million. This mainly represents the expected future prospects from the market position of the acquired company.

On the date of transfer of control the EuroAvionics group had cash and cash equivalents of EUR 6 million and gross amounts from trade receivables of EUR 3 million, of which EUR 0.2 million is estimated to be likely irrecoverable at the date of acquisition.

Since the acquisition date (August 16, 2017), the EuroAvionics group has contributed EUR 1 million to the Group's total comprehensive income and EUR 8 million to Group revenue.

If the EuroAvionics group had been included in the scope of consolidation already as of January 1, 2017, management estimates that this would have resulted in an increase in Group revenue for the 2017 financial year of EUR 11 million and a decrease in the Group's total comprehensive income of EUR 7 million due to amortization from the purchase price allocation.

6.3. Acquisition of the Kelvin Hughes group

The Kelvin Hughes group ("Kelvin Hughes"; see list of shareholdings of the consolidated group) with registered offices in Enfield near London, UK, was acquired with effect from September 28, 2017. Kelvin Hughes develops, produces and distributes navigation and monitoring systems mainly for the maritime sector as well as security applications.

The Kelvin Hughes group has approx. 200 employees and generated revenue of approx. EUR 38 million in the 2017 calendar year. The consideration paid amounted to EUR 70 million. Acquisition-related costs of EUR 3 million were recognized as an expense under other expenses in accordance with IFRS 3. The companies were fully consolidated in the consolidated financial statements of HENSOLDT Holding GmbH from the date of acquisition. The Kelvin Hughes group was integrated into the 'Sensors' cash generating unit.

The fair value and corresponding carrying amounts of the identifiable assets and liabilities of the Kelvin Hughes group at the date of acquisition were as follows:

MEUR	Book value	Fair value
Assets		
Intangible assets	4	25
Property, plant and equipment	3	3
Inventories	8	11
Receivables and other assets	8	8
Cash and cash equivalents	6	6
Total assets	**29**	**52**
Deferred taxes	**1**	**-4**
Liabilities	**-7**	**-7**
Total identifiable net assets	**23**	**41**
Goodwill		30
Consideration transferred		**70**

The purchase price allocation resulted in other intangible assets of EUR 21 million and deferred tax liabilities of EUR 4 million. The other intangible assets consist of technology of EUR 10 million and customer relationships of EUR 10 million.

The residual amount is goodwill in the amount of EUR 30 million. This mainly represents the expected future prospects from the market position of the acquired company.

On the date of transfer of control the Kelvin Hughes group had cash and cash equivalents of EUR 6 million and gross amounts from trade receivables of EUR 6 million, of which EUR 0.1 million is estimated to be likely irrecoverable at the date of acquisition.

Since the acquisition date (September 28, 2017), the Kelvin Hughes group contributed EUR -3 million to the Group's total comprehensive income and EUR 9 million to Group revenue.

If the Kelvin Hughes group had been included in the scope of consolidation already as of January 1, 2017, management estimates that this would have resulted in an increase in Group revenue for the 2017 financial year of EUR 30 million and a decrease in the Group's total comprehensive income of EUR 13 million due to amortization from the purchase price allocation.

6.4. Determination of fair values

The valuation methods used to determine the fair value of the significant assets acquired were as follows:

Acquired assets	Market approach and cost approach
Property, plant and equipment	The measurement model takes into account market prices for similar items, if available, and depreciated replacement cost, if applicable. Depreciated replacement costs reflect adjustments for physical deterioration as well as functional reconditioning and economic obsolescence.
Intangible assets	The relief from royalty method and multi-period excess earnings method: the relief from royalty method takes into account the discounted estimated royalty payments that are expected to be saved by patents and trademarks being kept in the Company's ownership. The multi-period excess earnings method takes into account the present value of the expected net cash flows generated by customer relationships, with the exception of all cash flows relating to the underlying assets.
Inventories	Market approach: the fair value is determined on the basis of the estimated sales price in the ordinary course of business less estimated production and selling costs as well as an appropriate profit margin based on the time and effort expended on producing and selling inventories.

If new information on the facts and circumstances that existed as of the acquisition date and that would have resulted in corrections of the above amounts or additional provisions became known within one year of the acquisition date, the accounting for the acquisition is adjusted.

7. Investments accounted for using the equity method

HENSOLDT Cyber GmbH, Taufkirchen, District of Munich, is a 51% joint venture founded in 2017 by HENSOLDT Holding Germany GmbH and Secure Elements GmbH, Munich. The company's equity amounts to KEUR 25. The company did not carry out any business activities in 2017. HENSOLDT Holding Germany GmbH contributed KEUR 50 to the capital reserves at the end of 2017.

The Company's purpose is the development, production, integration and sale of solutions in the areas hardware, software and services.

8. Transactions with related parties

In accordance with IAS 24, individuals or entities that control or are controlled by HENSOLDT Group must be disclosed unless they have already been included as consolidated entities in the consolidated financial statements. In addition, there is an obligation to disclose transactions with associates and persons who have significant influence over the operating and financial policies of the HENSOLDT Group. Significant influence here can mean a shareholding in HENSOLDT Holding of 20% or more, a position in management or on the Supervisory Board of HENSOLDT Holding or a key management position.

Related parties of HENSOLDT Holding GmbH are:

members of the **management** of HENSOLDT Holding GmbH:

- Thomas Müller, CEO
- Axel Albert Hans Salzmann, CFO
- Peter Fieser, CHRO (from April 4, 2017)
- Philip Wack (until February 28, 2017)

as well as other members of the **management team:**

- Peter Schlote, COO
- Sabine K. Hipp, Head of Sales & Marketing
- Celia Pelaz, Head of Strategic Business Development
- Uwe Virkus, Head of Electronic Warfare/Situational Awareness
- Erwin Paulus, Head of Radar / IFF / Data links
- Andreas Hülle, Head of Optronics
- Solms U. Wittig, General Counsel

as well as the **members of the Supervisory Board:**

- Johannes P. Huth, Chairman of the Supervisory Board
- Christian Ollig
- Philipp Freise
- Ingrid Jägering
- Prof. Dr. Burkhard Schwenker
- Prof. Wolfgang Ischinger
- Armin Maier-Junker, Chairman of the Works Council and the General Works Council of HENSOLDT Sensors GmbH, Deputy Chairman of the Supervisory Board
- Winfried Fetzer, Chairman of the Works Council, Chairman of the General Works Council of HENSOLDT Optronics GmbH
- Thomas Hoepfner, Chairman of the Works Council / Deputy Chairman of the General Works Council of HENSOLDT Sensors GmbH
- Peter Härtle, Chairman of the Company Spokesperson Committee of senior management
- Jürgen Bühl, Trade Union Secretary of the IGM Management Board
- Helene Sommer, Second Authorized Representative of IGM Friedrichshafen

The Company is under the majority control of the investment company KKR Square Aggregator L.P., Canada, and its subsidiaries, which is advised by the private equity company Kohlberg Kravis Roberts & Co. L.P. (KKR).

The company is under the majority control of Square Lux MidCo 1 & Co S.C.A., Luxembourg, which is controlled by the private equity company Kohlberg Kravis Roberts & Co. L.P. (KKR). This means HENSOLDT Holding GmbH's related parties include Square Lux MidCo 1 & Co S.C.A., Luxembourg, as indirect shareholder, Square Lux Holding II. S.à r.l, Luxembourg, as

majority shareholder, and its affiliate company Square Lux Finco S.à r.l, Luxembourg. In addition, the companies engaged by KKR, i.e. KKR Capstone LLP, USA, KKR Capital Markets Ltd., London, UK, and KKR & Co. LP, USA, are treated as related parties.

Other related parties are Airbus Defence and Space GmbH (ADS GmbH) as minority shareholder and the subsidiaries Airbus SE as well as HENSOLDT Pension Trust e.V. (including its subsidiaries) as the pension fund of HENSOLDT Group, Kunene Finance

Company (Pty) Ltd. as minority shareholder of GEW Technologies Ltd. as well as Denel SOC Ltd. as minority shareholder of HENSOLDT Optronics (Pty) Ltd.

Related party transactions:

KEUR	**Jan. 1 - Dec. 31, 2017**	**Jan. 1 - Dec. 31, 2016**
Revenue and other income		
non-consolidated companies	31,837	0
other related parties (Airbus)	212,762	0
(thereof ADS GmbH)	*98,252*	*0*
other related parties (miscellaneous)	1,448	0
Expenses		
non-consolidated companies	777	0
other related parties (Airbus)	62,931	0
(thereof ADS GmbH)	*39,285*	*0*
other related parties (miscellaneous)	4,143	0

KEUR	**Dec. 31, 2017**	**Dec. 31, 2016**
Receivables		
non-consolidated companies	10,786	0
other related parties (Airbus)	125,846	0
(thereof ADS GmbH)	*83,548*	*0*
other related parties (miscellaneous)	391	0
Liabilities		
non-consolidated companies	1,502	0
other related parties (Airbus)	275,328	0
(thereof ADS GmbH shareholder loan)	*109,810*	*0*
(thereof ADS GmbH)	*44,466*	*0*
other related parties (miscellaneous)	327,876	0

In addition to trade receivables, the receivables from Airbus include loans to Airbus Defence and Space GmbH of KEUR 41,239 and a liability to Airbus Defence and Space GmbH of KEUR 12,380. Other transactions with unconsolidated **subsidiaries** are immaterial for the consolidated financial statements.

In the reporting year, land including an administrative building was sold by Airbus Group Real Estate Taufkirchen GmbH & Co. KG to HENSOLDT Real Estate GmbH & Co. KG at a market price of EUR 15 million. In addition to other instruments, the assets of HENSOLDT Real Estate GmbH & Co. KG serve as security for fully funded pension entitlements. The lessees are mainly group companies of the HENSOLDT Group.

The companies engaged by KKR, i.e. KKR Capstone LLP, USA, KKR Capital Markets Ltd., London, UK, and KKR & Co. LP, USA, rendered services of KEUR 13,195 (2016: KEUR 10,358) in 2017.

As the majority shareholder Square Lux Holding II. S.à.r.l., Luxembourg, has a controlling influence on the Company. For the transfer of the shareholder loan described under 31.2 'Financial liabilities', interest expenses of KEUR 18,572 were recognized in favor of the shareholder in the financial year.

Further information regarding the **financing of pension plans** of the Group which are considered related parties are presented under note 27 'Pension benefits'.

Information on the compensation and benefits granted to members of the **management team** and the **Supervisory Board** are shown in note 28 'Remuneration'.

III. Group performance

9. Revenue, cost of sales and gross margin

Revenue

Revenue results mainly from sales of products and services. Revenue in the Sensors segment includes the areas Radar/IFF/Data Links, Electronic Warfare ('EW') & Situational Awareness and Customer Support & Services. Revenue in the Optronics segment is mainly generated with optical and optronic products and systems for army, navy and air force and other public sector clients, such as aerospace agencies, and also police forces and border control.

KEUR	Sensors	Optronics	2017	2016
Revenue from supplies	346,274	162,084	508,358	0
Revenue from services	323,977	51,426	375,403	0
Construction contract revenue	34,437	0	34,437	0
Exchange rate changes	-2,371	1,266	-1,105	0
Total	**702,317**	**214,776**	**917,093**	**0**

Cost of sales and gross margin

The cost of sales includes amortization and non-recurring effects from the adjustments of fair values of assets in the course of the purchase price allocation in the amount KEUR 126,201 as well as impairments of trade receivables of KEUR 832.

Inventories recognized as an expense in the reporting period amounted to KEUR 352,957 (not including amortization from the purchase price allocation).

10. Research and development costs

Research and development costs amount to KEUR 29,767. In addition, KEUR 19,942 in development costs were capitalized in the 2017 financial year, with these mainly relating to the development of various radar and sensor technologies (ASR, TRS-4D, Passive Radar). The impairment test did not result in the need to recognize impairment losses.

11. Other operating income and expenses

Other operating income

KEUR	2017	2016
Reinvoiced services	19,193	0
Other	4,197	0
Other operating income	**23,390**	**0**

Other operating income relates mainly to reinvoiced IT services, supply of temporary employees and building services.

Other operating expenses

KEUR	2017	2016
Reinvoiced costs	17,709	0
Other	1,395	0
Other operating expenses	**19,104**	**0**

12. Finance income/costs

KEUR	2017	2016
Interest income from plan assets	2,281	0
Other interest income	10,089	0
Interest income	**12,369**	**0**
Interest expense for shareholder loans and other financial liabilities		
Loan (term loan)	-20,262	0
Revolving Credit Facility	-657	0
Shareholder loan (Airbus Defense and Space GmbH)	-6,123	0
Shareholder loan (Square Lux Finco S.à r.l.)	-18,572	0
Interest expense from swap	-4,167	0
Interest expenses on provisions for employee benefits	-4,852	0
Other	-896	0
Interest expense	**-55,528**	**0**
Bank fees	-7,436	0
Foreign currency translation monetary items	744	0
Other	-3,520	0
Other financial income/expense	**-10,212**	**0**

13. Income taxes

Income taxes are broken down as follows:

KEUR	2017	2016
Current tax expense (expenses - / income +)	-2,339	0
(of which income tax attributable to the prior year)	*253*	*0*
Deferred taxes (expense - / income +)	24,349	0
(thereof changes in temporary differences)	*17,412*	*0*
Recognized tax (expense - / income +)	**22,010**	**0**
Deferred tax income recognized directly in equity	7,903	0

At German companies, a corporation tax rate of 15% was used for the calculation of deferred taxes. In addition, a solidarity surcharge of 5.5% on corporation tax and a trade tax rate of 12.48% were taken into account. This resulted in an overall tax rate of 28.30% for German companies. At international group companies, the respective country-specific tax rates were used for the calculation of current and deferred taxes.

