

H&K AG

Management Report and Consolidated Statements

According to IFRS

for the Financial Year

2021

The following English language text is a translation provided for information purposes only. In the event of any discrepancies between the English translation and the German original, the original German text shall prevail. We do not accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

Group Management Report 2021

H&K AG, Oberndorf am Neckar

1. Trend in business and overall situation

Trend in business and corporate structure

The H&K AG Group with its parent company H&K AG is defined by both the military & governmental authorities and the commercial business areas of Heckler & Koch GmbH (HKO), its subsidiary in Oberndorf am Neckar, Germany, and HKO's subsidiaries in the US, England and France. The US commercial market is served by Heckler & Koch, Inc. (HKI), Columbus/Georgia, USA, whilst American governmental authorities and military customers are served by Heckler & Koch Defense Inc. (HKD), Columbus/Georgia, USA.

HKO develops, manufactures and, together with its subsidiaries, markets and distributes infantry and sidearms primarily for governmental security forces, in particular in NATO countries and the EU, and is one of the leading businesses in this market segment; the operating companies also provide related services. In both business areas, we are concentrating on the development and introduction of new products.

H&K AG was formed in March 2014 through the change in legal status of the former Heckler & Koch Beteiligungs GmbH; this was entered into the commercial register on April 7, 2014.

Since July 28, 2015 H&K AG's shares have been listed under ISIN DE000A11Q133 on the Euronext free market ("Euronext Access") in Paris. The average share price shown on the Euronext during 2021 was significantly higher than our calculated share value, due to the very low volume of trading.

The product portfolio comprises portable infantry weapons such as pistols, machine pistols, assault rifles and machine guns, grenade launchers and specialist equipment, together with numerous training systems in various construction variants for almost all weapon categories, enabling realistic training. This provides a complete and flexible product range, in the form of weapon families, for military and governmental authority personnel that is specifically tailored to suit a large number of user scenarios and is globally special in covering all military and governmental authority small calibre small arms at this high level of quality.

The H&K AG Group stands for technologically refined, innovative products and outstanding quality. To secure this situation, 12% (2020: 12%) of our employees work in Quality Management and 8% (2020: 8%) in Research and Development. HKO and its quality management system are certified to DIN EN ISO 9001:2015 and the NATO AQAP 2110:2016 quality standard.

The departments Finance, Information Management, Personnel, Purchasing, Risk Management and Compliance were certified to DIN EN ISO/IEC 27001:2017 in January 2021.

As a member of the defence industry located in Germany, Heckler & Koch GmbH is subject to current German weapon and export regulations for the manufacture of and trade in firearms and components for firearms. The export of controlled goods, such as firearms, weapons of war, their components, large proportions of the manufacturing equipment for these, as well as necessary software and technology, are governed by the approval requirements of Germany's Foreign Trade and Payments Act (AWG). The manufacture of and the trade in weapons of war are also subject to the stricter requirements of the Military Weapons Control Act (KrWaffKontrG).

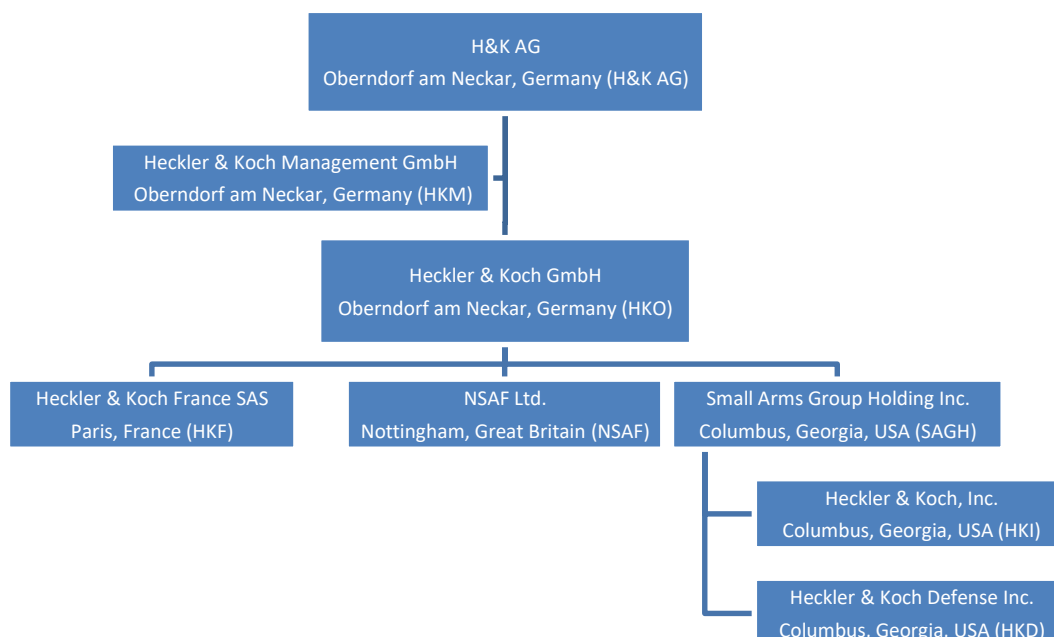
Corresponding US legal requirements such as the International Traffic in Arms Regulation (ITAR) and Export Administration Regulation (EAR) apply extraterritorially and therefore apply to the use of US technology or the trade in US goods outside the US.

Compliance with the complex regulations is of existential importance to the company. For more information on the associated organisational processes, please see Chapter 3 "Forecast and opportunities and risks report", section "Legal risks".

The directors have focussed HK's sales strategy on so-called "Green Countries". The "Green Country Strategy" is a self-imposed filter to the member countries of NATO, the EU and the NATO-equivalent countries (Switzerland, New Zealand, Australia, Japan). In addition, countries such as South Korea and Singapore, which are classed as partners by the German government, for which deliveries may be approved on a case-by-case basis. The "Green Country Strategy" is not only fully in line with the laws, regulations, requirements and restrictions that the German Government has issued for defence exports but goes significantly further.

Group entities

H&K AG's consolidated financial statements comprise the following companies:



Internal planning and control system

H&K AG Group is managed based on a comprehensive internal reporting system and covers all departments and activities. A core element of this is a detailed five-year plan, which is updated each year. For the current financial year, the plan is prepared and reported at a monthly level. Current results are compared to target figures. Any variances and their causes are analysed with a view to defining and implementing any necessary mitigation measures. In addition to the financial figures, the reports include operating performance indicators used for the precision control of individual departments and processes on much shorter timescales, for example days or shifts.

Financial performance indicators

The main objectives are to meet the planned revenue and earnings targets and to manage investments and cash flows. To this end, status reports are prepared for the Group's executive board and the individual functions. This information is also used inter alia as a basis for the monthly management meetings, where current business developments, and potential budget variances and their causes are analysed, and decisions on any necessary measures are made. These performance indicators are also used by individual departments for their daily fine-tuning.

For the internal control of the H&K AG Group the key measure, in addition to revenue and operating performance (defined as revenues plus inventory movements and own work capitalised), is in particular earnings before depreciation, amortisation, financial result and taxes (EBITDA).

H&K AG Group also uses order intake and order book as performance measures. These figures are updated regularly. They provide an indication of expected production capacity utilisation and revenue trends.

As part of the Group's liquidity management, in addition to the monthly cash flow data, a detailed thirteen-week forecast is prepared weekly so that any necessary measures can be identified in good time. The analysis and control of cash flows for operating activities are a central element of liquidity management. The performance indicators used for this are "operating cash flow" (defined as net cash flows from operating activities according to the statement of cash flows), "net working capital" (defined as inventories, prepayments for inventories, trade receivables and prepayments for other current assets less trade accounts payable and contract liabilities) and unrestricted cash (cash and cash equivalents less such security deposits as are included in that position).

Non-financial performance indicators

The main non-financial performance indicator within the meaning of the accounting standards is the headcount.

In addition, the following are used to aid decision-making:

Area	Performance indicators
Operations	e.g. total plant efficiency, scrap,output quantities, down-times
Personnel	e.g. illness rate, staff turnover
Quality management	e.g. weapons shot, scrap
Purchasing	e.g. delays, supplier scrap

Further additional information about non-financial performance indicators can be found in Chapter 1 “Trend in business and overall situation”, in section “Research and development”, in Chapter 2 “Business situation” in section “Non-financial performance indicators” and in Chapter 3 “Forecast and opportunities and risks report”.

Research and development

The continuous development of its new and current products contributes significantly to the Group's strong market position. The R&D department is therefore integral to safeguarding the Group's future and correspondingly essential for corporate strategy. In 2021, €6.2 million development costs were capitalised, a capitalisation rate of 63% (2020: €6.0 million; 82%). See also information provided in “Trend in earnings, variances and significant changes” in Chapter 2 “Business situation”.

Heckler & Koch focuses its development activities on infantry weapon systems in the areas: long firearms, automatic grenade launchers and grenade launcher modules, machine guns and sidearms. The need to push for further development is evident from the competition in the market in general as well as the specific requirements of the military and law enforcement agencies, and in particular the special armed forces and special operation forces, in the EU and the US. The needs of the commercial market have to be met as well, which calls for the constant development of products specifically for this market. All in all, our aim is to offer our customers products of the greatest reliability, safety and utility. The H&K AG Group is therefore investing increasingly in research and development.

The primary factors for success in the market are the specialist knowledge and continual training and development, together with the motivation and commitment, of our employees. At the year-end, about 8% (2020: 8%) of our employees worked in Research and Development.