Overall tax rate of 28.30% of the parent company multiplied:

KEUR	2017	2016
Earnings before income tax (profit + / loss -)	-122,430	-29,327
Income tax rate	*28.30%*	*28.30%*
Expected income taxes on this (expense - / income +)	34,648	8,300
Effects deriving from differences to the expected tax rate	-261	0
Change in the tax rate and tax laws	50	0
Taxes for prior years	436	0
Non-deductible interest expenses	-1,503	0
Other non-deductible expenses and taxes	-385	0
Tax-exempt income	1,539	0
Changes in the realization of deferred tax assets	-12,213	-2,282
Other	-301	-6,017
Income tax as per income statement (expense - / income +)	**22,010**	**0**
Effective tax rate in %	*17.98%*	*0.00%*

The item 'Other' in the reconciliation for the year 2016 mainly includes tax effects resulting from the different treatment of transaction costs under IFRS and tax law.

Deferred tax assets and liabilities are recognized in accordance with IAS 12 Income Taxes if future tax effects are to be expected that are due to temporary differences between the carrying amounts of existing assets and liabilities and their tax bases, on the one hand, or due to loss carryforwards on the other. Deferred tax assets and liabilities from valuation differences in items of the statement of financial position break down as follows:

KEUR	Dec. 31, 2017	Dec. 31, 2016
Deferred tax assets		
Assets		
Intangible assets	6	0
Property, plant and equipment	176	0
Financial assets	6,527	0
Inventories	28,996	0
Receivables and other assets	1,312	0
Liabilities		
Provisions	53,394	0
Liabilities	4,604	0
Loss carryforwards	35,234	0
Tax credits	2,260	0
Other	248	0
Deferred tax assets (gross)	**132,757**	**0**
Netting	-118,369	0
Deferred tax assets (net)	**14,388**	**0**

KEUR	Dec. 31, 2017	Dec. 31, 2016
Deferred tax liabilities		
Assets		
Intangible assets	94,588	0
Property, plant and equipment	1,726	0
Financial assets	2,489	0
Inventories	41,168	0
Receivables and other assets	8,968	0
Liabilities		
Provisions	8,482	0
Liabilities	6,231	0
Other	61	0
Deferred tax liabilities (gross)	**163,713**	**0**
Netting	-118,369	0
Deferred tax liabilities (net)	**45,344**	**0**
Excess of deferred tax liabilities	**30,956**	**0**

The assessment of impairment of deferred tax assets depends on the management's estimate of the utilization of the deferred tax assets. This is dependent on taxable profits in the periods when the tax measurement differences are reversed and the tax loss carryforwards can be utilized.

As of December 31, 2017, there were no deferred tax liabilities for taxes on profits not transferred from subsidiaries. The Group has decided that the undistributed profits of its subsidiaries will not be distributed in the foreseeable future. Temporary differences in connection with investments in subsidiaries for which no deferred tax liabilities have been recognized totaled KEUR 1,321 (PY: KEUR 0).

As of December 31, 2017, there were the following loss and interest carryforwards (gross):

KEUR	Dec. 31, 2017	Dec. 31, 2016
Corporation tax loss carryforwards	131,477	8,064
Trade tax loss carryforwards	129,693	8,064
Interest carry forwards	48,570	0
Tax credits	2,260	0

As of December 31, 2017, the Company reported loss carryforwards that are subject to restrictions on loss offsetting. No deferred tax assets were recognized for these insofar as their use through future positive taxable earnings is not likely.

No deferred tax assets were recognized for the following items (gross):

KEUR	Dec. 31, 2017	Dec. 31, 2016
Corporation tax loss carryforwards	8,058	8,064
Trade tax loss carryforwards	8,058	8,064
Interest carry forwards	48,570	0

The tax loss carryforwards for which no deferred tax assets were recognized are not subject to any limitations on use.

IV.Operating assets and liabilities

14. Intangible assets

Intangible assets include (i) goodwill (see note 6 ‘Scope of consolidation’), (ii) capitalized development costs (see note 2 ‘Significant accounting policies’), and (iii) other intangible assets, mainly acquired intangible assets.

The intangible assets with limited useful lives are generally amortized on a straight-line basis over their respective expected useful lives (3 to 10 years) to their estimated residual values. Intangible assets (excluding goodwill) comprise the following as of December 31, 2017 and January 1, 2017:

KEUR	Licenses, patents and other rights	Other intangible assets	Capitalized development costs	Customer relationship, technology, order backlog, trademark, brand	Construction in progress	Total
COST						
As of Dec. 31, 2016	**0**	**0**	**0**	**0**	**0**	**0**
Acquired by company acquisition	3,780	0	4,931	496,582	189	505,482
Additions	1,101	0	19,942	0	2,163	23,206
Disposals	-1,395	0	0	0	0	-1,395
Reclassifications	281	0	0	0	-25	257
Currency translation	-2	0	17	0	0	15
As of Dec 31, 2017	**3,766**	**0**	**24,890**	**496,582**	**2,327**	**527,565**
ACCUMULATED AMORTIZATION, DEPRECIATION AND WRITE-DOWNS						
As of Dec. 31, 2016	**0**	**0**	**0**	**0**	**0**	**0**
Additions	-1,338	0	-4,660	-69,416	0	-75,414
Disposals	814	0	0	0	0	814
Reclassifications	0	0	0	0	0	0
Currency translation	0	0	5	0	0	5
As of Dec 31, 2017	**-524**	**0**	**-4,655**	**-69,416**	**0**	**-74,596**
CARRYING AMOUNT						
As of Dec. 31, 2016	**0**	**0**	**0**	**0**	**0**	**0**
As of Dec 31, 2017	**3,242**	**0**	**20,235**	**427,165**	**2,327**	**452,970**

Development costs

The Group capitalized development costs in the 2017 financial year of KEUR 19,942 as internally generated intangible assets, primarily for development of various radar and sensor technologies (ASR, TRS-4D, Passive Radar).

Goodwill

Goodwill developed as follows:

COST	2017 MEUR
As of Dec. 31, 2016	**0**
Additions Orlando	471
Additions EuroAvionics	84
Additions Kelvin Hughes	29
As of Dec 31, 2017	**584**
ACCUMULATED AMORTIZATION, DEPRECIATION AND WRITE-DOWNS	
As of Dec. 31, 2016	**0**
As of Dec 31, 2017	**0**
CARRYING AMOUNT	
As of Dec. 31, 2016	**0**
As of Dec 31, 2017	**584**

As of December 31, 2017, goodwill was allocated to CGUs or a group of CGUs, which are summarized here:

MEUR	Sensors	Optronics	2017
Goodwill as of Jan 1, 2017	0	0	0
Additions Orlando	388	83	471
Additions EuroAvionics	84	0	84
Additions Kelvin Hughes	29	0	29
As of Dec 31, 2017	**501**	**83**	**584**

General assumptions applied in the planning process

The basis for determining the recoverable amount is the value in use of the GCU. In general, the cash flow forecasts applied in the Group's impairment testing are based on the operational business plan. The operational planning used for impairment testing includes a detailed planning horizon of three years and is extrapolated for two more years. This is based on the following assumptions:

Assumptions in %	Sensors	Optronics
Discount rate	5.89%	5.89%
Sustainable growth rate	1.00%	1.00%
Projected sustainable EBIT margin	12.50%	11.50%

Based on the market position, management assumes further revenue growth of between 6% and 10%, and possible above this in the best case scenario. An increase in EBIT for 2018 and subsequent years is expected due to efficiency and cost saving measures.

Besides macro-economic developments, the forecast is based on the Company's multi-year business plan. The business plan from Q3/Q4 2017 for the next three years includes in particular a projected US dollar rate of USD 1.14 to EUR 1.00 and an inflation rate and an increase in personnel expenses of an average 2%.

Cash flows beyond a period of five years are extrapolated using a growth rate of 1%.

15. Property, plant and equipment

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

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

Property, plant, and equipment as of December 31, 2017, consisted of the following:

KEUR	Land, improvements and buildings, including buildings on third-party land	Technical equipment and machinery	Other equipment, operating and office equipment	Construction in progress	Total
COST					
As of Dec. 31, 2016	**0**	**0**	**0**	**0**	**0**
Acquisition through business combinations	5,722	57,333	18,356	10,655	92,065
Additions	376	5,791	3,271	6,633	16,071
Disposals	0	-1,277	-359	0	-1,636
Reclassifications	0	101	0	-357	-257
Currency translation	-163	-454	-97	-9	-724
As of Dec. 31, 2017	**5,935**	**61,492**	**21,171**	**16,921**	**105,519**
ACCUMULATED AMORTIZATION, DEPRECIATION AND WRITE-DOWNS					
As of Dec. 31, 2016	**0**	**0**	**0**	**0**	**0**
Additions	-144	-11,296	-4,024	0	-15,463
Disposals	0	1,273	99	0	1,372
Reclassifications	0	0	0	0	0
Currency translation	0	-22	-5	0	-26
As of Dec. 31, 2017	**-143**	**-10,045**	**-3,929**	**0**	**-14,117**
CARRYING AMOUNT					
As of Dec. 31, 2016	**0**	**0**	**0**	**0**	**0**
As of Dec. 31, 2017	**5,792**	**51,448**	**17,242**	**16,921**	**91,402**

16. Other investments and other non-current financial assets

KEUR	Dec. 31, 2017	Dec. 31, 201
Other investments	4,956	0
Other non-current financial assets	187	0
Other investments and other non-current financial assets	**5,143**	**0**
Other non-current financial assets, due at short-notice	**41,314**	**0**
Total	**46,457**	**0**

Other investments relate mainly to the investment in Deutsche Elektronik Gesellschaft für Algerien mbH of KEUR 3,110.

Interests in other financial assets due at short notice mainly include loans to ADS GmbH (see Section 8 'Transactions with related parties').

17. Inventories

KEUR	Dec. 31, 2017	Dec. 31, 2016
Raw materials and supplies	135,686	0
Work in process	230,187	0
Finished products and parts for resale	20,783	0
Total	**386,656**	**0**

The amounts relating to impairments recognized in profit or loss in the financial year equal KEUR 3,586. No significant reversal of impairment losses were recognized as reduction in the cost of materials in the financial year.

18. Trade receivables

Trade receivables arise if the Group supplies/renders goods or services directly to customers without intending to trade the receivable. Trade receivables arise when revenue is recognized but not yet settled by the debtor and arise for receivables in relation to construction contracts. Trade receivables are recognized at their transaction price and as a result measured at cost less any impairments. Gains or losses are recognized in the consolidated income statement if the receivables are derecognized or impaired.

Impairments on receivables include mainly management's estimates and assessments of individual receivables, based on the credit rating of individual customers, the current economic development including the debt crises in EU countries and analysis of past bad debts.

Assets and liabilities relating to construction contracts. In the construction contract business, an asset or liability is classified as current if the item is realized or invoiced in the course of a normal operating cycle for such agreements. Therefore, assets and liabilities related to the construction contract business and trade receivables and trade payables and receivables from the PoC method that are invoiced as a part of the normal operating cycle are classified as current even if they are not likely to be realized within 12 months after the reporting period.

Trade receivables

KEUR	Dec. 31, 2017	Dec. 31, 2016
Receivables from the sale of goods and services	347,767	0
Allowance for doubtful receivables	-2,741	0
Total	**345,026**	**0**

In applying the PoC method an amount of KEUR 17,589 for construction contracts as of December 31, 2017, is included in trade receivables after deducting the associated prepayments received of KEUR 148,597 (thereof KEUR 132,120 acquired due to business combinations).

The total amount of costs incurred and gains reported (less losses reported) amounts to KEUR 208,100 to date. KEUR 138,315 in costs incurred and gains reported (less losses reported) were acquired in the course of company acquisitions.

The allowance for doubtful accounts in relation to trade receivables developed as follows over the course of the year:

KEUR	2017	2016
As of Dec. 31, 2016	0	0
Acquisition through business combinations	2,941	0
Addition	832	0
Utilized	-4	0
Reversal	-1,028	0
As of Dec 31, 2017	**2,741**	**0**

The maturities are presented in the context of the credit risks in Section 32 'Information on financial instruments'.

19. Trade payables

As in the prior year, all trade payables as of December 31, 2017, fall due within one year.

20. Provisions

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

KEUR	Dec. 31, 2017	Dec. 31, 2016
Provisions for employee benefits (note 27)	258,956	0
Other provisions	345,314	5
Total	**604,271**	**5**
thereof non-current portion	294,069	0
thereof current portion	310,201	5

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

KEUR	Dec. 31, 2016	Exchange rate differences	Additions	Unwinding of discount	Reclassi-fication	Takeover through business combinations	Utilized	Reversal	Dec. 31, 2017
Guarantees	0	-277	22,678	-18	-78	41,131	-7,913	-1,757	53,766
Personnel-related provisions (note 26)	0	-41	25,102	-2	1,617	51,731	-24,354	-4,514	49,540
Contract losses	0	0	3,045	0	-216	3,127	0	-1,291	4,665
Outstanding costs	0	-466	137,417	0	0	199,781	-96,379	-29,075	211,277
Other risks and costs	5	-109	8,417	0	0	27,569	-2,465	-7,352	26,066
Total	**5**	**-893**	**196,659**	**-20**	**1,323**	**323,339**	**-131,111**	**-43,988**	**345,314**

Provisions for outstanding costs relate mainly to deferrals for supplies not yet invoiced and outstanding own services under long-term construction contracts.