As an innovative group, Heckler & Koch protects key developments against copying by registering patents and industrial property rights as well as having internal procedures for the consequent protection of expertise, to contribute to maintaining a technological advantage.

2. Business situation

Macro-economic situation and business trends

According to first calculations from the German Federal Statistical Office, in 2021, despite the continuing corona pandemic and supply chain bottlenecks, real gross domestic product (GDP) increased by 2.7% over the previous year. The economy recovered compared to the first year of the corona pandemic. However, GDP is still 2.0% lower than in 2019. According to the August 2021 Financial Report 2022 from the German Federal Ministry of Finance, the German defence budget for 2022 amounts to around €50 billion (previous year: around €47 billion); the expected expenditure for federal police in 2022 amounts to about €6 billion (previous year: about €5 billion).

Changes in the overall economic environment generally have a delayed effect on our business activities. In addition, the military and law enforcement part of our business hinges on public spending. Public sector customers usually have planning and implementation horizons stretching over many years and their tenders are therefore largely unaffected by short-term economic trends.

The market environment is defined by the defence policies of the Western nations and the resulting requirement for state-of-the-art weapons systems on the one hand but existing budget restrictions on the other hand. In addition, our market access is limited by weapons export regulations. Armed forces have to be highly mobile and carry the best possible equipment in order to make an effective military contribution, from humanitarian aid, stabilisation operations, monitoring missions and advice and support right up to combat missions. The increasing destabilisation of the Middle East and North Africa, the Russian invasion of Ukraine and the terrorist attacks in Europe require security forces to refocus their equipment and training. The only way to ensure the most effective protection for a country's own soldiers during foreign deployment, peacekeeping missions and the defence of Germany and other NATO members, is to keep investing in their equipment. Because of the changed security situation, especially in Europe, we currently expect that the relevant budgets will continue to increase.

At the end of February 2022, the German Chancellor announced that, following the Russian invasion of Ukraine, the 2022 national budget would provide a one-off sum of €100 billion. These funds are to be used for necessary investments and armament projects of the German Armed Forces, for better equipment, modern technology and more personnel. In addition, Germany would from now on invest more than two percent of its gross domestic product in defence.

Access to the US market in general, and the sale of weapons in the USA in particular, subject to both greater restrictions on export licences from Germany and changing legislation in the USA and individual US states. It cannot be ruled out that the regulations for this market will be tightened in the future as well, making it more difficult to sell our products from Germany in this market, which is the largest commercial market in the world by far.

Business trend

For the H&K AG Group, 2021 was characterised by an increase in revenues compared to the previous year (5.5%); this can be explained by the increasing military and US-commercial business. The increased revenues were linked to increased quantities, and therefore to higher production volumes. An associated increase in personnel expenses was also affected by the expiry of the supplementary-

hours agreement (covering July 1, 2019 to June 30, 2021, under which weekly working hours were increased from 35 to 37.5 hours without additional remuneration). The overall headcount, including agency workers, increased by about 4% over the previous year (2020: 8% increase).

In line with the forecast in the prior year report, the €290 million revenue generated in 2021 was higher than the €275 million generated in 2020. The increase was primarily due to the positive business development in the military and US commercial markets.

As forecast, order intake was significantly higher than in 2020. Combined with the higher revenues, this resulted in the order book being slightly below the previous year's figure.

As a result of the higher revenues, the operating performance increased by €4.8 million to €294.2 million (2020: €289.4 million), a slightly lower increase than forecast.

The EBITDA of €58.0 million (2020: €49.9 million) was, contrary to the forecast, significantly higher than in the prior year. The high investments in capacity and process optimisation, together with the cost-saving measures implemented, have an enduring positive effect on the result and compensated for the termination of the supplementary hours agreement.

The result from operating activities (EBIT) also increased by €7.2 million to €46.2 million (2020: €39.0 million).

Consequently, the result before income tax was €31.4 million (2020: €20.2 million).

From the prior year figure of €95.5 million, net working capital decreased slightly, by €0.9 million, to €94.5 million at the 2021 reporting-date in contrast to our forecast of a slight increase in net working capital.

Contrary to the forecast, unrestricted cash (cash and cash equivalents less such security deposits as are included in that position) increased from €33.3 million to €46.5 million at the end of 2021.

The operating cash flow of €41.5 million in the previous year increased by €14.9 million to €56.5 million in 2021. This contrasted with the forecast decrease and was partly due to unusually high cash receipts from customers shortly before the year-end.

The number of employees (excluding agency workers but including trainees) as at the balance sheet date increased slightly, as forecast, by 44 from 1,042 in the prior year to 1,086 for the current year. Headcount in the US rose from 83 to 92 during 2021 due to the increase in revenues.

In Oberndorf am Neckar, the number of employees for HKO (including trainees but excluding agency workers) increased by 34 from 932 to 966 employees at the end of 2021; of this increase, the majority was in the production department.

During the year, the number of agency workers in the Group decreased slightly to 35 (2020: 36).

The total headcount (including trainees and agency workers) increased by about 4% over the prior year.

Financial performance

Overview

Overall, the trends for the H&K AG Group's 2021 EBITDA exceeded expectations significantly.

Trend in revenue and orders received

In 2021, H&K AG Group recorded revenue, net of sales deductions, of €290.2 million (2020: €275.0 million).

Group revenue (net of sales deductions) can be analysed as follows:

Region		Revenues EUR '000	Percentage of revenues
Germany (Domestic)	2021	62,835	22%
	2020	74,510	27%
USA	2021	119,920	41%
	2020	94,818	34%
UK	2021	29,546	10%
	2020	22,127	8%
France	2021	40,722	14%
	2020	44,154	16%
Other "Green Countries"	2021	37,059	13%
	2020	39,372	14%
Rest of world	2021	126	0%
	2020	2	0%
Total export	2021	227,373	78%
	2020	200,474	73%
Total	2021	290,207	100%
	2020	274,984	100%
of which "Green Countries"	2021	290,081	100%
	2020	274,982	100%

Domestic revenue fell slightly compared with the prior year and generated 22% of Group revenue in the period under review (2020: 27%).

The market in the USA, which is mainly served by our subsidiaries HKD and HKI, generated 41% (2020: 34%) of revenue. The increase was due to higher sales to the commercial and the military markets.

The proportion of Group revenue generated in "Green Countries" remained at almost 100%, as in 2020.

Of the €290 million (2020: €275 million) Group revenue, 60% (2020: 60%) was to the military market, 6% (2020: 11%) to the police and governmental agencies market and 34% (2020: 29%) to the commercial market.

The H&K AG Group's order intake in 2021 was €288 million (2020: €226 million).

The resultant order book at the end of 2021, excluding contracts with export licence risks, was €219 million (2020: €224 million). Of this order book, €191 million is scheduled for delivery in 2022 (2020: €186 million was scheduled for delivery in 2021).

Trend in earnings, variances and significant changes

The individual positions in the income statement present the following picture:

Revenue (net of sales deductions) increased by €15.2 million (+5.5%) to €290.2 million in the period under review compared to €275.0 million in the prior year.

The cost of sales includes the costs of materials, direct labour costs, overheads and depreciation incurred to achieve the revenue. Cost of sales increased from €187.4 million in the prior year to €193.1 million in the year under review (+3.0%). The ratio of cost of sales to revenue decreased to 66.6% (2020: 68.2%). The change in product mix and successful purchasing negotiations that compensated for increased raw material cost, were contributory factors here.

The research and development expenses comprise those personnel expenses, overheads and depreciation relating to these activities together with the costs of test materials and tools, to the extent that these costs do not meet the criteria for capitalisation under IAS 38. The normal amortisation and the retirement of capitalised development costs are also included. The expenses, prior to effects of capitalisation, were €9.9 million (2020: €7.3 million). The effects of capitalisation include the retirement of previously capitalised development costs relating to projects that have been cancelled because of changed market conditions (€2.7 million; 2020: €2.7 million) and the amortisation of capitalised development costs (€2.6 million; 2020: €2.6 million) less the capitalisation of €6.2 million development costs (2020: €6.0 million) results in net research and development expenses of €8.9 million (2020: €6.6 million).

Sales, marketing & distribution expenses decreased by €0.5 million to €22.6 million (2020: €23.1 million); the decrease is primarily due to the lower creation of provisions for onerous contracts, relating to options exercised from old contracts.

General administration expenses increased by €2.8 million to €20.1 million (2020: €17.4 million). They include personnel expenses and overheads as well as depreciation relating to the administration function. The increase in costs is primarily due to higher provisions for litigation and other administration overheads.

Other operating income increased by €0.2 million to €1.7 million (2020: €1.5 million).

Other operating expenses decreased by €0.3 million to €0.7 million (2020: €1.0 million), due in part to the release of provisions for potential contractual penalties and for potential payroll tax back-payments.

In 2021, the position “impairment loss on trade receivables, net of reversals” relates primarily to an increase in specific allowances offset by a reduction in the general impairments determined in accordance with IFRS 9; in 2020 this position related primarily to an increase in the impairments determined in accordance with IFRS 9.

The EBITDA of €58.0 million improved compared to the prior year (2020: €49.9 million). As a result, in 2021, EBIT increased by €7.2 million to a profit of €46.2 million compared with a profit of €39.0 million in the prior year.