The provisions for other risks and costs relate to contract-related provisions for default and contractual penalties as well as price audit risks.

Breakdown of other provisions by term:

KEUR	Dec. 31, 2017	current	non-current
Guarantees	53,766	33,413	20,353
Personnel-related provisions (note 26)	49,540	28,467	21,073
Contract losses	4,665	2,157	2,508
Outstanding costs	211,277	211,277	0
Other risks and costs	26,066	13,433	12,633
Total	**345,314**	**288,746**	**56,567**

For the non-current provisions of the Company, it is generally assumed that they will lead to cash outflows in the next 2 to 5 years.

Legal disputes and damage claims

Legal disputes and damage claims include various proceedings, official investigations and proceedings as well as damage claims that are pending or will be initiated or claimed against the Group in the future. These proceedings are subject to much uncertainty and the result of individual issues cannot be reliably predicted. The Group believes that it has recognized adequate provisions to hedge current or potential litigation risks. It is quite possible that the final ruling in some cases could lead to expenses beyond those accounted for in the recognized provisions. These cases can drag on for a long time and an amount cannot be reliably estimated. The term 'quite possible' used here means that the chance of a future transaction or future occurrence of an event is more than unlikely, however less than likely.

Within the scope of its ordinary business operations, the HENSOLDT Group is involved in different court and arbitration proceedings from time to time. The HENSOLDT Group is not currently aware of any official, judicial or arbitration proceedings (including pending and threatened proceedings) during the previous twelve months or longer that could significantly impact or significantly impacted on the Group's financial position, financial performance and cash flows. As of the reporting date provisions for legal disputes and damage claims of a negligible amount were recognized under other provision for other risks and costs.

21. Contingent assets and contingent liabilities

Due to the type of its transactions, the HENSOLDT Group is exposed to the risk of contingent liabilities. The following tables shows the undiscounted maximum amounts for which HENSOLDT Group is liable as of the reporting date due to the type of guarantees (including sureties):

in KEUR	Dec. 31, 2017	Dec. 31, 2016
Loan guarantees / sureties	36,955	0
Contractual guarantees / sureties	146,855	0
Other guarantees and sureties	32,399	0
Total	**216,209**	**0**

The item loan guarantees/sureties shows to what extent the HENSOLDT Group is liable for financial obligations of third parties. For loan guarantees/sureties the Company guarantees in general that if the principal debtor does not pay the debt then the Company will fulfill its financial obligations. The maximum liability coverage corresponds to utilization of the outstanding liability of the credit or – in the event of credit facilities that can be utilized in variable amounts – the maximum amount that can be claimed. The table includes the maximum liability coverage. The terms of these guarantees/sureties extend up to 3 years.

In addition, HENSOLDT Group guarantees the fulfillment of its own contractual obligations, mainly due to advance payments and performance guarantees/sureties. If the HENSOLDT Group does not meet its contractual obligations, the HENSOLDT Group or one of its subsidiaries can claim up to an agreed maximum amount. Generally the terms of these contingent liabilities run to 7 years or in some cases there are indefinite guarantees/sureties.

The other guarantees and sureties relate to bid bonds, advance payment guarantees, customs guarantees and rental guarantees.

22. Other financial assets and other financial liabilities

22.1. Other financial assets

KEUR	Dec. 31, 2017	Dec. 31, 2016
Positive fair values of derivative financial instruments[(1)]	18,892	0
Miscellaneous other non-current financial assets	12	0
Total other non-current financial assets	**18,904**	**0**
Positive fair values of derivative financial instruments[(1)]	10,294	0
Receivables from employees	509	0
Miscellaneous other current financial assets	507	0
Total other current financial assets	**11,310**	**0**
Total	**30,214**	**0**

(1) See note 32 'Information on financial instruments'

22.2. Other financial liabilities

KEUR	Dec. 31, 2017	Dec. 31, 2016
Liability from put options	972	0
Miscellaneous other non-current financial liabilities	11	0
Total other non-current financial liabilities	**983**	**0**
Liabilities for derivative financial instruments[1]	5,251	0
Liabilities to related parties	12,380	0
Other	419	0
Total other current financial liabilities	**18,050**	**0**
Total	**19,033**	**0**

(1) See note 32 'Information on financial instruments'

Other current liabilities of KEUR 12,380 relate to a liability to ADS GmbH.

23. Other assets and liabilities

23.1. Other assets

KEUR	Dec. 31, 2017	Dec. 31, 2016
Total other non-current assets	**3,145**	**0**
Advance payments made	4,191	0
Retentions	3,673	0
Creditors with debit balances	1,687	0
Value added tax	5,223	0
Prepaid expenses	1,152	0
Miscellaneous other current assets	538	182
Total other current assets	**16,464**	**182**
Total	**19,610**	**182**

23.2. Other liabilities

KEUR	Dec. 31, 2017	Dec. 31, 2016
Advances received	18,436	0
Other	2,682	0
Total other non-current liabilities	**21,118**	**0**
Advances received	203,703	0
Tax liabilities (not incl. income tax)	10,494	0
Liabilities to employees	20,948	0
Other	5,609	0
Total other current liabilities	**240,754**	**0**
Total	**261,872**	**0**

V. Expenses and employee benefits

24. Number of employees

	2017	2016
Production, research and development, service	3,152	0
Sales	89	0
Administration and general services	435	0
Apprentices, trainees, etc.	373	0
Total[1]	**4,049**	**0**

(1) Average figures (end quarter)

Due to start of the Group's operating activities on March 1, the average was calculated over a period of 10 months.

25. Personnel expenses

KEUR	2017	2016
Wages, salaries	258,613	0
Social security contributions	39,572	0
Net periodic employee benefit expenses	16,181	0
Total	**314,367**	**0**

26. Personnel-related provisions

Several German group entities offer models for life-time working accounts, which represent defined benefit plans due to a pledged interest on contributions or nominal contributions and are to be classified as post-employment benefits in accordance with IAS 19. The obligations of KEUR 13,765 are fully offset against corresponding assets. The regular contributions of employees to their life-time working accounts lead to a corresponding personnel expense in the reporting period which is recognized in personnel expenses.

KEUR	Jan. 1, 2016	Exchange rate differences	Unwinding of discount	Additions	Reclassifi-cations	Takeover through business combinations	Utilized	Reversal	Dec. 31, 2017
Long-service benefits/ bonuses	0	-41	0	23,223	-157	45,089	-19,804	-3,764	44,547
Partial retirement benefits	0	0	0	1,879	1,774	4,354	-4,550	0	3,457
Other personnel expenses	0	0	-2	0	0	2,288	0	-750	1,536
Total	**0**	**-41**	**-2**	**25,102**	**1,617**	**51,731**	**-24,354**	**-4,513**	**49,540**

27. Pension benefits

KEUR	Dec. 31, 2017	Dec. 31, 2016
Provisions for employee benefits (see note 27.1)	172,203	0
Provisions for deferred compensation (see note 27.2)	86,753	0
Total	**258,956**	**0**

27.1. Provisions for pension plans

Provision for pension plans

Provisions for German pension obligations (defined benefit obligations or 'DBO') are recognized on the basis of defined benefit plans for old-age, invalidity and survivor's pension benefits. The benefits are based on the employee's length of service and remuneration.

Most domestic employees are under the 'P3 Plan', which allows a choice between immediate payment of the credit saved, payment in installments or an annuity.

To finance domestic pension obligations, the Group introduced several contractual trust arrangements or 'CTA'. The structure of the contractual trust arrangement is based on mutual trust agreements. Assets transferred to the contractual trust arrangement are considered plan assets under IAS 19.

In terms of the significant accounting policies and significant estimates and assessment, e.g. actuarial assumptions, please refer to the note 2.7 'Employee benefits' and note 3.6 'Employee benefits'.

Changes in the defined benefit obligation and plan assets

KEUR	DBO	Plan assets	Total
As of Jan. 1, 2017	**0**	**0**	**0**
Takeover due to business combination	279,754	143,209	136,545
Expenses for pension benefit entitlements	11,322	0	11,322
Interest expense/income	3,898	2,124	1,774
Payments	-615	0	-615
Actuarial gains/losses deriving from			
■ Changes in demographic assumptions	16,801	0	16,801
■ Changes in financial assumptions	-3,193	0	-3,193
■ Adjustments based on experience	13,788	0	13,788
■ Plan assets	0	2,482	-2,482
Other changes in consolidation, transfers	-568	0	-568
Benefits paid	-1,169	0	-1,169
As of Dec. 31, 2017	**320,018**	**147,815**	**172,203**

The defined benefit obligation or assets as of December 31, 2017, amounts to:

KEUR	Pension plans Germany
Defined benefit obligation	320,018
Plan assets	-147,815
Total	**172,203**

The weighted average duration of the defined benefit obligation for pensions and deferred compensation is 14 years.

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

Assets	90%
Eligible employees	4%
Pensioner	6%
	100%

The expected employer's contribution to defined benefit plans for the 2018 financial year amounts to KEUR 16,819.

The following table shows how the present value of defined benefit obligations of pension plans and deferred compensation would be impacted by changes to actuarial assumptions as of December 31, 2017:

KEUR	Change in actuarial assumptions	Effect on defined benefit obligations as of December 31, 2017 Increase	Decrease
Present value of obligation			
Discount rate	by 0.5 percentage points	-29,162	33,122
Wage increase rate	by 0.25 percentage points	1,235	-1,201
Pension increase rate	by 0.25 percentage points	4,097	-3,890
Life expectancy	by 1 year	5,131	-5,199
Exercising of pension option	by 10 percentage points	21,338	-21,338

Sensitivities are calculated using the same method (present value of the defined benefit obligation calculated using the projected unit credit method) as used for the calculation of post-employment benefits. The sensitivity analysis is based on a change of one assumption maintaining all other assumptions unchanged. This is very unlikely to occur in practice. Changes to more than one assumption can correlate which can have differing effects on the DBO as described above. If the assumptions change to various degrees, the effects on the defined benefit obligation are not necessarily linear.

Asset-liability matching strategy

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

For this reason, the HENSOLDT Group implements a risk management plan that is aligned with the defined benefits obligations.

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

KEUR	Quoted prices	Unquoted prices	Total
Other investments (limited partner's share)		113,826	113,826
Pooled investment instruments	47,941		47,941
Total	**47,941**	**113,826**	**161,766**

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

The employer's contribution to state and private pension funds in Germany is considered a defined contribution obligation. The contributions in 2017 amounted to KEUR 18,046.

27.2. Provisions for deferred compensation

This amount represents obligations that arise when employees convert a part of their remuneration or bonus to an equivalent entitlement for deferred compensation, which is treated as a defined benefit plan upon termination of employment. The development of DBO and plan assets is as follows:

KEUR	DBO	Plan assets	Total
As of Jan. 1, 2017	**0**	**0**	**0**
Takeover due to business combination	89,816	10,911	78,905
Expenses for pension benefit entitlements	4,189	0	4,189
Interest expense/income	954	157	797
Payments	-204	0	-204
Actuarial gains/losses deriving from			
■ Changes in financial assumptions	-68	0	-68
■ Adjustments based on experience	-1,648	0	-1,648
■ Plan assets	0	-244	244
Transfer and changes in consolidation	-28	0	-28
Benefits paid	-76	0	-76
Contributions	7,770	3,128	4,642
As of Dec. 31, 2017	**100,705**	**13,952**	**86,753**

As of December 31, 2017, reported as:

KEUR	Deferred compensation
Defined benefit obligation	100,705
Plan assets	-13,952
Total	**86,753**

28. Compensation

Employees in key positions in the Group include members of the management team including the management of HENSOLDT Holding GmbH and members of the Supervisory Board.

28.1. Compensation – Management team

KEUR	2017
Salaries and other short-term benefits (including bonuses)	4,263

The amounts shown in the table were reported as an expense in the reporting period:

Remuneration of members of management is not disclosed pursuant to the protective clause of Section 286 (4) HGB.

28.2. Compensation – Supervisory Board

The currently applicable compensation policy for the Supervisory Board was adopted by the Annual General Meeting on May 24, 2017.

Each member of the Supervisory Board receives an annual base salary of EUR 40,000, each member of a standing committee receives additional annual compensation of KEUR 10,000, irrespective of the number of committees.

If a Supervisory Board member is not employed for the full financial year, they receive a proportionate share of the compensation.

Compensation of Supervisory Board members amounted to KEUR 400 in the financial year.

28.3. Management participation

Key management personnel and other senior staff and governing body members of the HENSOLDT Group (collectively referred to as ‘participants’) can indirectly invest (in each case a ‘management participation’) in HENSOLDT Holding GmbH by indirectly acquiring ordinary shares and in some cases also interest-bearing convertible preferred equity certificates (CPECs) that have been issued by Square Lux Midco 1 & Co S.C.A. As of the reporting date, key management personnel held approx. 7.84% of the ordinary shares in Square Lux Midco 1 & Co S.C.A. Other senior staff of the HENSOLDT Group indirectly hold approx. 3.97% of the ordinary shares of Square Lux Midco 1 & Co S.C.A. and overall approx. 0.69% of the CPECs issued by Square Lux Midco 1 & Co S.C.A.

Management’s participation via ordinary shares corresponds to a share of 8.85% in the share capital of HENSOLDT Holding GmbH. Of this, 5.87% is attributable to key management personnel.

Management participations were acquired in 2017 at various dates from the participants’ own funds.

The indirect acquisition of a further 0.43% of ordinary shares by participants was announced in the commercial register as of the reporting date, however this has not yet been registered and is thus not yet legally effective.

Management participations serve to involve participants in the Company’s development and thus the opportunities and risks of the HENSOLDT Group. In this sense the participants as investors bear that risk underlying their management participation including the risk of full loss of the value of their management participation.

The realization of the value of the management participation occurs via a direct or indirect sale of the investment in the HENSOLDT Group, in the course of an initial public offering of the HENSOLDT Group or other sale of the HENSOLDT Group (each an ‘exit case’), whereby the participants themselves cannot determine the time and conditions (including the price) of such an exit case. Subject to certain market protection agreements as part of an initial public offering, the participants can nevertheless generally participate in such a sale in line with their shareholding and in this respect have the tag-along selling rights and are subject to drag-along selling obligations generally at the same conditions (including the price for ordinary shares or CPECs) as Square Lux TopCo S.à r.l., i.e. the majority owner of Square Lux Midco 1 & Co S.C.A..

In addition, the management participation is subject to a purchase right on the part of Square Lux TopCo S.à r.l. that can be exercised in the event of certain conditions, in particular in the event of the participant leaving their active employment at the HENSOLDT Group (‘purchase option’). The calculation of the purchase price upon exercising the purchase option is determined by the reason for exercising the acquisition option (e.g. reaching the age limit, termination by the participant or termination without notice). Depending on the reason for exercising the purchase option, the purchase price corresponds to the cost of the management participation or the current market value of the management participation, which is calculated on the basis of a contractually agreed valuation method. Depending on the reason for exercising the purchase option the market value of the management participation for managers in key positions and individual other senior staff is not paid for the entire

management participation but rather only a share determined on the basis of the length of time the respective management participation is held. This share increases each quarter over a period of four years. For the remaining share of the management participation, the purchase price is determined based on the cost of the related share.

HENSOLDT Holding GmbH and its subsidiaries themselves are not a contracting party to the agreement on the management participation and are not at any time obligated – whether in an exit case or upon resignation of a participant – to make payment to the participant.

In the course of purchasing management participations the purchase price to be paid by the participants corresponded to at least the fair value of the management participation. As the participants pay at least the fair value of the participation at the time of purchase there is no monetary advantage granted at the time the parties become participants. For this reason, at no point is an expense recognized in the consolidated financial statements (whether in an exit case or upon resignation of the manager).

VI. Capital structure and financial instruments

29. Total equity and liabilities

29.1. Equity attributable to owners of the parent company

HENSOLDT Holding GmbH's **share capital** is fully paid and amounted to KEUR 25 as of December 31, 2017. The share capital consists of 25,000 shares at EUR 1.00 each.

The **capital reserve** results from the non-cash contributions of KEUR 22,341 made in the course of acquisition of the defense electronics segment of the Airbus Group.

On August 31, 2017, a further KEUR 23,934 was contributed to the capital reserve under a debt equity swap by way of the shareholders waiving a portion of their loan including interest accrued.

Other reserves include cumulative other comprehensive income.

The **revenue reserves** contain earnings of the companies included in the consolidated financial statements including earnings in the financial year, provided these have not been distributed.

29.2. Non-controlling interests

The minority interests reflect the share of other shareholders in the net asset value of consolidated subsidiaries.

KEUR	HENSOLDT Optronics (Pty) Ltd.	GEW Technologies (Pty) Ltd.	Total	Intragroup eliminations/ adjustments	Total
Percentage of non-controlling interests	**30%**	**6.72%**			
Non-current assets	11,963	5,066	17,029		
Current assets	38,034	63,768	101,801		
Non-current liabilities	-1,539	-2,314	-3,853		
Current liabilities	-14,383	-31,295	-45,678		
Net assets	**34,074**	**35,225**	**69,300**		
Net assets of non-controlling interests	10,222	2,367	12,589	572	13,162
Revenue	28,640	72,856	101,496		
Profit	4,106	8,073	12,179		
Other comprehensive income/loss	-2,093	3,828	1,734		
Total comprehensive income/loss	**2,013**	**11,900**	**13,913**		
Profit attributable to non-controlling interests	1,232	542	1,774	-822	953
Other comprehensive income/loss attributable to non-controlling interests	-628	257	-371	-445	-815
Cash flows from operating activities	6,172	33,174	39,346		
Cash flows from investing activities	2,094	-1,833	261		
Cash flows from financing activities	-420	-5,975	-6,395		
Net increase (decrease) in cash and cash equivalents	**7,846**	**25,366**	**33,212**		

Under company law, the minority shareholder of GEW Technologies (Pty) Ltd. has a 25% interest in GEW Technologies (Pty) Ltd. and its subsidiary GEW Integrated Systems (Pty). The minority shareholder was issued with 500 shares, of which 392 shares are treated as treasury shares until full payment of the purchase price. This results in a financial stake of non-controlling interests of 6.72%. In connection with the shares considered treasury shares, there is a put option in favor of the minority shareholder which is recognized at market value under other non-current financial liabilities.

30. Capital management

The capital structure of the HENSOLDT Group is made up of equity capital attributable to the shareholders of the parent company and of debt capital. A capital structure that optimizes capital costs of equity and debt is being targeted.

The Group is not subject to any capital requirements imposed by the Articles of Association.

The non-current syndicated loan agreement (term loan) is tied to compliance with a financial covenant that relates to the ratio of net liabilities to earnings before interest, taxes, depreciation and amortization (EBITDA). It was agreed that this figure would be first reported as of December 31, 2017. In the year under review the financing conditions were met at all times.

The availability and conditions of the loan are tied to this financial covenant. In the event of breach, the financing partners are authorized to terminate the syndicated loan. There are no indications that the covenant cannot be fully complied with at all times (see note 32).

Initially to finance the spin-off of the Orlando group, the term loan was increased to a total of EUR 695 million during the financial year, in order to take account of the additional operating and strategic company growth. The loan agreement is secured by pledging shares in the

subsidiaries HENSOLDT Sensors GmbH, HENSOLDT Optronics GmbH and Square Holding France S.A.S. The carrying amount of the shares amounts to KEUR 763,328. No other collateral security was provided.

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

In the Group's first year of operating activities a consolidated loss of EUR 100 million was generated as a result of expenses in connection with transactions, the expenses from the purchase price allocation, separation costs and other non-recurring effects.

31. Net liquidity

KEUR	Dec. 31, 2017	Dec. 31, 2016
Cash and cash equivalents	137,974	46
Shareholder loan	-437,474	0
Long-term liabilities due to banks	-677,084	0
Current financial liabilities	-15,024	0
Total	**-991,608**	**46**

31.1. Cash and cash equivalents

Cash and cash equivalents consist of the following items:

KEUR	Dec. 31, 2017	Dec. 31, 2016
Cash at bank and liquid funds	137,974	46
Total cash and cash equivalents	**137,974**	**46**

31.2. Financing liabilities

Financial liabilities to shareholders and banks consist of current and non-current loans.

The conditions and repayment schedules of the loans are as follows:

Loan	Capital amount KEUR	Issue date	Coupon or interest rate	Interest	Effective interest rate	Due date
Loan (term loan)	695,000	Feb. 28, 2017/ Apr. 18,	3m EURIBOR + 3.75%	Floating rate	3.65%	28.02.2024
Revolving Credit Facility	15,000	28.02.2017	3m EURIBOR + 3.75%	Floating rate		28.02.2023
Shareholder loan (Airbus Defence and Space GmbH)	107,419	28.02.2017	6.716%	fixed		28.02.2027
Shareholder loan (Square Lux Finco S.a.r.l.)	320,530	27.02.2017	6.716%	fixed		27.02.2027

In the period from February to July 2017, the Group took up a loan totaling EUR 695 million which is due in December 2024. In addition, there is a credit facility of EUR 150 million of which EUR 15 million was utilized as of December 31, 2017.

To secure the loan ('term loan') the shares in the companies HENSOLDT Sensors GmbH, HENSOLDT Optronics GmbH and Square Holding France S.A.S. were pledged as security.

For the variable interest-bearing loan ('term loan'), interest rate caps and interest rate swaps were concluded in order to hedge the risk resulting from the variable interest charge on the loan. The variable interest charge on the loan is capped at half of the loan for the period until March 2019 and for the period from March 2019 is fully replaced with a fixed interest rate. The loan includes an embedded derivative in the form of a repayment right that and zero-floor clause that must be presented separately. In determining the effective interest rate, the transaction costs are allocated to the host contract.

The total amounts of financial liabilities due in the next five years and thereafter, as of December 31, 2017, amount to:

KEUR	Up to 1 year	Between 1 and 5 years	More than five years	Total
Liabilities to banks	15,024	0	677,084	692,109
Shareholder loan	0	0	437,474	437,474
Dec. 31, 2017	**15,024**	**0**	**1,114,558**	**1,129,582**

The shareholder loan of a nominal EUR 107 million from the minority shareholder Airbus Defence and Space GmbH can be repaid early as part of a call option on company shares of the minority shareholder by the main shareholder Square Lux Holding II S.à.r.l.. The call option can be exercised once the requirements for the complete separation of the HENSOLDT Group from the Airbus Group are met.

31.3. The reconciliation of changes in financial liabilities to cash flows from financing activities

The following shows the cash flows from financing activities in a reconciliation from the opening balances to closing balances for the liabilities and equity components attributable to financing activities including the accompanying financial assets and liabilities from hedges of these financing activities.

			Other non-cash changes					
KEUR	Statement of financial position as of Jan. 1, 2017	Cash flow (net cash changes)	Separation of embedded derivative	Accrued interest	Capitalized interest	Non-cash contri-butions	Changes in fair value	Statement of financial position as of Dec. 31, 2017
Non-current borrowing shareholder loans	0	436,713	0	0	24,694	-23,934	0	437,474
bank loans (net)	0	665,113	10,303	1,668	0	0	0	677,084
Current borrowing	0	15,000	0	24	0	0	0	15,024
Change in financial liabilities due to financing activities	**0**	**1,116,826**	**10,303**	**1,692**	**24,694**	**-23,934**	**0**	**1,129,582**
Capital reserve	27	22,314		0	0	23,934	0	46,275
Change in equity due to financing activities	**27**	**22,314**	**0**	**0**	**0**	**23,934**	**0**	**46,275**
Interest rate swap assets	0	0	0	0	0	0	-2	-2
Interest rate swap liabilities	0	0	0	0	0	0	4,078	4,078
Embedded derivative (asset)	0	0	-10,303	0	0	0	-8,589	-18,892
Change in assets (-) and liabilities (+) to hedge non-current borrowing	**0**	**0**	**-10,303**	**0**	**0**	**0**	**-4,512**	**-14,815**

For non-current borrowing, transaction costs of KEUR 29,887 were deducted.

32. Information on financial instruments

32.1. Financial risk management

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

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

The Group's financial risk management is generally carried out by Corporate Finance in the Group in compliance with the guidelines approved by the Chief Financial Officer.

Further information on risks relating to financial instruments can be found in the risk report of the group management report additionally prepared for the IFRS consolidated financial statements.

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

Market risk

Foreign exchange risk

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

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

The Group's main hedging instrument are **forward exchange transactions**.

To hedge its foreign currency transactions in South Africa, the Group uses the **cash flow hedge model** that requires (i) recognition of the effective portion of the change in fair value of the hedging derivative in equity (under other reserves) and (ii) recognition of the effect of the hedge in profit of loss if the hedged cash flows affect profit or loss.

In the 2017 financial year a gain on foreign currency translation of KEUR 5,726 was recognized in profit or loss.

Sensitivity of foreign exchange risk

The sensitivity analysis approximately quantifies the risk that can occur based on set assumptions if certain parameters are changed to a defined extent. Currency risks pertain in particular to the US dollar (USD), South African rand (ZAR), pound sterling (GBP) and Canadian dollar (CAD).

The following disclosures describe the Group's view of the sensitivity of an increase or decrease in the USD, ZAR, etc., against the EUR. The change is the value used in internal currency risk reporting and represents the Group's estimate of the impact of a potential change in the exchange rate. Currency exposures within the meaning of IFRS 7 result from

financial instruments that are denominated in a currency other than the functional currency and are of a monetary nature. Translation differences from the translation of financial statements of foreign group entities into the Group's currency remain unrecognized. The sensitivity analysis includes the HENSOLDT Group's main financial instruments outstanding on the reporting date.

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

If the euro had appreciated/depreciated by 10% against the USD, ZAR, GBP and CAD as of December 31, 2017, the consolidated profit and other comprehensive income would have changed in the manner shown below:

		Dec. 31, 2017	
KEUR		Consoli-dated income/loss	Other comprehensive income/loss
EUR/GBP	+/- 10%	-/+ 954	0
EUR/ZAR	+/- 10%	+/- 1,923	0
EUR/USD	+/- 10%	+/- 2,458	+/- 1,451
EUR/CAD	+/- 10%	+/- 1,083	0

The changes compared to the reported consolidated profit result mainly from the market valuation of forward exchange transactions with new exchange rates, which are used to hedge planned items and which are not included in any hedging relationship under IAS 39. These changes in the fair value of derivatives are offset against the hedged order backlog. The changes in other comprehensive income result from the market valuation of forward exchange transactions for cash flow hedge accounting.

Interest rate risk

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

Interest rate caps and interest rate swaps were concluded for the variable interest-bearing syndicated loan. The loan also includes an embedded derivative in the form of a repayment right and zero-floor clause that must be presented separately.

The changes in fair values of interest rate derivatives and embedded derivatives are recorded in the consolidated income statement.

Sensitivity of interest rate risk

A change of 50 basis points in interest rates at the reporting date would have increased/ decreased equity and profit or loss by KEUR 2,424. This analysis assumes that all other variables, in particular exchange rates, remain constant.