The net financial expense in the year under review was €14.8 million (2020: €18.8 million). In 2021 interest expenses of €13.9 million (2020: €13.4 million) were incurred, primarily relating to interest-bearing financing with a total nominal value of €243.5 million (2020: €242.7 million). These include the financing loan (Senior Facilities Agreement, "SFA-loan"; nominal as at December 31: €80 million; 2020: €83 million), the €60 million bond (2020: €60 million) together with two shareholder loans from Compagnie de Développement de l'Eau S.A. (CDE) (originally €80 million, plus capitalised interest since then of €6.5 million; 2020: original nominal €80 million, plus capitalised interest of €3.9 million) and an unsecured €15 million loan granted and received in February 2020 from another main shareholder of H&K AG plus capitalised interest of €1.9 million; (2020: €15 million plus capitalised interest of €0.9 million). In 2021 we recognised accretion for the bond, the SFA-loan, defined benefit and other obligations of €1.8 million (2020: €2.3 million). The net effect of foreign exchange gains and losses was a profit of €2.1 million (2020: loss of €3.0 million).

In the year under review, earnings before income tax were a profit of €31.4 million (2020: profit of €20.2 million).

Income tax expenses (including deferred taxes) amounted to €9.6 million in the year under review (2020: €6.7 million). Deferred taxes are calculated on the basis of statutory tax rates, or of tax rates which have been enacted as of the balance sheet date in each country, that are expected to be in place on realisation.

Due to the above developments, the Group recorded a consolidated result for the period of €21.8 million profit (2020: €13.5 million profit).

The trends in the different segments are illustrated by the following table (prior to consolidation):

	Germany		USA - Commercial		USA - Defence		Great Britain		France		Holding activities	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Net revenues	208.5	199.9	89.7	75.3	30.6	19.9	29.8	22.4	40.1	44.1	-	-
Order Intake (*)	211.3	180.7	113.6	93.8	13.1	1.6	11.9	5.3	37.4	25.2	-	-
Order book	190.1	187.7	48.9	27.3	12.8	30.3	24.5	42.4	21.8	24.5	-	-
EBITDA	40.7	34.8	6.1	5.9	7.6	3.3	3.5	2.4	2.6	3.7	(1.1)	(0.5)
EBT	27.0	17.0	4.8	4.6	7.3	2.9	3.2	2.4	2.6	3.7	43.8	64.5
Employees (+)	966	932	86	77	6	6	19	17	3	3	6	7

* including order book adjustments

+ including trainees; year-end positions

All figures in € millions apart from employee numbers

Financial position

Capital management policies and aims

The objective of the capital management is to secure the financing of current business activities, considering the obligations and the regular interest payments due to the SFA-loan and the bond, and in the medium-term to reduce the leverage significantly. The Group's internal policies require that

return on capital is reviewed on all investments and generally all contract bid decisions. The Group aims to have a corporate and capital structure without material off-balance sheet financing. In the normal course of business, performance and advance payment guarantees are issued to our customers by banks and insurers on our behalf

Funding sources and financing expenses

As at December 31, 2021 the H&K AG Group had the following five financing loans:

- Secured, private financing agreement (“SFA-loan”), nominal €80 million
- Unsecured bond, nominal €60 million.
- Unsecured bridging loan, €30 million (excluding accrued interest added).
- Unsecured bridging loan, €50 million (excluding accrued interest added).
- Unsecured bridging loan, €15 million (excluding accrued interest added).

The funds relating to the H&K AG Group's defined benefit obligations in the amount of €60.5 million (2020: €63.4 million) are available to the company in the long term.

Secured private financing agreement (SFA-loan)

The €80 million (2020: €83 million) financing loan relates to a private, secured €150 million financing agreement from July 24, 2017, maturing on August 21, 2022, under which a total of €130 million was drawn down on August 21, 2017 (€80 million by H&K AG and €50 million by HKO) and, up to the end of 2021, a total of €50 million (up to the end of 2020: a total of €47 million) had been repaid. The interest rate is 7.25% plus EURIBOR (if this is positive) and interest is payable at the end of each agreed interest period, which can be between one and six months.

Under the SFA-loan agreement, H&K AG and its subsidiaries are subject to strict limitations on certain transactions; the Group must also meet specified ratios between net debt and the contractually defined EBITDA (“Financial Covenants”) and make partial repayments for example dependent upon the annual contractually defined “Excess Cashflow”. The Group is permitted to partially or fully redeem the SFA-loan liability. However, the voluntary redemptions must comply with contractual conditions, including in some cases prepayment premia.

In March 2018 and December 2018, the SFA agreement was amended inter alia to permit H&K AG to draw unsecured bridging loans from CDE, to set a minimum cash resource level for the Group of €10 million and to adjust the required ratios of net debt to contractually defined EBITDA (Financial Covenant) for the quarters ending December 2017 through June 2018. In February 2020, the SFA agreement was amended inter alia to permit H&K AG to draw an unsecured bridging loan from a main shareholder during that month and to postpone the associated 70% partial repayment foreseen under the SFA agreement to October 2020, with the option of a further extension. In September, given the very positive business development and the liquidity generated thereby, the directors decided not to use the option of an extension but to make the repayment.

As security for the SFA-loan, the direct and indirect subsidiaries of H&K AG have also entered into the SFA agreement as guarantors. In addition, the shares in HKM and its direct and indirect subsidiaries together with, through floating charges and other security agreements, certain non-current assets, inventories, receivables and bank accounts (all other bank accounts serve as security deposits for bank guarantees and similar) are pledged to the trustee for the lenders.

Unsecured bond

The €60 million bond was created on December 15, 2017 by the conversion of a private note purchaser loan and matures on April 30, 2023. It has a fixed interest rate of 6.5% payable on April 30 and October 31. It is listed on the Euro MTF free market in Luxembourg.

Unsecured bridging loans

In 2018 CDE, one of H&K AG's main shareholders, agreed and paid out two unsecured bridging loans totalling €80 million with terms ending July 15, 2023; of these, in November 2018, €35 million was used for a partial repayment of the SFA-loan. The interest rate was 2%; accrued interest is added to the loan principal quarterly. These additional loans were granted as part of healing agreements relating to a financial covenant in the SFA agreement. In an amendment following the June 30, 2021 termination of the supplementary-hours agreement and considering the Group's significantly improved financial and earnings position, the interest rate was revised, within the contractually agreed range, to 6.5%, applicable from October 1, 2021.

In February 2020, to ease compliance with certain SFA-loan conditions, H&K AG received an interest-bearing unsecured bridging loan of €15 million, with a term until July 15, 2023, from another of its main shareholders. The interest rate is 6.5%; accrued interest is added to the loan principal quarterly. As a result, the nominal value of this loan increased to €16.9 million on December 31, 2021 (€15.9 million on December 31, 2020).

Financing expenses

H&K AG Group's financing expenses are primarily interest expenses totalling €13.7 million (2020: €13.2 million) relating to the bonds, the SFA-loan, the loans from CDE and the loan received in 2020 from another main shareholder; and accretion for the bonds, SFA-loan, defined benefit and other obligations amounting to €1.8 million (2020: €2.3 million).

Off-balance-sheet financing

In the period under review, as in the previous period, H&K AG Group did not make use of any significant off-balance sheet financing. Details of bank guarantees for customers are explained in the notes to the financial statements.

Capital expenditure

The H&K AG Group's capital expenditure on property, plant and equipment and intangible assets (excluding capitalised development costs) amounted to €12.6 million in 2021 (2020: €16.8 million). This was mainly plant and machinery for the segment Germany.

Cash and cash equivalents

Cash inflows and outflows, including effects of particular factors

On December 31, 2021, the Group's cash and cash equivalents amounted to €46.5 million (2020: €33.3 million).

Details of cash inflows and outflows are provided in the Consolidated Statement of Cash Flows. The performance indicator “operating cash flow” was positive in 2021 (€56.5 million inflow), €14.9 million above the prior year figure (€41.5 million inflow).

The main drivers for the change in operating cash flows were the higher Group profit and a lower negative effect due to changes in net working capital than in the previous year (see the Consolidated Statement of Cash Flows).

Solvency

Due to the available cash and cash equivalents, the H&K AG Group companies were able to meet their payment obligations at all times during 2021.

The unrestricted cash as at December 31, 2021 was €46.5 million (2020: €33.3 million). The unrestricted cash (cash and cash equivalents less security deposits) at the end of 2021, together with the expected profits in 2022 and 2023, provide sufficient scope to cover operational payments that are due in 2022 and 2023 (excluding the business financing due during this period). In addition, the 2023 maturity of the issued bond cannot be covered from operating cashflows. According to the business plan, for 2022 and future years a positive net cashflow from operating activities, sufficient to cover capital expenditure and contractual interest payments, is expected.

The continued existence of H&K AG and therefore of the H&K AG Group is dependent on the loans received and issued bond being extended or replaced on schedule by other external loans or an equity increase. The company is currently in ongoing financing discussions with various commercial banks and credit providers. Concurrently, on March 24, 2022 agreements with two main shareholders were reached, under which sufficient funds are guaranteed, should these financing discussions not reach a satisfactory conclusion; this ensures that the company remains a going concern.

According to the current five-year business plan, the H&K AG directors are also planning the conversion of shareholder loans into equity, to the extent permitted by law, which would reduce the indebtedness significantly.

Financial position

Significant changes in financial position

Compared to December 31, 2020, the net assets at December 31, 2021 increased by €34.5 million to €309.3 million.

Non-current assets as at the balance sheet date increased to €128.4 million (2020: €118.1 million).

Current assets were €180.9 million; an increase of €24.2 million compared to the prior year. Inventories and prepayments for inventories increased by €2.4 million to €97.3 million (2020: €94.9 million). As at the balance sheet date, trade accounts receivable increased by €5.5 million year-on-year to €28.9 million (2020: €23.4 million). This balance sheet position depends on the date of delivery and order-specific payment conditions and is therefore subject to significant fluctuations. The position “Other deposits” increased by €1.6 million to €4.4 million (2020: €2.8 million).