Liquidity risk

The Group's business policy is to maintain sufficient cash and cash equivalents at all times in order to be able to meet current and future obligations when due. The Group manages its liquidity by retaining a sufficient amount of liquid assets and having additional cash inflows from unused credit facilities (EUR 135 million) on hand.

Adverse developments on capital markets could increase the Group's borrowing costs and limit its financial flexibility. Management monitors the Group's cash reserves as well as expected cash flows from operating activities.

The contract terms of the Group's financial liabilities, based on undiscounted cash flows and including interest payments, where applicable, are as follows:

KEUR	Carrying amount	Contractual cash flows	< 1 year	1 year to 2 years	2 years to 3 years	3 years to 4 years
Non-derivative financial liabilities	1,289,926	1,817,323	198,898	22,947	20,653	21,569
Derivative financial liabilities	5,251	5,251	454	336	233	0
As of Dec. 31, 2017	**1,295,177**	**1,822,574**	**199,352**	**23,283**	**20,886**	**21,569**

KEUR	4 years to 5 years	> 5 years
Non-derivative financial liabilities	20,597	1,532,658
Derivative financial liabilities	4,228	0
As of Dec. 31, 2017	**24,825**	**1,532,658**

The non-derivative financial liabilities included in the above table include financial liabilities as presented in the tables to note 32.2 'Carrying amounts and fair values of financial instruments'.

Besides the commercial opportunities from additional margins and cost savings realized, the HENSOLDT Group's main risks relate primarily to compliance with the financial covenants agreed with banks in the context of corporate financing.

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

For short-term liquidity management, Group-wide rolling liquidity planning, updated weekly, is used and this constitutes the operative instrument for short-term liquidity management of the HENSOLDT Group.

Materialization of the risk of non-compliance with the financial covenants could lead to a going concern risk for the HENSOLDT Group if no alternative funding were to be available from other banks or our shareholders at the time when the liabilities to banks fall due.

The probability of occurrence of the risk of non-compliance with the financial covenant is considered low. The Group's liquidity is ensured at all times via a revolving credit facility.

Credit risk

The Group is exposed to a credit risk from non-fulfillment of financial instruments, either by customers or counterparties to the financial instruments. However, the Group prepared guidelines in order to avoid the concentration of credit risks and to ensure that the credit risk remains limited.

Where activities of the central treasury department are affected, the credit risk resulting from financial instruments is managed at Group level. In order to ensure sufficient diversification, a credit limit system is used.

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

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

The amount of the financial assets recognized represents the maximum credit exposure.

The following tables shows a breakdown of Group receivables; those that are impaired are renegotiated and those past due are presented separately:

KEUR	Dec. 31, 2017
Receivables, neither past due nor impaired	250,109
Receivables not impaired and ≤ 1 month past due	36,394
Receivables not impaired and >1 and ≤ 2 months past due	8,565
Receivables not impaired and >2 and ≤ 3 months past due	6,332
Receivables not impaired and >3 and ≤ 6 months past due	9,144
Receivables not impaired and >6 months past due	34,481
Specifically impaired receivables	2,630
	347,656
from: specific impairment allowances	-2,630
Total	**345,026**

Based on the historical payment history and analysis of customer credit risk, including the credit ratings of customers where available, management is of the opinion that past due amounts not impaired are still collectible.

At year-end there were no indications that impairments are necessary for financial assets recognized at fair value that go beyond the amounts already recognized (see Section 18).

32.2. Carrying amounts and fair values of financial instruments

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

Within the Group, only derivatives that do not serve hedging purposes are classified as 'held for trading'.

The Group groups its financial instruments into classes on the basis of accounting categories. The following table includes the carrying amounts and fair values of financial instruments according to class and IAS 39 valuation category as of December 31:

KEUR Dec. 31, 2016	IAS 39 category	Carrying amount	Fair value	Level
Assets				
Other investments and other non-current financial assets	FVTOCI	2	2	2
Total financial assets		2	2	
Liabilities				
Trade payables	FLAC	29,501	29,501	2
Total financial liabilities		**29,501**	**29,501**	

KEUR Dec. 31, 2017	IAS 39 category	Carrying amount	Fair value	Level
Assets				
Investments accounted for using the equity method	FVTOCI	63	63	2
Other investments and other non-current financial assets	FVTOCI	5,143	5,143	2
Trade receivables	LaR	345,026	345,026	2
Other financial assets				
■ Derivative instruments for cash flow hedges	FVTOCI	8,904	8,904	2
■ Other derivative instruments	FVTPL	20,281	20,281	2
■ Non-derivative instruments	FVTPL	1,028	1,028	2
Total financial assets		380,445	380,445	
Liabilities				
Financing liabilities				
■ Liabilities to shareholders	FLAC	437,474	449,237	2
■ Liabilities to banks	FLAC	692,109	714,139	2
Trade payables	FLAC	146,562	146,562	2
Other financial liabilities				
■ Derivative instruments for cash flow hedges	FVTOCI	170	170	2
■ Other derivative instruments	FVTPL	5,081	5,081	2
■ Liability from put option	no category	972	972	2
■ Other	FLAC	12,809	12,809	2
Total financial liabilities		**1,295,177**	**1,328,970**	

LaR: Loans and Receivables
FLAC: Financial liabilities measured at amortized cost
FVTPL: Fair value through profit or loss
FVTOCI: Fair value through other comprehensive income

There are put options in favor of the minority shareholder of GEW Technologies (Pty) Ltd. (see Section 29.2 Non-controlling interests).

32.3. Nominal value of derivative financial instruments

The following listed contract volumes or the nominal value of derivative financial instruments do not necessarily show the amount exchanged by the parties and are therefore not a measure of the risk the Group is exposed to due to the derivative financial instruments.

The nominal value of derivative interest and foreign currency financial instruments are broken down according to the year of expected maturity as follows:

	Remaining term nominal amounts		
KEUR	less than 1 year	more than 1 year	Total
Interest rate futures (swaps)	0	695,000	695,000
Interest rate futures (caps)	0	351,250	351,250
Interest rate futures (component of embedded derivative)	0	695,000	695,000
Forward exchange transactions	126,479	28,624	155,104

32.4. Derivative financial instruments and disclosures on hedge accounting

Derivative instruments in the presentation of the Group's financial position consist of (i) instruments recorded as hedging operating Group activities against foreign exchange risks or hedging the interest result, and (ii) embedded interest rate derivatives that result from the separation of the interest rate portion and the call options of certain loan agreements and (iii) put options for the repurchase of shares of external shareholders.

The development of hedging instruments for foreign exchange risks recorded in other comprehensive income as of December 31, 2017, was as follows:

KEUR	Equity attributable to owners of the parent company	Non-controlling interests	Total
As of Jan. 1, 2017	0	0	0
Unrealized valuation gains (+) and losses (-)	-4,190	-302	-4,491
Reclassification to consolidated income/loss	2,484	179	2,663
Deferred taxes on unrealized valuation gains	1,173	85	1,258
As of Dec. 31, 2017	**-533**	**-38**	**-571**

In connection with trade with international customers and suppliers, forward exchange transactions were concluded to manage the currency risk.

In 2017 an amount of KEUR 5,914 from cash flow hedges due was reclassified from equity primarily to revenue. There were no material inefficiencies from hedging relationships.

The fair values corresponding to the carrying amounts of various types of financial instruments were as following as of December 31, 2017:

KEUR	Assets	Liabilities
Foreign exchange contracts - Cash flow hedges	8,904	170
Foreign exchange contracts - not designated in a hedging relationship	1,388	1,003
Interest rate futures - component of embedded derivative	18,892	0
Interest rate futures - not designated in a hedging relationship	2	4,078
Liability from put options	0	972
Total	**29,186**	**6,223**

32.5. Net gains or net losses

The following net gains or net losses were recognized in profit or loss in 2017.

KEUR	2017
Loans and receivables	2,965
Financial liabilities measured at amortized cost	-473
Net gains or net losses	**2,492**

Interest income from financial assets and financial liabilities measured at fair value through profit or loss are included in the net gains or net losses.

32.6. Impairment losses

The following impairment losses on financial assets were recognized in profit or loss in 2017:

	2017
Loans and receivables	1,023
Available-for-sale financial assets	774
Total	**1,797**

VII. Additional comments

33. Auditor's fee and services

The HENSOLDT Group, its subsidiaries and other companies included in the consolidated financial statements recognized the following expenses for the fees and services of KPMG AG for the 2017 financial year:

KEUR	Parent company	Subsidiary	Total
Audit services	192	519	711
Other assurance services	0	0	0
Tax advisory services	0	317	317
Other services	0	360	360
Total	**192**	**1,197**	**1,389**

34. Events after the reporting date

Due to new agreements with the banking consortium, the covenants for the syndicated loan are to be adjusted in favor of the HENSOLDT Group from 2018.

No other significant events have occurred subsequent to the reporting date.

35. Operating leases

The Group leases a range of offices and production areas as well as laboratories (including also combined leases of land and buildings) under operating leases. The leases typically run for a non-cancellable minimum term of lease of more than ten years, with an option to renew the lease after that date. The leases were largely assumed from the Airbus group and partially adjusted in this regard. The rent paid to the lessor is adjusted at regular intervals and the HENSOLDT Group does not participate in the residual value of land and buildings. For certain operating leases the Group requires the approval of the lessor to sublet.

Leased real estate is partially sublet by the HENSOLDT Group. Both the lease and sublease run until 2029. Income from subleases of KEUR 1,798 is expected.

In addition to leases for office and production areas and laboratories, the HENSOLDT Group mainly leases vehicles, office equipment as well as technical machinery.

As of December 31, the future minimum lease payments from leases are:

KEUR	Dec. 31, 2017	Dec. 31, 2016
Less than one year	20,419	0
between one and five years	34,626	0
more than five years	4,961	0
Total	**60,007**	**0**

Of this, future minimum lease payments from leases concern related parties in the amount of KEUR 43,949.

The amounts recognized in the financial year in the consolidated income statement are set out in the following table:

KEUR	Dec. 31, 2017	Dec. 31, 2016
Leasing expense	22,405	0
Expense for contingent lease payments	21	0
Income from subleases	-16	0
Total	**22,410**	**0**

36. Future payment obligations

As a result of contribution obligations to companies with which there is an indirect participating interest, HENSOLDT has payment obligations of KEUR 6,138.

Purchase commitments amounted to KEUR 246,389 as of December 31, 2017 (PY: KEUR 0).

The following auditor's report, prepared in accordance with § 322 HGB"Handelsgesetzbuch"; "German Commercial Code", refers to the complete financial statements, comprising of statement of financial position, statement of profit and loss and notes to the annual financial statements of HENSOLDT Holding GmbH, together with the management report of HENSOLDT Holding GmbH for the financial year from 1 January to 31 December 2017. The management report is not included in this prospectus. The above-mentioned auditor's report and consolidated financial statements are both translations of the respective German-language documents.

Auditor's report

We have audited the consolidated financial statements prepared by HENSOLDT Holding GmbH, Taufkirchen, District of Munich, comprising the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity, the notes to the consolidated financial statements, and the Group management report, for the financial year from January 1 to December 31, 2017. The preparation of the consolidated financial statements and the Group management report in accordance with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) of the German Commercial Code [HGB] are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and the Group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with Section 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the German Institute of Public Auditors [IDW]. Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the Group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the Group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used, and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and Group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB, and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The Group management report is consistent with the consolidated financial

statements, complies with the German statutory requirements, and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Munich, March 9, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft
(Original German version signed by:)

Leistner	Peschel
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

HENSOLDT GmbH

(until November 11, 2019 Blitz 19-320 GmbH)

Taufkirchen, District of Munich, Germany

(until November 11, 2019 Munich)

Annual financial statements

for the short financial year

from

October 16 to December 31, 2019

Balance sheet

ASSETS

KEUR	Dec. 31, 2019	Oct. 16, 2019
A. Fixed assets		
Financial assets	1,650,000	0
	1,650,000	**0**
B. Current assets		
Cash and cash equivalents	25	25
	25	**25**
Total assets	**1,650,025**	**25**

EQUITY AND LIABILITIES

KEUR	Dec. 31, 2019	Oct. 16, 2019
A. Equity		
I. Share capital	10,000	25
II. Capital reserve	1,640,025	0
III. Net loss for the financial year	-290	0
	1,649,735	**25**
B. Provisions	**289**	**0**
C. Liabilities	**1**	**0**
Total equity and liabilities	**1,650,025**	**25**

Income statement

KEUR	Oct. 16, - Dec. 31, 2019
1. Other operating expenses	-290
2. Income taxes	0
3. Loss after taxes	**-290**
4. Net loss	**-290**

Notes to the financial statements

I. Basis of preparation of the financial statements

HENSOLDT GmbH, Taufkirchen, Munich District Court (until November 11, 2019: Blitz 19-320 GmbH, Munich) was founded by agreement as of September 17, 2019 and entered in the commercial register under HRB 252143 on October 16, 2019.

The first annual financial statements of HENSOLDT GmbH for the short financial year from October 16 to December 31, 2019 were prepared pursuant to Sections 242 et seqq. and 264 et seqq. of the German Commercial Code (HGB) and the relevant regulations of the German Limited Liability Companies Act (GmbHG). The Company falls under the regulations for small limited liability companies. In the balance sheet the previous year's column show the opening balance sheet values as of October 16, 2019.

The applicable valuation provisions in accordance with German commercial law have been observed taking into account the going concern principle.

The annual financial statements are presented in euro.

The income statement was prepared using the cost of sales method.

Partial use has been made of the practical expedient and exemption rules of Sections 266 (1) sentence 3, 274a and 288 (1) HGB.

Accounting and Valuation

The financial statements were prepared using the accounting and valuation methods described below.

Shares in affiliated companies are measured at cost or, in the case of an expected permanent impairment, at their lower fair value.

The shares in HENSOLDT Holding GmbH contributed during the financial year as part of the non-cash capital increase were contributed at fair value; these are regarded as acquisition cost.

Cash and cash equivalents are recognized at nominal value.

Other provisions take account of all contingent liabilities and are recognized at the settlement amount deemed necessary according to prudent commercial judgment by taking account of anticipated future price and cost increases.

Liabilities are presented at their settlement amount.

II. Explanatory notes on the balance sheet

Financial assets

Financial assets amount to KEUR 1.650.000 and include the investment in the subsidiary HENSOLDT Holding GmbH.

Cash and Cash equivalents

Cash and Cash equivalents include bank deposits.

Equity

The company was founded on September 17, 2019 with a share capital of KEUR 25.

With the contribution agreement dated November 29, 2019, all shares in HENSOLDT Holding GmbH were contributed to increase the share capital of HENSOLDT GmbH from KEUR 25 to KEUR 10,000. The contribution was made at fair value. As of December 5, 2019, the increase in share capital was entered in the commercial register.

The amount exceeding the share capital in the amount of KEUR 1,640,025 was transferred to the capital reserve.

The net loss for the short fiscal year from October 16 to December 31, 2019 is KEUR 290.

Other accruals

Other accruals relate to audit fees.

Other liabilities

Other liabilities fall due within one year.

IV. Explanatory notes on the income statement

Personnel expenses/number of employees

HENSOLDT GmbH did not employ any staff during the financial year.

Other operating expenses

Other operating expenses include expenses for the audit of the single and consolidated financial statement.

V. Other disclosures

Management

Members of management during the financial year included:

- Müller, Thomas (Munich), Chief Executive Officer of HENSOLDT Group, as of November 11, 2019
- Salzmann, Axel Albert Hans (Großhansdorf), Chief Financial Officer of HENSOLDT Group, as of November 11, 2019
- Fieser, Peter (Warthausen), Chief Human Resources Officer of HENSOLDT Group, as of November 11, 2019
- Gogolla, Katja (Munich), Managing director, until of November 11, 2019
- Selnes, Randi Mette (Munich), Managing director, until of November 11, 2019

The company is represented by two members of the management or by a member of the management together with an authorized representative.

Parent company

HENSOLDT GmbH, Taufkirchen, as the ultimate German parent company in accordance with Section 290 HGB, prepares consolidated financial statements in accordance with Section 315e (3) HGB in accordance with IFRS, as approved in the European Union. HENSOLDT GmbH including its major subsidiaries are included in the consolidated financial statements of HENSOLDT GmbH.

Until November 29, 2019, HENSOLDT Holding GmbH was the ultimate parent company of the HENSOLDT Group and had prepared in previous years consolidated financial statements fully in accordance with IFRS.

The consolidated financial statements are published together with the group management report in the German Federal Gazette (Bundesanzeiger) and filed with the Commercial Register in Munich in the German language under number HRB 252143.

Taufkirchen, March 02,

HENSOLDT GmbH

Management

Thomas Müller	Axel Salzmann	Peter Fieser

The following auditor's report, prepared in accordance with § 322 HGB"Handelsgesetzbuch"; "German Commercial Code", refers to the complete financial statements, comprising of statement of financial position, statement of profit and loss and notes to the annual financial statements of HENSOLDT GmbH. The above-mentioned auditor's report and consolidated financial statements are both translations of the respective German-language documents.

Independent Auditor's Report

To HENSOLDT GmbH, Taufkirchen, Munich Landkreis
(until 11 November 2019: Blitz 19-320 GmbH, Munich)

Opinion

We have audited the annual financial statements of HENSOLDT GmbH, Taufkirchen, District of Munich, which comprise the balance sheet as of December 31, 2019, and the income statement for the short period from October 16 to December 31, 2019, and notes to the financial statements, including the recognition and measurement policies presented therein.

In our opinion, on the basis of the knowledge obtained in the audit, the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to corporations and give a true and fair view of the assets, liabilities and financial position of the Company as of December 31, 2019 and of its financial performance for the short period from 16 October to December 31, 2019, in compliance with German Legally Required Accounting Principles.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements.

Basis for the Opinion

We conducted our audit of the annual financial statements in accordance with Section 317 HGB and the German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Annual Financial Statements" section of our auditor's report. We are independent of the Company in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements.

Responsibilities of Management for the Annual Financial Statements

Management is responsible for the preparation of annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to corporations, and that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Auditor's Responsibilities for the Audit of the Annual Financial Statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements as a whole are free from material misstatement, whether due to fraud or error, as well as to issue an auditor's report that includes our opinions on the annual financial statements.

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

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

– identify and assess the risks of material misstatement of the annual financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

– obtain an understanding of internal control relevant to the audit of the annual financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

– evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

– conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.

– evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Munich, March 2, 2020

KPMG AG
Wirtschaftsprüfungsgesellschaft

Leistner	Peschel
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

20. RECENT DEVELOPMENTS AND OUTLOOK

20.1. Recent Developments

20.1.1. Operative Developments

Our business has not been materially impacted by the effects of the Covid-19 pandemic so far. Besides some delays and shifts in project timing, we have not experienced any formal cancellations of major orders from defense customers or other material effects on our Order Backlog or future opportunities in the defense sector due to the pandemic.

In July 2020, the German Bundestag approved a budget of approximately EUR 75 million for the reservation of three Global 6000 jets as part of the Pegasus project (source: Reuters Pegasus Article), and we signed a corresponding contract for the procurement of the three jets shortly thereafter, which contributed to a significant increase of our purchase commitments. On this basis, and given that we have been designated as lead contractor for the program (source: German Government's Response; Reuters Pegasus Article), we believe we are well positioned to receive the main project contract, expected in the first half of 2021 (source: June 2020 BMVg Report), at an estimated value of approximately EUR 1 billion (a majority share of which is expected to be pass-through business, see also "*10.6.6.1.3. Pegasus*".

20.1.2. New Facilities Agreement

On September 7, 2020, the Company entered into the New Facilities Agreement, pursuant to which the New Term Loan Facility in the amount of EUR 600 million and the New Revolving Credit Facility in the amount of EUR 350 million will be made available to the Company and certain of its subsidiaries subject to certain conditions, including the admission of the Company's shares on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*).

The New Term Loan Facility and the New Revolving Credit Facility may be utilized by way of loans for the purpose of (directly or indirectly) financing or refinancing the general corporate purposes and working capital requirements of the Group. The New Revolving Credit Facility may also be utilized by way of ancillary facilities and bank guarantees provided by the lenders of the New Revolving Credit Facility. See "*10.20.1.1. Post-IPO Financing Agreements*".

20.1.3. Share Capital Increases and Change in Legal Form

On August 4, 2020, the shareholders' meeting of the Company resolved to increase the Company's share capital from EUR 10,000,000.00 by EUR 70,000,000.00 to EUR 80,000,000.00 from the Company's reserves. The change was registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Munich, Germany on August 6, 2020.

On August 11, 2020, the shareholders' meeting of the Company resolved to change the Company's legal form to a German stock corporation (*Aktiengesellschaft*) under the legal name HENSOLDT AG. The changes in legal form and name were registered with the commercial register (*Handelsregister*) of the local court (*Amtsgericht*) of Munich, Germany on August 17, 2020 under registration number HRB 258711.

On September 3, 2020, the shareholders' meeting of the Company resolved to increase the Company's share capital from EUR 80,000,000.00 by up to EUR 80,000,000.00 to up to EUR 160,000,000.00 against cash contributions through the issuance of up to 80,000,000 ordinary bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*), each representing a proportionate amount of the share capital of EUR 1.00, for purposes of the issuance of the Primary Base Shares to be placed in connection with the Offering, excluding the existing shareholders' subscription rights. The capital increase was registered with the commercial register (*Handelsregister*) on September 10, 2020. On the basis of such resolution of the extraordinary shareholders' meeting of the Company, on September 24, 2020, the Management Board and the Supervisory Board are expected to resolve on the number of Primary Base Shares to be issued. The implementation of the capital increase regarding the Primary Base Shares to be issued is expected to be registered with the commercial register (*Handelsregister*) on or around September 24, 2020. See also "*14.2. Development of the Share Capital since Incorporation*".

20.2. Outlook

At present the outlook for the markets in which we operate remains positive. While the Covid-19 pandemic has affected all key economies worldwide and disrupted public life and the operations of multiple businesses, we have so far seen no significant short- to medium-term negative effect on the forecast of the Global Defense Market, and the Global Defense Electronics Market in particular, nor on our business prospects. In fact, the economic impacts of the Covid-19 pandemic have caused some countries like Germany to announce stimulus packages of funds intended to acquire defense equipment and ensure the reliability and viability of their national defense supply chains (source: RSAdivsors Study). Overall, the Global Defense Electronics Market is expected to grow at a CAGR of approximately 4% from 2019 to 2024E due to its critical role in responding to the current and projected threat environment, via both upgrades to the large installed base of legacy platforms and embedded critical enablers in new start programs and systems (source: RSAdvisors Study). The Accessible Defense Electronics Market is forecast to grow at a CAGR of approximately 6% from 2019 to 2024E, driven by, among other things, a "catch-up" effect in defense spending in Germany in order to match constantly evolving and increasing requirements for modern armed forces and multi-national European programs (source: RSAdvisors Study).

Against this background, we believe we are well positioned to benefit from growth prospects in the markets in which we are active underpinned by (i) our strong Order Backlog, (ii) further expected orders and our significant short- to medium-term pipeline of potential opportunities, and (iii) the long-term opportunities created by the development of European next-generation platforms and the ongoing growth cycle in the defense industry, as described in "*8.3. Key Factors Affecting Our Results of Operations and Financial Condition*" and "*10.2. Our Strengths*". In the short term, we expect our revenue to increase: in 2020, to more than EUR 1.15 billion and, in 2021, further to a range of approximately EUR 1.4 billion to EUR 1.6 billion. Thereafter, we expect an annual growth rate in the mid teens percentage area for 2022, and, in the medium term, in a mid- to high single digit percentage range. Based on a management estimate, we believe that based on the expected conversion of our Order Backlog and further expected orders into revenue, as well as our expected short-cycle and aftersales business (which is reflected in our Order Backlog only to a limited extent due to the fast throughput), our remaining 2020 targeted revenue is essentially covered, our 2021 targeted revenue is approximately 95% covered, and our 2022 and 2023 targeted revenue is more than approximately 70% covered.

Regarding our Adjusted EBITDA Margin, we expect our revenue to include higher volumes of pass-through business (approximately EUR 100 million in 2021 and thereafter approximately EUR 150 million in the short term), impacting our profitability margins. Excluding the pass-through business, we expect a slight decline in our Adjusted EBITDA Margin to around 18% starting in the second half 2020 and continuing into 2021, with effects from the early stages of major projects in the short term. In the medium term, we expect a recovery to approximately 2019 levels.

All the foregoing financial expectations and targets are, in particular, based on the assumption of constant foreign exchange rates, no significant changes to the Group structure, due to future M&A activities or otherwise, no significant non-recurring effects (save for effects on earnings from purchase price allocations) in the medium term, as well as on the assumption of the developments of the Global Defense Market, Global Defense Electronics Market, and Accessible Defense Electronics Market as outlined above and in "*2.3. Forward-Looking Statements*" and "*9. Markets and Competitive Environment*". In addition, the expectations and targets do not take into account any future and yet unknown effects of the Covid-19 pandemic, in particular in the event of a "second wave" or further "waves" in European and other countries. Certain statements in this section, including, in particular the expectations and targets described above, constitute forward-looking statements. These forward-looking statements are not guarantees of future financial performance, and our actual results could differ materially from those expressed or implied by these forward-looking statements as a result of many factors, including but not limited to those described under "*2.3. Forward-Looking Statements*" and "*1. Risk Factors*".