Group equity at December 31, 2021 amounts to negative €85.3 million (2020: negative €108.3 million). The current H&K AG Group business plan for the next few years shows an improvement in the equity position and assumes the reduction of debt. The equity and the current and planned results of the main operating companies are positive.

Non-current liabilities decreased by €80.0 million to €249.1 million (2020: €329.2 million), primarily due to the classification of the SFA-loan, due in 2022, as a current liability.

Current liabilities increased by €91.5 million to €145.5 million (2020: €54.0 million). This was primarily due to the classification of the SFA-loan, due in 2022, as a current liability, together with an increase in contract liabilities (advances from customers).

The bond, the SFA-loan, the loans from CDE and the loan received in 2020 from another main shareholder are recognised in the balance sheet in non-current and current liabilities at their net amortised costs of €242.5 million (2020: €240.6 million). The associated accrued interest payables of €0.8 million (2020: €3.0 million) are recognised within other liabilities and reduced due to the change to monthly interest periods for the SFA.

The performance indicator net working capital decreased from €95.5 million at the end of the previous year to €94.5 million on December 31, 2021. This was primarily due to an increase of €8.0 million in contract liabilities (advanced and stage payments received). Opposite effects were due to a €2.4 million increase in inventories and prepayments for inventories and a €5.5 million increase in trade receivables.

Non-financial performance indicators and sustainability

Ensuring the sustainability of its business model is a central strategic task for the H&K AG Group. In addition to achieving our economic targets, this means being a responsible employer, a law-abiding member of society and a reliable partner for our customers and suppliers. Having a sustainable business model is essential for the Group, so as to be able to capitalise on business potential and minimise risks. Particular attention is given to both sustainable production and to securing enduring peace through our products.

Under our “Green Country Strategy” (see definition in Chapter 1. “Trend in business and overall situation”, Section “Trend in business and corporate structure”) we deliver to countries that sustainably achieve and maintain internal and external security.

We have developed our sustainability strategy with three pillars (Environment / Social / Governance). Detailed information and figures are in the Heckler & Koch annual Sustainability Report. This is expected to be published mid-2022 on the Group’s website (www.heckler-koch.com) under sustainability.

Production and innovation

In order to improve business processes and reduce their complexity, it is important to Heckler & Koch to obtain the active involvement of our current employees and the input from new employees. The reduction of manufacturing throughput-times and the improvement of inventory turn as well as innovations and new technologies are the cornerstones of the Group's continued strategic development. Employees are always welcome to submit suggestions for process optimisation or

innovative ideas for new products. To manage production, various indicators are available in the SAP system and sub-systems covering for example: inventory turn and range as well as throughput-times and machine utilisation.

Employees

Very well qualified, highly motivated and committed employees are essential for achieving top performance and are therefore the foundation of our long-term economic success. Values such as honesty, legal compliance, fairness, acceptance and trust, social behaviour and regard for others, a sense of duty and reliability are understandably of utmost importance for the Group's workforce. In the light of our company's duties to society, whilst securing both facilities and jobs, our business activities across all company locations are shaped by the company's social, environmental and economic responsibilities. Besides profitability and efficiency, our corporate governance principles form the basis for our actions and commitment.

Summary statement on financial position, financial performance and cash flows at the time the management report was prepared

In 2021 revenue grew compared to the prior year. Given the increased, mainly high-margin revenues, EBITDA increased compared to the prior year. With an almost stable level of net working capital, unrestricted cash increased significantly compared to the previous year.

The liability for the bond, the SFA-loan, the loans from CDE and the loan granted and received in 2020 from another main shareholder increased to nominal €244 million at the year-end (2020: €243 million) and increased the interest burden by €0.5 million compared to the prior year.

Overall, the executive directors regard business developments as very pleasing and the business as continuing to be on a good path.

3. Forecast and opportunities and risks report

Outlook

Introduction

This report contains forward looking statements on business trends, which are based on the judgements, estimates and assumptions of the management. A number of factors, many of which are beyond Heckler & Koch's control, have an impact on its operating activities, success, business strategy and results of operations. These forward-looking statements are based on current business plans, targets, estimates and projections and take into account the state of knowledge up to the date that this report was prepared, but not beyond. If the assumptions on which the projections are based prove to be incorrect, actual results may differ from these estimates. These elements of uncertainty include changes in the political and economic environment, changes to national and international laws and regulations, swings in the market, fluctuations in foreign currency and interest rates, the impact of competing products and prices, the effect of changes in customer structures, changes in the company's business strategy and also economic effects resulting from the corona pandemic.

Economic outlook

In its study published at the beginning of January 2022, the World Bank reduced the forecast recovery in global economic performance for 2022, however it still expects global growth in 2022 and 2023. The recovery of national economies will however depend upon the success of combating the pandemic. For the European region, the World Bank forecast 4.2% economic growth in 2022. The effects on the economy due to the current war in Ukraine cannot yet be determined.

The expenditure to combat the corona pandemic inevitably led to a debt burden for countries and will potentially affect budgets for the defence and internal security. However, there are converse effects from developments in the local security situations in certain countries and the military engagements of individual countries or the joint engagements, for example the VJTF (Very High Readiness Joint Task Forces) within the framework of the NRF (NATO Response Forces), particularly given the current situation on the Eastern border of Europe. The continuing conflicts around the world, together with the threat of terrorism, still require a large number of international military interventions and a higher level of police capabilities.

This makes it imperative to increase and train personnel, modernise the armed and law enforcement / governmental agency forces' equipment and to ensure continuity of responsible security policies. In addition, there is continuing pressure within NATO to meet the agreed defence investment target of 2% of GDP, for which Germany in particular still needs to act. At the end of February 2022, the German Chancellor announced that, following the Russian invasion of Ukraine, the 2022 national budget would provide a one-off sum of €100 billion. These funds are to be used for necessary investments and armament projects of the German Armed Forces, for better equipment, modern technology and more personnel. In addition, Germany would from now on invest more than two percent of its gross domestic product in defence.

So far, due to the preventative measures implemented by Heckler & Koch to protect our employees and our business, together with proactive communication with customers and suppliers, the corona pandemic has not led to significant restrictions on our delivery chain and the planned order intake and revenue numbers were exceeded. However, Heckler & Koch cannot rule out that the significant increase in inflation, due to delivery problems during the corona pandemic and the loose monetary policy of the central banks, will affect the purchase of raw materials and services in particular.

Overall, Heckler & Koch considers that it is well positioned to continue for the foreseeable future, with new products, as the main supplier for small arms, their spare parts and related services for the governmental agencies and armed forces of NATO and NATO-equivalent countries.

Expected financial performance in 2022 and forecast for non-financial performance indicators

The following forecasts are based on plans from the end of 2021 and include the effects of the corona pandemic known to us at that time.

Order intake and order book

For 2022 it is expected that order intake will be slightly higher than in 2021, however, due to higher planned revenue, the order book at the year-end is expected to be slightly lower.

Revenue, operating performance and EBITDA

For 2022, improvements are planned for revenues in the single-digit million range and for operating performance in the low double-digit million range. Given the good result in 2021, EBITDA is expected to be slightly lower in 2022, but higher than in 2020.

Operating cash flow

According to the budget for 2022, operating cash flow is expected to remain at a high level, however lower than the very high value achieved in 2021 (€56.5 million).

Net working capital

According to the budget for 2022, net working capital is expected to be slightly higher than on December 31, 2021 (€94.5 million).

Cash and cash equivalents

At the end of 2022, due to the refinancing assumptions used for the budget, cash and cash equivalents are expected to be lower than at the end of 2021 (€46.5 million). However, we expect to be able to fulfil our operating contractual obligations throughout 2022.

Number of employees

The headcount in 2022 is expected to be slightly above the level of 2021.

Overall assertion

For 2022 the executive directors expect that, with slightly higher revenues compared to 2021, EBITDA will be slightly lower.

Opportunities

The Russian invasion of Ukraine in February 2022 has led to a paradigm shift in Germany. A few days after the beginning of the war, German Chancellor Olaf Scholz announced that a special €100 billion fund would be set up in 2022; in addition, the defence budget would be permanently increased to “more than two percent” of the gross domestic product, this should be written into the Constitution. It is highly likely that in addition to Germany, other NATO-members will increase their defence spending and invest more heavily in equipment for their Armed Forces. The consequence for Heckler & Koch is an increased demand for military weapons from current customers, and potentially also from new ones. For the business there is the possibility of strengthening its position as security partner of the liberal democracies and increasing its market share for military weapons in the EU and NATO. In the long view, for the business this exceptional and threatening situation concerning peace in the EU includes the opportunity of further establishing itself as a reliable defence supplier for NATO and the EU.

The German Government’s 2020 strategy paper to strengthen the security and defence industry is fundamentally an opportunity for Heckler & Koch. The previous paper from 2015 already led to Heckler

& Koch moving from its previous position as the “chosen” local supplier of the German Army. This changed business view necessitated a more competitive set-up for the group. Linked to this was the requirement to leave the secure monopoly situation and to become more active with the already strong brand Heckler & Koch abroad. This did not harm the business, as demonstrated for example by the orders from Latvia, Lithuania and France.