21. GLOSSARY

Term	Meaning
Accessible Defense Electronics Market	Part of the Addressable Defense Electronics Market that relates to highly accessible regions, excluding non-accessible markets, such as Russia, China, and Iran, as well as certain less accessible markets and markets with a lower market presence due to barriers that prevent full access to that market, such as the United States, Japan, Turkey, Israel, and Italy
Accessible Non-Defense Market	The portions of the markets for (i) aircraft avionics, (ii) civil ATC systems, (iii) border security systems, and (iv) counter-UAV systems, excluding non-accessible and certain less accessible markets as well as markets with a low market presence, and further excluding certain niche market in which we have no presence
Acquisition Offer	A public offer directed at all shareholders or a public solicitation to submit offers to acquire shares of the Company
Additional Base Shares	6,500,000 existing bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) from the holdings of the Selling Shareholder, subject to the exercise of an upsize option by the Selling Shareholder (in part or in full) on the date of pricing
Additional Shares	The Over-Allotment Shares together with the Additional Base Shares
Addressable Defense Electronics Market	Part of the Global Defense Electronics Market for which the Group provides products and services
ADS	Airbus Defence and Space GmbH
AESA	Active electronically scanned array
AI	Artificial intelligence
AL	The German Export List (*Ausfuhrliste*)
APMs	Alternative performance measures within the meaning of the ESMA Guidelines
Articles of Association	The Company's articles of association
ASR	Aerodrome surveillance radar
ATC	Air traffic control
Audit Committee	An audit committee (*Prüfungsausschuss*) formed by the Supervisory Board pursuant to the Articles of Association
Audited Consolidated Financial Statements	The Audited Consolidated Financial Statements 2017 together with the Audited Consolidated Financial Statements 2018 and the Audited Consolidated Financial Statements 2019
Audited Consolidated Financial Statements 2017	The audited consolidated financial statements prepared by HENSOLDT Holding GmbH in accordance with IFRS as of and for the financial year ended December 31, 2017
Audited Consolidated Financial Statements 2018	The audited consolidated financial statements prepared by HENSOLDT Holding GmbH in accordance with IFRS as of and for the financial year ended December 31, 2018

Audited Consolidated Financial Statements 2019	The audited consolidated financial statements prepared by HENSOLDT AG (at that time still HENSOLDT GmbH) in accordance with IFRS as of and for the financial year ended December 31, 2019
Audited Financial Statements	The Audited Unconsolidated Financial Statements together with the Audited Consolidated Financial Statements
Audited Unconsolidated Financial Statements	The audited unconsolidated financial statements prepared by the Company in accordance with the German Commercial Code (*Handelsgesetzbuch*) as of and for the financial year ended December 31, 2019
Authorized Capital	The Company's authorized capital pursuant to Section 4(3) of the Articles of Association in conjunction with Sections 202 et seqq. of the German Stock Corporation Act (*Aktiengesetz*)
BAAINBw	The Federal Office of Bundeswehr Equipment, Information Technology and In-Service Support (*Bundesamt für Ausrüstung, Informationstechnik und Nutzung der Bundeswehr*)
BAFA	The Federal Office for Economic Affairs and Export Control (*Bundesamt für Wirtschaft und Ausfuhrkontrolle*)
BaFin	The German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*)
Base Shares	The Primary Base Shares and the Secondary Base Shares
BMWi	The German Federal Ministry of Economic Affairs and Energy (*Bundesministerium für Wirtschaft und Energie*)
BofA Securities	Merrill Lynch International with its registered seat at 2 King Edward Street, London EC1A 1HQ, United Kingdom, LEI GGDZP1UYGU9STUHRDP48
Bonds	Bearer or registered convertible bonds and option bonds, participation rights and participating bonds or combinations of these instruments
Book-to-bill ratio	The ratio of Order Intake to revenue in any given period
C2	Command-and-control
C2/BM	Command-and-control and battlefield management
C4I	Command, control, communications, computers, and iIntelligence
C4ISR	Command, control, communications, computers, intelligence, surveillance, and reconnaissance
Cambridge Global Risk Index 2019	The Cambridge Global Risk Index 2019 – Executive Summary by University of Cambridge Judge Business School, Cambridge Center of Risk Studies
Captor-E	An AESA radar developed for the future Eurofighter jet common radar system
CDDD	The counterparty due diligence directive
CHRO	Chief Human Resources Officer
Citigroup	Citigroup Global Markets Limited with its registered seat at Citigroup Centre, Canada Square, London E145LB, United Kingdom, LEI XKZZ2JZF41MRHTR1V493

Clearstream Banking AG	Clearstream Banking Aktiengesellschaft, Mergenthalerallee 61, 65760 Eschborn, Germany
Code	The German Corporate Governance Code (*Deutscher Corporate Governance Kodex*), which was adopted by a governmental commission on the German Corporate Governance Code on February 26, 2002 and currently applies in the version dated December 16, 2019
COMINT	Communications intelligence
COMMERZBANK	COMMERZBANK Aktiengesellschaft with its registered seat at Kaiserstraße 16 (Kaiserplatz), 60311 Frankfurt am Main, Germany, LEI 851WYGNLUQLFZBSYGB56
COMMS	Data Communications
Company	HENSOLDT AG, a German stock corporation (*Aktiengesellschaft*) with its registered seat in Taufkirchen, Germany and its business address at Willy-Messerschmitt-Straße 3, 82024 Taufkirchen, Germany, registered with the commercial register (*Handelsregister*) of the local court (Amtsgericht) of Munich, Germany, under HRB 258711, LEI 894500686FYLLZD3M624
Compliance Committee	A compliance committee (*Complianceausschuss*) formed by the Supervisory Board pursuant to the Articles of Association.
Conditional Capital	The Company's conditional capital pursuant to Section 4(4) of the Articles of Association in conjunction with Sections 192 et seqq. of the German Stock Corporation Act (*Aktiengesetz*).
Cost Sharing and Indemnity Agreement	The cost sharing and indemnity agreement regarding the allocation of costs and liability in connection with the Offering entered into between the Selling Shareholder and the Company on September 15, 2020
Coverage ratio	The ratio of Order Backlog as of any given time to revenue in the last twelve months
Covid-19	Coronavirus SARS-CoV-2
CPECs	Interest-bearing convertible equity certificates
CTAs	Contractual trust arrangements
D&O	Directors and officers
DB	Deutsche Bank Aktiengesellschaft with its registered seat at Taunusanlage 12, 60325 Frankfurt am Main, Germany, LEI 7LTWFZYICNSX8D621K86
Dividend Paying Agent	The following entities (where applicable), where the shares of the Company are admitted for collective custody by a central securities depository, for the purpose of passing on withholding tax for the account of the shareholders: (i) the domestic credit or financial services institution (*inländisches Kredit- oder Finanzdienstleistungsinstitut*) (including domestic branches of such foreign enterprises), by the domestic securities trading company (*inländisches Wertpapierhandelsunternehmen*), or by the domestic

	securities trading bank (*inländische Wertpapierhandelsbank*) which keeps or administers the shares and disburses or credits the dividends to the shareholder or disburses the dividends to a foreign agent, (ii) the central securities depository (*Wertpapiersammelbank*) to which the shares were entrusted for collective custody if the dividends are disbursed to a foreign agent by such central securities depository (*Wertpapiersammelbank*), or (iii) the Company itself if and to the extent shares held in collective custody (*Sammelverwahrung*) by the central securities depository (*Wertpapiersammelbank*) are treated as so-called "*abgesetzte Bestände*"(stock being held separately)
DoD	The U.S. Department of Defense
Domestic Paying Agent	A domestic credit or financial services institution, domestic securities trading company or a domestic securities trading bank, including domestic branches of foreign credit institutions or financial service institutions administering or holding the Shares or subscriptions rights in custody, or if such an office executes the disposal of the shares or subscription rights and pays out or credits the capital gains
Draft Directive	A proposal for a Council Directive adopted by the EU Commission on February 14, 2013 on a common financial transactions tax
dual-use items	Products, services and technologies designed for non-military purposes but which are utilized in military applications or can contribute to the proliferation of weapons of mass destruction
Dual-Use Regulation	European Council Regulation No. 428/2009 of May 5, 2009 setting up a Community regime for the control of exports, brokering and transit of dual-use items
EBIT	Earnings before finance result and income tax
ECRS Mk1	Eurofighter Common Radar System Mk1
EEA	European Economic Area
ELINT	Electronic intelligence
EMC	Electromagnetic compatibility
ESMA	European Securities and Markets Authority.
ESMA Guidelines	The Guidelines published by ESMA on October 5, 2015
EU Budget Proposal	The EU Budget Powering the Recovery Plan For Europe, dated May 27, 2020, COM(2020) 442 final
EuroAvionics business	The EuroAvionics Group
EuroAvionics Group	EuroAvionics GmbH together with its direct and indirect subsidiaries
Executives	Persons discharging managerial responsibilities
Facility Agent	Wilmington Trust (London) Limited

FCAS	Future Combat Air System
FCMS	Future Combat Mission System
financial year 2016 / 2016	The financial year ended December 31, 2016
financial year 2017 / 2017	The financial year ended December 31, 2017
financial year 2018 / 2018	The financial year ended December 31, 2018
financial year 2019 / 2019	The financial year ended December 31, 2019
first half 2019	The six-month period ended June 30, 2019
first half 2020	The six-month period ended June 30, 2020
First Utilization Date	The date of first drawdown under the New Term Loan Facility
FMS	Foreign Military Sales program of the DoD
FTT	A common financial transaction tax
GaN	Gallium nitride
GDP	Gross domestic product
GDPR	Regulation (EU) 2016/679 (General Data Protection Regulation)
German Defense Electronics Market	The total defense spending by the German government and government agencies across all domains (air, land, naval, space, and service) for electronic component in the sub-segments of (i) sensors and effectors including acoustics, communications, radar, electronic warfare, optronics, as well as (ii) processing and control systems including avionics and vectronics (*i.e.*, computing systems that perform guidance, control, and processing in support of core platform functions), and command and control and battlefield management systems (C2/BM)
German Defense Market	The total defense spending by the German government and government agencies across all domains (air, land, naval, space, and service) for the following accounts, procurement, R&D (procurement and R&D, together equipment),operations and maintenance, personnel and construction
German Government's 2020 Strategy Paper	*Strategiepapier der Bundesregierung zur Stärkung der Sicherheits- und Verteidigungsindustrie*, published February 14, 2020
German Government's Response	*Antwort der Bundesregierung auf die Kleine Anfrage der Abgeordneten Andrej Hunko, u. a. sowie der Fraktion DIE LINKE vom 31. März 2020*, dated May 7, 2020
Germany	Federal Republic of Germany
Global Defense Electronics Market	The total defense spend by governments (including supranational organizations) and government agencies across all domains (air, land, sea, space, and services) for defense electronic components in the sub-segments of (i) sensors and effectors including acoustics, communications, radar, electronic warfare, optronics, as well as (ii) processing and control systems, including avionics and vectronics (*i.e.*, computing systems that perform guidance, control, and processing in support of core platform functions), and C2/BM systems in all regional markets, excluding Russia, China, Iran, the Democratic People's Republic of Korea, Syria, Libya, and Venezuela

Global Defense Equipment Market	The defense equipment segment within the Global Defense Market, which includes designing, developing, manufacturing, marketing, selling, and servicing of equipment, and excludes, for example, spending on military operations and maintenance of equipment, salaries of military personnel (including healthcare, pensions, and hardship payments), as well as funding for the construction of new and maintenance of existing military facilities
Global Defense Market	The total defense spending by governments (including supranational organizations) and government agencies across all domains (air, land, sea, space, and services) and for the accounts, procurement, R&D, (procurement and R&D, collectively referred to as equipment), operations and maintenance, personnel and construction in all regional markets, excluding Russia, China, Iran, the Democratic People's Republic of Korea, Syria, Libya, and Venezuela
Greenshoe Option	An option granted to the Underwriters – and exercisable by the Stabilization Manager within 30 calendar days after the commencement of the trading of shares on the stock exchange – by the Selling Shareholder whereby the Underwriters may choose to acquire all or part of the allotted Over-Allotment Shares against payment of the Offer price less agreed commissions in order to satisfy the retransfer obligation under the securities loan (i.e. the Over-Allotment)
Greenshoe Shares	The Over-Allotment Shares purchased by the Underwriters pursuant to the exercising of the Greenshoe Option by the Stabilization Manager
Group	The Company, together with its consolidated subsidiaries; for the time period before the contribution of all shares held by the Selling Shareholder in HENSOLDT Holding GmbH, previously the parent company of the Group, to the Company, the terms "**Group**", "**we**", "**our**", and "**us**" refer to HENSOLDT Holding GmbH together with its consolidated subsidiaries
GSSA	The agreement among the Company and certain other Group entities, among others, with the Federal Republic of Germany to protect the security interests of the Federal Republic of Germany with respect to HENSOLDT (as amended and updated from time to time) (German State Special Security Agreement)
GSSA 2017	The GSSA in the version dated February 23, 2017 (as amended and updated from time to time)
GSSA 2020	The GSSA in the version dated September 9, 2020
HENSOLDT Australia business	The acquisition and consolidation of 100% of the shares in IE Asia-Pacific Pty Ltd (today, HENSOLDT Australia Pty Ltd) with effect from October 1, 2019
HENSOLDT France business	The acquisition of 100% of the shares of HENSOLDT France S.A.S. (formerly Airbus DS Electronics and Border Security S.A.S. from Airbus Defence and Space S.A.S. with effect from April 26, 2018
Holders	The holders or creditors of option bonds, option participation rights, or option participating bonds
IFF	Identification Friend or Foe
IFRS	International Financial Reporting Standards as applicable in the European Union

IFRS 15 effects	The effects of applying IFRS 15 – Revenue from Contracts with Customers as of January 1, 2018, whereby we applied the modified retrospective method (without practical expedients), whereby (i) the cumulative adjustment amounts are recognized under adjustments to retained earnings in the opening statement of financial position as of January 1, 2018, (ii) comparative information for 2017 was not adjusted, (iii) the comparative information was presented as before pursuant to IAS 18, IAS 11 and the corresponding interpretations thereof, and (iv) the disclosure requirements pursuant to IFRS 15 have generally not been applied to the comparative information
IP	Intellectual property
IPO Committee	The IPO committee established by the Supervisory Board in connection with the Offering
ISIN	International securities identification number
ISR	Intelligence, surveillance, and reconnaissance
ITAR	The U.S. International Traffic in Arms Regulations
Joint Bookrunners	The Joint Global Coordinators and Citigroup, COMMERZBANK, UniCredit Bank AG, and Crédit Agricole CIB
Joint Global Coordinators	BofA Securities, JPM, KCM, and DB
JPM	J.P. Morgan Securities plc with its registered seat at 25 Bank Street, Canary Wharf, London E14 5JP, United Kingdom, LEI K6Q0W1PS1L1O4IQL9C32
June 2020 BMVg Report	*11. Bericht des Bundesministeriums der Verteidigung zu Rüstungsangelegenheiten, Teil* 1, dated June 2020, available at https://www.bmvg.de/resource/blob/263830/274c9b18032991fe3233bf1770ce22a5/200200609-download-11-bericht-des-bmvg-zu-ruestungsangelegenheiten-data.pdf
KCM	KKR Capital Markets Partners LLP, 7 Carlton Gardens, Stirling Square, London SW1Y 5AD, United Kingdom, LEI 213800TSSR6EVD45MW84
Kelvin Hughes business	The Kelvin Hughes Group
Kelvin Hughes Group	KH Holdco Ltd. (today, HENSOLDT UK Limited) together with its direct and indirect subsidiaries
KKR	Investment funds and other entities affiliated with Kohlberg Kravis Roberts & Co. L.P.
KPIs	Key performance indicators
KPMG	KPMG AG Wirtschaftsprüfungsgesellschaft, Klingelhöferstraße 18, 10785 Berlin, Germany
LEI	Legal Entity Identifier
Lock-up Shares	Shares of the Company held by the Selling Shareholder or any of its affiliated companies (other than members of the Group)
LTI	Long-term incentive compensation
Lux FinCo	Square Lux FinCo S.à r.l.
Lux Midco 1 S.C.A	Square Lux Midco 1 & Co S.C.A., Luxembourg