In the 2020 strategy paper too, small arms are not classed as national and defence policy key technologies, they remain somewhere between “European” and “global”. In contrast to “national key technologies”, the technologies for the manufacture of small arms are not an element of the defence industry classed as being worthy of particular protection and support. At first sight this may appear to be a disadvantage, but it is not. While the export of products with “national key technologies”, for example submarines, is likely to become more challenging even to NATO members for reasons of “national security”, Heckler & Koch’s classification brings with it the opportunity, with the support of the German government as clearly defined in the paper (“[...] *particularly promote and protect [...] export promotion*”) to export to the markets of EU and NATO member countries and NATO equivalent countries. In other words, the export of our products to EU and NATO member countries is, according to the German Government, significantly less critical than the export of “national key technologies”. As a result, also under the new German Government, opportunities may open up in the next few years that should be taken by increasing activities in NATO, EU and NATO-equivalent countries.

The German Government’s strategy paper also offers Heckler & Koch good opportunities for the following three reasons:

1. It justifies quite clearly the societal relevance of our business for Germany. The strategy states: *“The fundamental tasks of a state include ensuring internal and external peace, and the security of its citizens. A key requirement for fulfilling this task is providing the civil security agencies, the Bundeswehr [German Army] and its allies with the best possible equipment.”*
2. It expresses the opinion of the German Government that a business such as Heckler & Koch is needed in Germany. That is shown by the sentences: *“Industrial core capabilities and strategically relevant development capacities should be maintained and promoted at German and European sites. [...] The availability of the identified key security and defence technologies must be ensured for essential reasons of national security.”* Accordingly, Heckler & Koch still counts as a business that uses key technologies, making it worthy of maintenance and promotion, but whose focus need not only be on the national market.
3. It includes the announcement by the German Government that it will *“accompany the implementation of this strategy paper with a number of dialogue forums to include the industry and representatives of our society”*. An example of this is given as the *“dialogue with civil society and the industry on arms control [...], led by the Federal Foreign Office”*. This dialogue under the “moderation” of the German Government offers Heckler & Koch the opportunity to position itself with its “Green Country Strategy” correspondingly positively in a political and social environment that has up until now been difficult.

The H&K AG Group's market potential depends on the one hand, on the military procurement plans of customer countries. Opportunities arise from changes in the military equipment required by the armed and security forces in “Green Countries”, together with the need to replace equipment, which in some cases has not been renewed for years, with modern equipment. The changing threats and deployment scenarios also require the equipment used to have better mobility and increased performance capabilities, corresponding to the technical developments of the last years. High

performance armament is central to affording security forces and soldiers the highest level of personal security and giving them the technical capability to accomplish their mission. As technological leader in the small arms market segment, this development offers the H&K AG Group the opportunity to build on its position as an industrial technological partner for highly developed armies, security forces and special forces and thereby to increase its revenue potential.

We believe that the sporting and commercial arms product segment has growth potential, particularly in the US market for pistols and long weapons. With an optimised sales and delivery structure and new products specially developed for the US market, the sales volume should continuously increase. The market potential could not be fully achieved in the past years since, with bottlenecks, production was focussed on work for military and governmental agency customers, to whom we give priority. Various measures have been set up and implemented to enable a higher supply to American customers, despite the continuing high demand in Europe.

The executive directors and function managers have continued to follow and expand on the improvement programme, involving numerous initiatives, which was implemented at the end of 2018. These different improvement projects are anchored in a programme organisation known as "HK2022". During the last two years, several programme items were successfully set-up and implemented, the effects of which contributed to the improved profitability of the business. This programme will be continued, and additional projects added, the organisation and implementation of which are agreed with employee representatives, so that the H&K AG Group expects further sustainable improvements in our profitability and liquidity situation to result. In addition, we expect a strengthening of internal cooperation and consequently a positive effect on the company's culture.

The overall opportunities for the H&K AG Group continue to be gauged as high.

Risks

External risks

As a business in the defence industry, the H&K AG Group is exposed to cyber-attacks and risks of industrial espionage and sabotage. The risks, in particular of cyber-attacks, have increased due to the Russian invasion of Ukraine. It cannot be fully ensured that the protective measures and safeguards we have put in place to protect the integrity of our business data will be sufficient and successful. Incidents can have negative effects on our reputation, customer relationships, know-how and business situation. Consequently technical and organisational protective measures, together with the educating our employees to be careful with all business information and email correspondence, are important subjects for us. Given the current security situation and our protective measures, this risk is considered to be medium.

Heckler & Koch's market access is restricted both geographically - to Germany, the EU, the NATO countries and NATO-equivalent countries - and because its customers are government authorities. It is paramount for the H&K AG Group to have the right technological and economic product developments to participate in the future procurement programmes of NATO countries. In addition, it is also important to grow in the US commercial market.

Changes to the export licence approval policy can complicate or prevent the export of defence technology products and related realisation of revenue potentials and therefore negatively affect the revenue situation. However, this risk is judged to be low for the sales markets to NATO countries.

The “Political principles of the German Federal Government governing the export of weapons of war and other defence goods” from June 26, 2019 cover three main aspects:

- The requirement from the then coalition contract regarding the continuation of a restrictive approval practice for so-called third-countries (“Drittländer”, these are countries other than EU or NATO members or NATO-equivalent countries: Australia, Japan, New Zealand and Switzerland), in particular for the export of small arms, is implemented. This includes the requirement that the export of small arms to these countries should generally no longer be approved.
- The political support for defence cooperation at a European level, and the strengthening of the European defence industry basis is emphasised. Thereby the promotion of European defence cooperation already included in the Permanent Structured Cooperation (PESCO) and the European Defence Fund will also be taken into consideration for defence export decisions.
- The political principles from 2000 have been updated for changes since then of export control regulations at a European and an international level, such as the inclusion of the Arms Trade Treaty that came into force in 2014.

The “Political principles of the German Federal Government governing the export of weapons of war and other defence goods” largely correspond to the Green Country Strategy and so strengthen the directors’ focussed sales strategy for the Group. Our Green Country Strategy that we have chosen to implement is a clear commitment not only to our values as a business but also to the values of the Germany as expressed in the above “Political Principles”. We are a significant part of the security architecture for the Federal Republic of Germany, many European countries, NATO members and NATO-equivalent countries, as well as several countries that the German government classes as being of significant interest for German foreign and security policy. In principle, we will only serve these countries. Providing applicable valid export licences are received, the remaining contractual order book for other countries will be fulfilled, but for new tenders we are primarily seeking to serve “Green Countries”. We will only complete transactions after open, transparent and close coordination with, and the approval of, the appropriate German authorities.

It cannot be ruled out that in the USA too, the regulations for this market will be tightened, making it more difficult to sell our products in this commercial market, which is the largest in the world by far; this applies particularly to semi-automatic rifles. This is also the case for the future development of German export controls. Heckler & Koch is currently working on suitable measures to mitigate this negative scenario. However, at this time this risk is also classed as low.

As an internationally operating group, the company is exposed to risks arising from fluctuations in foreign currency exchange rates. The foreign currency risk in the company's operating activities arises primarily from USD-denominated invoices for sales in the USA. A renewed appreciation of the euro against the US dollar could have a negative effect on earnings from sales invoiced in US dollars. Heckler & Koch occasionally uses derivative financial instruments to partially hedge the expected receivables from these planned, but primarily not yet concluded, transactions from USD-denominated contracts against the exposure to changes in exchange rates. In its management of foreign currency risks, the H&K AG Group only uses generally accepted instruments to hedge existing transactions and

planned sales, but never for speculative purposes. To reduce the risk of default, these hedges are contracted from a leading online broker.

Procurement risks arise from the fact that the raw materials, parts and components needed for the manufacturing process may not be sufficiently available in the required quality or quantity, or cannot be obtained in a timely manner. To ensure the security of supply and enable a prompt response to any changes, a close watch is kept on the procurement markets. In addition, procurement risks are mitigated by identifying alternative sources, monitoring supplier quality and reliability and holding suitable minimum inventory levels of raw materials. We class the procurement risks as medium.

Being part of the defence industry, the H&K AG Group is particularly in the public eye. The comprehensive regulations that affect this industry are often not known at all, or not to a full extent, while at the same time, articles about the defence industry take a prominent position in the media. As a purely defence business, with no significant products in other fields, Heckler & Koch is a particular focal point. Communication that is professional, factual and above all based on transparency is indispensable for maintaining our reputation and the value of our business. Unfortunately, the risk that political players or political advocacy groups may wish to make their mark at the expense of Heckler & Koch, or the defence industry as a whole, must still be classed as high.

So far, due to the preventative measures implemented by Heckler & Koch to protect our employees and our business, together with proactive communication with customers and suppliers, the corona pandemic has not led to significant restrictions on our delivery chain and the planned order intake and revenue numbers were exceeded. However, at this point in time we cannot make predictions for 2022 particularly given the increasing numbers of virus mutations, since the measures taken by the Federal and State Governments could affect our supply-chains and production. However, Heckler & Koch cannot rule out that the significant increase in inflation, due to delivery problems during the corona pandemic and the loose monetary policy of the central banks, will affect the purchase of raw materials and services in particular. At the moment we expect the risk for Heckler & Koch to be low.

Overall, the external risks for the H&K AG Group are considered to be at the same level as for the prior year.

Internal risks

The fulfilment of H&K AG's obligations depends on whether sufficient profits are transferred by HKO to H&K AG and thus on the continuing high operational earnings power of the companies. In our estimation, the internal risks for the H&K AG Group remain low.