M&A effect(s)	The effects of each of the following acquisitions: the EuroAvionics business, the Kelvin Hughes business, the PentaTec business, the HENSOLDT France business, the Nexeya business, and the IE Asia-Pacific business (collectively, the M&A effects)
Major Shareholders	The Selling Shareholder and Germany
Management Board	HENSOLDT AG's management board
Market Abuse Regulation	Regulation (EU) No. 596/2014 of April 16, 2014
Material Matters	Certain material matters in relation to Sensitive Activities regarding which the Federal Republic of Germany has certain information and consultation rights (on a regular basis, prior to material decisions, and upon demand) under the GSSA
Material Matters GSSA 2020	Certain material matters in relation to Sensitive Activities regarding which the Federal Republic of Germany has certain information and consultation rights (on a regular basis, prior to material decisions, upon demand, as well as prior to a contemplated transfer outside the stock market of at least 5% of the Company's own shares by the Company to a strategic investor) under the GSSA 2020
MAWS	Maritime Airborne Warfare System
MBT	Main battle tank
Mediation Committee	The mediation committee (*Vermittlungsausschuss*) that must be formed pursuant to Section 27(3) of the German Co-Determination Act (*Mitbestimmungsgesetz*)
Member States	EU Member States
MEP	Management equity program
MEP Co-Invest KG	Orlando Co-Invest GmbH & Co. KG, Munich, Germany
MEP Ord KG	Orlando Management Holding GmbH & Co. KG, Munich, Germany
MEP Partnership(s)	Each of MEP Ord KG and MEP Co-Invest KG and together, respectively
MGCS	Main Ground Combat System
MiFID II	EU Directive 2014/65/EU of the European Parliament and of the Council of May 15, 2014 on markets in financial instruments, as amended
MiFID II Product Governance Requirements	Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II and local implementing measures
Minimum Holding Period	A continuous period of at least 45 days during the period starting 45 days prior to the date when the dividend becomes due and ending 45 days after such date, during which a shareholder has been the economic owner of the shares (*Mindesthaltedauer*), in order (among other requirements) for the shareholder to be eligible for withholding tax reliefs
MKS 180	The German class 180 warship
MUSS	Multifunctional self-protection system deployed on the German armed forces' (*Bundeswehr*) Puma armored vehicle
NATO	The North Atlantic Treaty Organization

NETMA	The NATO Eurofighter and Tornado Management Agency
New Facilities Agreement	A new term and revolving credit facilities agreement entered into on September 7, 2020
New Facility Agent	Wilmington Trust (London) Limited
New Revolving Credit Facility	The multicurrency revolving credit facility of EUR 350 million under the New Facilities Agreement
New Security Agent	Wilmington Trust (London) Limited
New Term Loan Facility	The term loan facility amounting to EUR 600 million under the New Facilities Agreement
Nexeya	Nexeya France S.A.S
Nexeya business	The acquisition and consolidation of a major part of the activities of Nexeya, Chatenay, France, by HENSOLDT Holding Germany GmbH via HENSOLDT Holding France S.A.S. with effect from October 1, 2019
Nexeya SPA	A sale and purchase agreement dated May 3, 2019 entered into by HENSOLDT Holding France S.A.S. (our French subsidiary) and Nexeya Invest S.A.S., among others, to acquire the entire share capital of Nexeya from Nexeya Invest S.A.S
NNbS	The German army‘s close and closest range protection system (*Nah- und Nächstbereichsschutz*)
Nomination Committee	The nomination committee established by the Supervisory Board
OEM	Original equipment manufacturers
Offer Period	The period during which investors can submit purchase orders for the Offer Shares which is expected to commence on September 16, 2020 and is expected to end on September 23, 2020
Offer Price	The final offer price of the Offer Shares
Offer Shares	The Base Shares and the Additional Shares
Offering	The offer of a total of 45,808,333 shares of the Company, consisting of (i) the Primary Base Shares, (ii) the Secondary Base Shares, (iii) the Additional Base Shares subject to the exercise of an upsize option by the Selling Shareholder (in part or in full) on the date of pricing, and (iv) the Over-Allotment Shares
Order	The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended
Orlando business	The acquisition of 100% of the shares of HENSOLDT Sensors GmbH and HENSOLDT Optronics GmbH by HENSOLDT Holding GmbH via its subsidiary HENSOLDT Holding Germany GmbH as of February 2017
Orlando effect	The de facto operating results of the Orlando business in the consolidated income statement, the consolidated statement of comprehensive income, and the consolidated statement of cash flows not including the months January and February 2017 as the operating activities of the Group began on February 28, 2017 with the acquisition and consolidated of Airbus' Security and Defense Electronics businesses

Our	Has the same meaning as the Group
Over-Allotment	Under the possible stabilization measures, the allotment of up to 5,975,000 additional existing bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) from the holdings of the Selling Shareholder to investors
Over-Allotment Shares	5,975,000 existing bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) from the holdings of the Selling Shareholder to cover potential over-allotments
Parent-Subsidiary Directive	Council Directive 2011/96/EU of November 30, 2011, as amended
partial bond	One or more options attached to each option bond issued that entitle the holder to subscribe to bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) under the bond conditions that are determined by the Management Board
Participating Member States	Austria, Belgium, France, Germany, Greece, Italy, Portugal, Spain, Slovakia, and Slovenia which are to implement the Draft Directive
pass-through business	A certain share of the total contract volume that is assigned to our partners and suppliers, reflecting the shared risk and contributions, which results in a dilution of our profitability
PentaTec business	The acquisition of 100% of the shares in PentaTec Elektronische Systeme Gesellschaft mit beschränkter Haftung in 2018
Portfolio Participation	A direct participation by a shareholder of 10% or more in the Company's registered share capital at the beginning of the calendar year
Presidential Committee	A presidential committee (*Präsidium*) formed by the Supervisory Board pursuant to the Articles of Association
Price Range	The price range within which purchase orders for the Offer Shares may be placed, being from EUR 12.00 to EUR 16.00 per Offer Share
Primary Base Shares	25,000,000 bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) to be newly issued from a capital increase against contribution in cash resolved by an extraordinary shareholders' meeting of the Company on September 3, 2020 and expected to be consummated on or about September 24, 2020
Prospectus	This prospectus
Prospectus Regulation	Regulation (EU) 2017/1129
PSU	Performance stock unit
QIBs	Qualified institutional buyers in accordance with Rule 144A
Qualified Holding	Where a shareholder or, in the event of a gratuitous transfer, its legal predecessor, or, if the shares have been gratuitously transferred several times in succession, one of his legal predecessors at any point during the five years preceding the (deemed, as the case may be,) disposal directly or indirectly held at least 1.0% of the share capital of the Company
R&D	Research and development
RCIEDs	Remote-Controlled Improvised Explosive Devices

REACH Regulation	Regulation (EC) No 1907/2006 of the European Parliament and the Council of December 18, 2006 concerning the Registration, Evaluation, Authorization, and Restriction of Chemicals
Regulation S	Regulation S under the Securities Act
Related Party Transactions Committee	The related party transactions committee established by the Supervisory Board
Release Condition	Any of the following conditions: (a) the ratio of total senior secured net debt to consolidated EBITDA (each calculated in accordance with the terms of the Senior Facilities Agreement) is equal to or less than 2.75:1; or (b) the long-term corporate credit rating of the Company (or, as the case may be, any affiliate of the Company given such a rating, excluding (A) any special purpose vehicle which is established by any member of the Group solely for the purpose of obtaining a rating such that the condition set out in this paragraph (b) is satisfied and (B) any other member of the Group which is ring-fenced from the principal business of the Group) is equal to or better than Baa3 or BBB- (as applicable) according to at least two of Moody's, Standard & Poor's, and Fitch
Relevant Persons	Qualified investors who: (i) who have professional experience in matters relating to investments falling within EUR 19(5) of the "Order"; and/or (ii) who are high net worth entities falling within EUR 49(2)(a) through (d) of the Order; and other persons to whom it may otherwise lawfully be communicated
Relevant State	Each Member State of the European Economic Area and the United Kingdom
Reuters Pegasus Article	*Haushälter genehmigen Anzahlung auf Bombardier-Jets für Bundeswehr-Aufklärung*, published July 2, 2020, available at https://de.reuters.com/article/deutschland-r-stung-bombardier-idDEKBN2430KQ
Revolving Credit Facility	The revolving credit facility under the Senior Facilities Agreement amounting to EUR 200 million
RSA	Renaissance Strategic Advisors II, LLC
RSAdvisors Study	Commissioned study prepared by RSAdvisors on trends in the Global Defense Market, Global Defense Electronics Market, German Defense Market and German Defense Electronics Market entitled "Global Defense Electronics Market: Trends, Drivers and Outlook for 2020 and Beyond" and dated September 2020, available at www.rsadvisors.com
Rule 144A	Rule 144A under the Securities Act
SCAFSE	Société Commune Algérienne de Fabrication de Systèmes, Sidi Bel Abbés/Algeria, an Algerian company that manufactures and sells products developed in Germany for military and security applications in Algeria
Secondary Base Shares	8,333,333 existing bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) from the holdings of the Selling Shareholder
Securities Act	The U.S. Securities Act of 1933, as amended

Security Agent	Wilmington Trust (London) Limited
Selling Shareholder	Square Lux Holding II S.à r.l., a limited liability company (*société à responsabilité limitée*) under the laws of the Grand Duchy of Luxembourg, registered with the Commercial and Company Register (*Registre de Commerce et des Sociétés)* of Luxembourg under no. B 202695 that is indirectly owned by investment funds and other entities affiliated with Kohlberg Kravis Roberts & Co. L.P.
Senior Facilities Agreement	A senior facilities agreement comprising the Term Loan Facility and the Revolving Credit Facility
Sensitive Activities	Certain activities and shareholdings of the Group that concern material security interests of the Federal Republic of Germany
Sensitive Entities	Certain Group entities directly engaged in Sensitive Activities, including, in particular, HENSOLDT Sensors GmbH and HENSOLDT Optronics GmbH (which are the Group's main operating entities in Germany)
SIGINT	Signals intelligence
Stabilization Manager	BofA Securities, or persons acting on its behalf, acting as stabilization manager in connection with the placement of the Offer Shares
Stabilization Period	The period from the date of the commencement of the trading of the shares of the Company on the regulated market (*regulierter Markt*) of the Frankfurt Stock Exchange (*Frankfurter Wertpapierbörse*) – expected to be on or about September 25, 2020 – to no later than 30 calendar days after such date, during which the Stabilization Manager may take stabilization measures
STH	*Schwerer Transporthubschrauber*, a heavy lift helicopter
STI	Variable short-term incentive compensation
Supervisory Board	HENSOLDT AG's supervisory board
Target Market Assessment	A product approval process, which has determined that the Offer Shares are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II
Term Loan Facility	A floating rate term loan facility in an aggregate amount of EUR 920,000,000, with a maturity date on February 28, 2024, as set out in the Senior Facilities Agreement
The Future of NATO	The Future of NATO – Fog over the Atlantic, Strategic Monitor 2018-2019
TLVS	The tactical air defense system (*Taktisches Luftverteidigungssystem*)
U.S.	United States of America
U212CD	U212 common design submarine
UAS	Unmanned aerial systems
UAV	Unmanned aerial vehicle

Unaudited Interim Consolidated Financial Statements	The unaudited condensed consolidated interim financial statements of the Company in accordance with the IFRS on interim financial reporting (IAS 34) as of and for the six-month period ended June 30, 2020
Underwriters	The Joint Bookrunners and Mizuho International plc
Underwriting Agreement	The underwriting agreement in relation to the coordination, structuring, and implementation of the Offering entered into among the Company, the Selling Shareholder, and the Underwriters on September 15, 2020
United States	United States of America
Upsize Option	An upsize option, which can be exercised by the Selling Shareholder (in part or in full) on the date of pricing to sell up to 6,500,000 additional existing bearer shares (*Inhaberaktien*) with no par value (*Stückaktien*) from the holdings of the Selling Shareholder
Us	Has the same meaning as the Group
We	Has the same meaning as the Group
WMD	Weapons of mass destruction
Worldwide Threat Assessment 2019	Worldwide Threat Assessment of the U.S. Intelligence Community dated January 29, 2019
∑2017	Adjusted 2017 financial data is based on the sum of financial information from the Audited Consolidated Financial Statements 2017 for March 2017 through December 2017 and unaudited management accounts of Airbus for January 2017 and February 2017

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