Financial risks

The bond, the SFA-loan, the loans from CDE and the loan received in 2020 from another main shareholder are recognised in the balance sheet at their net amortised costs of €242.5 million (2020: €240.6 million). The associated accrued interest payables of €0.8 million (2020: €3.0 million) are recognised within other liabilities. For additional details on these liabilities, please see Sections "Funding sources and financing expenses", "Solvency" in Chapter 2 "Business situation".

According to the current five-year plan, for 2022 and future years a positive net cashflow from operating activities, sufficient to cover capital expenditure and contractual interest payments, is expected. In addition, according to the current five-year plan, the H&K AG directors are planning the

conversion of shareholder loans into equity, to the extent permitted by law, which would reduce the indebtedness significantly.

As reported in the comments on the financial position in the Section “Significant changes in financial position” in Chapter 2 “Business situation”, the H&K AG Group has negative equity of €85.3 million (2020: €108.3 million).

Risks arising from organisation and structure

The aim of our risk management, with its control and monitoring processes is to facilitate the timely identification of risks, which could hinder the achievement of business targets, and to implement suitable mitigating strategies and measures.

H&K AG’s risk management includes the related topics: compliance management, corporate governance, internal control system and internal audit for all companies within the H&K AG Group. The existing policy applies to all of the companies within H&K AG’s consolidated financial statements.

Annual training sessions take place on the Code of Ethics and Business Conduct (“code of conduct”). The screening of new and existing business partners continues, initially concentrated primarily on all representatives for the military and governmental authority markets and for the commercial market. A corresponding guideline for due diligence relating to all business partners came into effect on September 20, 2021.

The risk stocktake is still carried out in all business areas twice a year, at the end of half and full years.

We regard “Corporate Governance” as being “responsible business management”. In addition to legislators and shareholders, the stakeholders influencing corporate governance include employees, customers, suppliers, investors, non-governmental organisations or overall society through politics and the media. The precise form of our corporate governance is the responsibility of the executive board in close cooperation with its supervisory body, the supervisory board. The supervisory board is responsible for monitoring the adequacy and effectiveness of the corporate governance. This is done on the basis of information from the executive board. Management regularly reports the current developments in the Group’s material risks to the supervisory board. The Compliance Officer and Group Risk Manager also report to the supervisory board regularly.

Overall, the risks arising from organisation and structure for the H&K AG Group are still considered to be low.

Legal risks

These risks mainly include risks arising from product liability, competition and anti-trust laws, foreign trade law, weapons law, anti-corruption law, criminal and misdemeanour laws, patent law, tax law and labour law. Any cases of damage and liability risks arising from ordinary activities are recognised in the balance sheet.

Heckler & Koch is engaged in the manufacture and distribution of small arms, particularly for governmental customers such as the German federal and state police and customs authorities, and domestic and foreign armed forces. The sale of small arms outside Germany takes place largely in the Member States of the European Union, NATO countries and NATO-equivalent countries. Heckler

& Koch does not intend to generate new business with countries outside NATO's sphere of influence; in line with our "Green Country Strategy".

Since the export of weapons is only permitted with the approval of the German government, supply to critical countries is explicitly prohibited. In addition, when small arms are sold to foreign countries for military use, the recipient countries are required, before an export licence can be granted, to submit officially signed end-user certificates to the Federal Republic of Germany in which the recipient countries pledge not to re-export the proposed weapon supplies to other countries. In relation to the manufacture and sale of small arms, our company is subject to the constant control and regular monitoring of the following authorities: the Federal Ministry of Economics and Energy ("BMWi"), the Federal Office of Economics and Export Control ("BAFA"), the Wiesbaden Federal Office of Criminal Investigation, the Karlsruhe Regional Finance Office and the Rottweil District Administration Office. The underlying prerequisite for obtaining weapons and export approvals depends on the reliability of our company; for this reason, complying with the law is a top priority. Absolute compliance with the weapons and export regulations forms the basis of our company. We have therefore implemented strict monitoring procedures and control systems to monitor the operating, production, supply and approval processes. In particular, this includes the careful selection of staff, regular training, continuous monitoring, precise operating instructions and the use of an IT-supported control system which is integrated into our working processes. In view of this, export risks are considered to be low.

As a result of the Stuttgart Public Prosecutor's Office's preliminary investigation into former HKO employees, commenced in 2010, in which allegations of unauthorised export of rifles to Mexico between 2006 and 2009 are being probed, criminal charges have been made in the Stuttgart District Court against five former employees and the former agent in Mexico. HKO has cooperated fully with the authorities, both during the initial investigation and during the court case. The verdict by the court of first instance was that three former employees were found not guilty and two former employees were given suspended sentences of one year and five months and one year and ten months respectively. The accused also included two former directors, who were both found not guilty. Both not guilty verdicts are now legally binding. HKO was sentenced to pay over €3.7 million. HKO appealed this verdict; the Public Prosecutor and the two accused who were sentenced also appealed. In March 2021, the Federal Court of Justice (BGH) confirmed the Stuttgart District Court's verdicts and as a result, the suspended sentences against two former employees became legally binding, as did the confiscation of €3.0 million from HKO; the BGH severed its consideration regarding the confiscation of a further €0.7 million. So far, the confiscation of €3.0 million has not taken place.

Suitable provisions were created to cover risks from legal disputes and other litigation. The H&K AG Group recognises provisions for legal disputes and other litigation when the resulting liabilities are probable and their amount can be reliably measured. Because of uncertainties and the difficulty of predicting the outcome of court and governmental authority decisions, there is always the chance of costs being incurred which exceed the provisions and can have an impact on the company and its results.

The results of tax audits could lead to the additional payment of taxes. There is also the risk that changes to tax law or case law could have a negative effect on Heckler & Koch's tax expense. Overall, these risks are considered to be low.

H&K AG Group's accounting-related internal control system

Approval processes

The company has had its own internal binding regulations and guidelines for the areas of procurement, capital expenditure, product development, tenders, order intake, IT-security, data protection, accounting and travelling expenses for many years. Policies pertinent to employees are posted on the intranet.

Accounting-related IT-systems

Management controls in all areas require the timely availability of accurate information. The business information and reporting system is therefore very important. The SAP information system provides numerous reports and performance indicators which can be accessed daily by the finance department as well as all operational areas.

One of the main reporting instruments in the finance department is the extensive monthly reporting package. As part of the Group reporting system, all group companies provide detailed information on key items in their statement of financial position and income statement as well as ratios and explanations. These are requested, analysed and consolidated by the corporate finance department, which then reports them to Heckler & Koch's management.

Accounting organisation and policies

All group companies must comply with the applicable issue of the Group's accounting manual; this ensures the consistent recognition and valuation of all business transactions across the Group. Apart from the management, who are responsible for business operations in the particular market, the head of finance is responsible for the compliance with the legal and internally agreed accounting standards. The regular monitoring of key indicators, monthly reporting of subsidiary companies' financial results to the corporate finance department and the preparation of the five-year plan for each market are also part of the head of finance's remit.

Within the Group, besides supporting all group companies, HKO's corporate finance department is also responsible for developing and updating policies and job instructions for accounting-related processes. This mainly relates to the accounting manual and intercompany reconciliation instructions. Specific accounting or measurement questions of importance to the H&K AG Group are also centrally processed, analysed, documented and communicated.

Overall assertion

The aim of the internal control and risk management system in relation to the accounting process and preparation of the H&K AG Group financial statements, as highlighted above, is the proper recording, processing and valuation of transactions. The clear definition of responsibilities in the H&K AG Group's finance function and the appropriate training and further education of its staff, together with the use of suitable software and the issue of uniform accounting policies, form the basis for a sound, efficient and consistent accounting process.

Overall, it should serve to ensure that the assets and liabilities in the financial statements are completely and accurately recognised, measured and presented and thus to provide a fair and true view of the company's financial position, financial performance and cash flows.

Overall statement on the opportunities and risk situation

As in the previous periods, and as described in detail above, the Group's main risks arise from the volatility of revenue potentials and completely regulated market access opportunities, together with the interest payable and refinancing obligations due to the company's high leverage, combined with the limited cash reserves.

Through the HK2022 project that is underway, amongst other things, the value-adding functions production, logistics and quality, will be optimised in order to further reduce delivery bottlenecks and enable the delivery of the high order book on time and the achievement of the sales potentials.

With its highly innovative product portfolio, the H&K AG Group is well prepared for the future. In our current five-year plan, we anticipate an increase in operational performance, an improvement in the equity position and a reduction in leverage. For 2022 we expect a positive result for the year, slightly below the good level of 2021.

As a technological leader in the provision of small arms, the Group sees opportunities to expand its market position arising through the changing requirements for the deployment of military, law enforcement and special forces, due to its high-performance products, and in the US commercial market, with new product developments.

Oberndorf am Neckar, April 8, 2022

H&K AG

The Executive Board

Dr Jens Bodo Koch

Dr Björn Krönert

Consolidated Statement of Financial Position

(€ thousands)	§	31.12.2021	31.12.2020
Property, plant & equipment	17	61,668	57,665
Intangible assets - goodwill	16	5,149	5,149
Intangible assets - other	16	40,310	38,698
Other investments	18	9,536	1,620
Deferred tax assets	15	11,780	15,009
Total non-current assets		128,443	118,141
Inventories	19	96,659	94,489
Prepayments for inventories	20	641	451
Prepayments for other current assets	20	341	333
Other deposits	18,29	4,418	2,774
Current tax assets		144	124
Trade receivables	20	28,943	23,444
Other receivables	20	3,229	1,774
Cash & cash equivalents	17	46,514	33,343
Total current assets		180,890	156,731
Total assets		309,333	274,873
Equity			
Share capital		27,641	27,641
Additional paid in capital		53,025	53,025
Other reserves		(19,238)	(20,412)
Consolidated retained earnings		(146,680)	(168,524)
Total equity	22	(85,251)	(108,269)
Liabilities			
Loans & borrowings	25	163,128	240,552
Lease liabilities	25	1,022	1,243
Employee defined benefit obligations	23	60,541	63,421
Provisions	24	2,890	2,990
Deferred tax liabilities	15	21,553	20,956
Total non-current liabilities		249,133	329,162
Loans & borrowings	25	79,410	-
Trade payables	26	19,049	18,217
Other payables	26	12,172	11,614
Contract liabilities	27	12,985	5,001
Derivatives	26,29	1,118	-
Tax liabilities		3,879	3,265
Other provisions & accruals	24	16,837	15,883
Total current liabilities		145,451	53,980
Total liabilities		394,584	383,142
Total equity & liabilities		309,333	274,873

Consolidated Income Statement

For the period January 1 to December 31

(€ thousands)	2021	2020
Revenue	290,207	274,984
Cost of sales	(193,149)	(187,438)
Gross profit	97,058	87,547
Research & development expenses	(8,930)	(6,554)
Sales, marketing & distribution expenses	(22,600)	(23,108)
Administration expenses	(20,127)	(17,371)
Other operating income	1,652	1,450
Other operating expenses	(720)	(1,000)
Impairment loss on trade receivables, net of reversals	(107)	(1,970)
Results from operating activities	46,226	38,995
Interest income	3	14
Gains on translation of foreign currencies	2,835	1,377
Total financial income	2,838	1,391
Interest expense	(13,945)	(13,397)
Accretion of non-current liabilities	(1,791)	(2,294)
Losses on val'n of other derivative financial instruments	(1,118)	(73)
Losses on translation of foreign currencies	(732)	(4,381)
Other financial expense	(54)	(70)
Total financial expense	(17,641)	(20,216)
Net financial result	(14,803)	(18,825)
Profit / (loss) before income tax	31,422	20,170
Income tax expense	(9,578)	(6,688)
Profit / (loss) for the period	21,844	13,482
Attributable to the shareholders of H&K AG	21,844	13,482
Earnings per share (€)	0.79	0.49

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the period January 1 to December 31

(€ thousands)	2021	2020
Profit / (loss) for the period	21,844	13,482
Other comprehensive income		
DBO actuarial gains / (losses)	707	(1,178)
Related deferred tax	(198)	331
Items that will never be reclassified to profit or loss	508	(847)
Forex translation differences for foreign operations	666	(36)
Items that are or may be reclassified to profit or loss	666	(36)
Other comprehensive income / (expense), net of tax	1,174	(884)
Total comprehensive income for the period	23,018	12,598
Attributable to the shareholders of H&K AG	23,018	12,598

Consolidated Statement of Changes in Equity For the period January 1 to December 31, 2021

(€ thousands)	Share Capital	Additional Paid in Capital	Translation Reserve	Reserve for Defined Benefit Obligations	Consolidated Retained Earnings	Shareholders' Equity
As of 01.01.2020	27,641	53,025	(507)	(19,021)	(182,005)	(120,868)
Total recognised income & expense	-	-	(36)	(847)	13,482	12,598
As of 31.12.2020	27,641	53,025	(543)	(19,869)	(168,524)	(108,269)
Total recognised income & expense	-	-	666	508	21,844	23,018
As of 31.12.2021	27,641	53,025	122	(19,360)	(146,680)	(85,251)

Consolidated Statement of Cash Flows

For the period January 1 to December 31

(€ thousands)	2021	2020
Cash flows from operating activities		
Profit / (loss) for the period	21,844	13,482
Adjustments for:		
Depreciation	8,305	7,682
Amortisation of intangible assets	3,445	3,272
(Reversal of) impairment losses on intangible assets	2,679	2,693
Net interest expense	15,788	15,748
Change in fair value of derivatives	1,118	73
(Gain) / loss on disposal of property, plant & equipment	(73)	163
Income tax expense	9,578	6,688
	62,684	49,801
Change in inventories	(720)	(5,612)
Change in trade & other receivables	(6,150)	(2,348)
Change in prepayments	(179)	(395)
Change in trade & other payables	7,976	2,306
Change in provisions & employees' defined benefits	(1,915)	1,174
	61,696	44,926
Income tax paid	(5,221)	(3,400)
Net cash flows due to operating activities	56,475	41,527
Cash flows from investing activities		
Interest received	3	14
Proceeds from sale of property, plant & equipment	124	31
Acq'n of property, plant, equipment and intangibles	(12,637)	(16,827)
Movement in deposits with terms >3 months	(9,560)	335
Capitalised development expenditure	(6,222)	(6,007)
Net cash flows due to investing activities	(28,292)	(22,455)
Cash flows from financing activities		
Proceeds from loans	-	15,000
Repayment of loans	(3,000)	(11,970)
Interest paid	(12,369)	(11,163)
Repayment of lease liabilities	(376)	(432)
Net cash flows due to financing activities	(15,745)	(8,565)
Net cashflows	12,437	10,507
Cash & cash equivalents at 1st January	33,343	23,380
Effect of exchange rate fluctuations on cash held	734	(544)
Cash & cash equivalents at December 31	46,514	33,343

Notes to the consolidated financial statements for the year 2021

Contents

Consolidated Statement of Financial Position	1
Consolidated Income Statement	2
Consolidated Statement of Profit or Loss and Other Comprehensive Income	3
Consolidated Statement of Changes in Equity	4
Consolidated Statement of Cash Flows	5
Notes to the consolidated financial statements for the year 2021	1
Contents	1
General disclosures	3
(1) Presentation of the consolidated financial statements	3
(2) Executive board approval	3
(3) Statement of compliance with applicable law and IFRS	4
(4) Group entities	5
(5) Summary of significant accounting policies and basis of measurement	6
Notes on the income statement	17
(6) Revenue	17
(7) Cost of sales	18
(8) Research and development expenses	18
(9) Sales, marketing & distribution expenses	18
(10) Administration expenses	18
(11) Other operating income	19
(12) Other operating expenses and impairment losses on trade receivables, net of reversals	19
(13) Analysis of expenses by nature, showing EBITDA	20
(14) Financial result	20
(15) Income taxes	21
Notes on the balance sheet	23
(16) Intangible assets	23
(17) Property, plant and equipment	26
(18) Non-current investments and current deposits	27
(19) Inventories	27
(20) Trade receivables, prepayments and other assets	27
(21) Cash and cash equivalents	28
(22) Shareholders' equity and earnings per share	29
(23) Provisions for pensions and similar employee defined benefit obligations	30
(24) Other current and non-current general liability provisions	32

H&K AG, Oberndorf am Neckar – Consolidated Statements as of December 31, 2021

(25) Financial liabilities and credit lines	34
(26) Trade and other payables and derivatives	37
(27) Contract liabilities	37
Other disclosures	37
(28) Financial risk management	37
(29) Additional disclosures on financial instruments	42
(30) Cash flow statement	46
(31) Segment reporting	46
(32) Contingent liabilities and pledged assets	49
(33) Leases	50
(34) Number of employees	52
(35) Personnel expenses	52
(36) Related party disclosures	53
(37) Governing bodies of the Group	53
(38) Transactions with the members of the governing bodies	54
(39) Auditor's remuneration	54
(40) Subsequent events	54

General disclosures

(1) Presentation of the consolidated financial statements

H&K AG, the parent company of the Group, is registered under HRB 748522 at the Stuttgart district court. The company's registered office is in Oberndorf am Neckar, Germany, and the postal address is H&K AG, Heckler & Koch-Str. 1, 78727 Oberndorf am Neckar, Germany. The articles of incorporation are from March 18, 2014 with an addendum from March 21, 2014 and last changed by a resolution on September 21, 2018; the registered name of the company is H&K AG. Since July 28, 2015 H&K AG's shares have been listed under ISIN DE000A11Q133 on the Euronext free market ("Euronext Access") in Paris. The average share price shown on the Euronext during 2021 was significantly higher than our calculated share value due to the very low volume of trading. The financial year is the calendar year.

The purpose of H&K AG is to invest in any way in other domestic and foreign companies, to acquire other domestic and foreign companies, to hold, manage and sell its own companies and investments in companies, to determine the strategy of the company and the Group, and to manage and acquire land, buildings, leasehold rights and other assets for the above objectives.

The H&K AG Group is defined on the one hand by defence and governmental authority business activities and on the other hand by commercial business activities of Heckler & Koch GmbH (HKO) and its subsidiaries in the US, England and France. HKO develops, manufactures, markets and distributes, together with its subsidiaries, infantry and sidearms primarily for governmental security forces, in particular in NATO countries and the EU, and is one of the leading businesses in this market segment; the companies also provide related services. For both sets of business activities, we are concentrating more on the development and introduction of new products. The directors have focussed HK's sales strategy on so-called "Green Countries". The "Green Country Strategy" is a self-imposed filter to the member countries of NATO, the EU and the NATO-equivalent countries (Switzerland, New Zealand, Australia, Japan). In addition, countries such as South Korea and Singapore, which are classed as partners by the German government, deliveries to which can be approved on a case-by-case basis. The "Green Country Strategy" is not only fully in line with the laws, regulations, requirements and restrictions that the German Government has issued for defence exports but goes significantly further.

The consolidated financial statements have been prepared in euro. Unless otherwise stated, all financial information presented in euro has been shown to the nearest thousand (€k, EUR '000). As a result, the totals in this report may vary slightly from the exact arithmetic aggregation of the figures that precede them.

For the income statement, expenses have been classified by function. In order to enhance the clarity of presentation, various items in the balance sheet and in the income statement have been aggregated and described in more detail in the notes.

(2) Executive board approval

The board of directors of H&K AG finalised & approved the consolidated financial statements on April 8, 2022.

(3) Statement of compliance with applicable law and IFRS

The consolidated financial statements of H&K AG (H&K AG Group / Group) as at December 31, 2021, have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) as applicable in the EU, together with interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and the supplementary German commercial law regulations pursuant to § 315e (1) in conjunction with (3) HGB. All IFRS's and IFRIC's which were effective for the financial year 2021 have been applied. The financial statements were prepared on a going concern basis. The continued existence of H&K AG and therefore of the H&K AG Group is dependent on the loans received and issued bond being extended or replaced on schedule by other external loans or an equity increase. The company is currently in ongoing financing discussions with various commercial banks and credit providers. Concurrently, on March 24, 2022 agreements with two main shareholders were reached, under which sufficient funds are guaranteed, should these financing discussions not reach a satisfactory conclusion; this ensures that the company remains a going concern. According to the current five-year business plan, the H&K AG directors are also planning the conversion of shareholder loans into equity, to the extent permitted by law, which would reduce the indebtedness significantly. See also the comments in "Liquidity risk" in Note 28 and in "Solvency" in the Management report.

Except for the changes below, the Group has consistently applied the policies described in Note 5 to all periods presented in these consolidated statements.

New requirements currently mandatory in the EU

Changes due to the following IFRS that were mandatory in the EU for the first time in 2021 are not material for the Group and are therefore not detailed here:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest rate benchmark reform (phase 2)
- Amendments to IFRS 16 - Covid-19-related rent concessions after June 30, 2021

New standards not yet adopted

The following new or amended standards and interpretations have been issued by the IASB but are not mandatory until future periods and have not been applied in preparing these consolidated financial statements. The Group does not plan to adopt these standards early and the directors do not expect material effects to result from these.

Endorsed by the EU

- Amendments to IFRS 3 – reference to the framework concept.
The amendments are effective for accounting periods beginning on or after January 1, 2022.
- Amendments to IAS 16 - Proceeds before intended use.
The amendments are effective for accounting periods beginning on or after January 1, 2022; any cumulative effects of adoption would be recognised as an adjustment to consolidated retained earnings in the earliest comparative period shown.

- Amendments to IAS 37 - Onerous contracts – costs of fulfilling a contract.
The amendments are effective for accounting periods beginning on or after January 1, 2022; comparative periods remain unchanged, instead any cumulative effects of adoption would be recognised as an adjustment to opening consolidated retained earnings.
- Annual improvements 2018-2020 (IFRS 1, IFRS 9, IFRS 16, IAS 41).
The amendments are effective for accounting periods beginning on or after January 1, 2022.
- Amendments to IAS 1 - Presentation of financial statements - and IFRS Practice Statement 2: disclosure of accounting policies.
The amendments are effective for accounting periods beginning on or after January 1, 2023; an earlier adoption would be permissible.
- Amendments to IAS 8 – Definition of accounting estimates (published February 12, 2021)
The amendments are effective for accounting periods beginning on or after January 1, 2023; an earlier adoption would be permissible.
- IFRS 17 Insurance contracts including amendments to IFRS 17 (published June 25, 2020)
The amendments are effective for accounting periods beginning on or after January 1, 2023 and are to be applied retrospectively.

EU endorsement pending

- Amendments to IAS 1 - Presentation of financial statements: classification of liabilities as current or non-current.
The amendments are effective for accounting periods beginning on or after January 1, 2023 and are to be applied retrospectively; an earlier adoption would be permissible but must be declared.
- Amendments to IAS 12 – Income Taxes: deferred taxes related to assets and liabilities arising from a single transaction.
The amendments are effective for accounting periods beginning on or after January 1, 2023; an earlier adoption would be permissible.
- Amendments to IFRS 17 Insurance contracts: initial application of IFRS 17 and IFRS 9 – comparative information (published December 9, 2021)
The amendments are effective for accounting periods beginning on or after January 1, 2023.
- Amendments to IAS 10 and IAS 28 - Sale or contribution of assets between an investor and its associate or joint venture
The effective date has been postponed indefinitely.

(4) Group entities

Apart from the single entity statements of H&K AG, the consolidated financial statements of H&K AG as at December 31, 2021, include the annual financial statements of seven (2020: seven) foreign and domestic subsidiaries. Subsidiaries are companies, which the parent enterprise can control due to voting rights or for other reasons and for which it is exposed to positive and negative variable returns and can affect such returns through its control position.

Since July 2020, the majority of shares are held by Compagnie de Développement de l'Eau S.A., Luxembourg, Luxembourg (directly) and Sofi Kapital Ltd., Christ Church, Barbados (indirectly).

The following table shows a list of the subsidiaries included in the consolidation, together with their total equity and profit for the year figures from their financial statements, as prepared for consolidation purposes under IFRS, in their functional currencies:

	Abbreviation	Functional Currency	% held	2021		% held	2020	
				Equity	Profit		Equity	Profit
Direct holdings								
Heckler & Koch Management GmbH	HKM	EUR '000	100%	351,299	35,167	100%	351,299	66,378
Heckler & Koch GmbH	HKO	EUR '000	5.1%	127,967	26,984	5.1%	121,299	17,264
Indirect holdings								
Heckler & Koch GmbH	HKO	EUR '000	94.9%	127,967	26,984	94.9%	121,299	17,264
NSAF Limited, Nottingham, England	NSAF	GBP '000	100%	4,170	2,204	100%	3,673	1,698
Heckler & Koch France S.A.S., Paris, France	HKF	EUR '000	100%	2,519	1,914	100%	2,605	2,645
Small Arms Group Holding Inc., Columbus, GA, USA	SAGH	USD '000	100%	17,019	-	100%	17,019	-
Heckler & Koch Defense Inc., Columbus, GA, USA	HKD	USD '000	100%	(9,153)	6,746	100%	(15,899)	2,682
Heckler & Koch, Inc., Columbus GA, USA	HKI	USD '000	100%	19,577	4,374	100%	15,203	4,078

HKO and HKM, each located in Oberndorf am Neckar, have availed themselves of the German commercial law option §264 Abs. 3 HGB to not publish single entity accounts. This exemption clause was also applied by HKO regarding the preparation of a management report.

(5) Summary of significant accounting policies and basis of measurement

The consolidated financial statements have been prepared on a historical cost basis; where IFRS requires recognition at fair value, this has been applied.

The significant accounting policies and measurement methods applied in preparing the consolidated financial statements are described below:

Business combinations and consolidation methods

The Group accounts for business combinations using the acquisition method according to IFRS 3, with inclusion when control, as defined by IFRS 10, is transferred to the Group and derecognition when control is lost. On acquisition, the assets and liabilities acquired are generally measured at their fair value. To the extent that the fair value of the consideration transferred exceeds the net fair value of the identified assets and debts acquired, the difference is capitalised as goodwill and allocated to the cash-generating-units (CGUs) / groups of CGUs acquired, and to any other CGUs for which synergies are expected due to the business combination. If the acquisition costs are lower, the fair value of the assets and liabilities acquired and of the consideration transferred are reassessed. Any remaining negative goodwill (lucky buy) is recorded immediately in the income statement. Transaction costs are expensed.

In subsequent periods, the associated fair value adjustments to assets and liabilities are maintained, written off or released in accordance with the corresponding assets and liabilities. Capitalised goodwill is not amortised but, as described below, is subject to impairment testing at least annually as at the balance sheet date and during the year if there are indications that an impairment may have occurred.

The financial year of all companies included corresponds to the financial year of the parent company.

The assets and liabilities of the domestic and foreign companies included in the consolidated financial statements are recognised and measured using the accounting and measurement methods that apply uniformly for the H&K AG Group.

All receivables, liabilities, sales revenues, other income and expenses, including interest and dividends, within the scope of consolidation are eliminated. Unrealised profits from intra-group supplies are eliminated from inventories or fixed assets as appropriate.

Currency translation

The H&K AG Group reporting currency is the euro (€).

Foreign currency transactions are translated in the individual financial statements of H&K AG and its consolidated companies at the rates pertaining at the time of the transactions. As at the balance sheet date, assets and liabilities in foreign currency are measured at the spot rate on the balance sheet date. Differences arising on translation are recorded in the income statement.

The financial statements of the foreign companies are translated from their functional currencies into euro. Since subsidiaries operate their business independently, their functional currency is their individual local currency. In the consolidated financial statements, income and expenses from the financial statements of subsidiaries that are prepared in foreign currency are translated at the average rate for the year calculated from the daily rates. This method is used for simplicity since usually the local currency income and expenditure involved are fairly evenly spread throughout the year and consequently any potential variances are not material. Assets and liabilities are translated at the spot rate on the balance sheet date. Foreign currency translation variances are taken directly to the foreign currency translation reserve in equity. In the event of the disposal of a consolidated entity, associated accumulated foreign currency translation variances are recorded as part of the profit or loss on disposal.

The rates used for currency translation are shown in the table below:

Currency	Abbr.	Rate on balance sheet date 31.12.2021	Rate on balance sheet date 31.12.2020	Average exchange rate 2021	Average exchange rate 2020
US Dollar (USA)	USD	1.1326	1.2271	1.1827	1.1422
Pound (Great Britain)	GBP	0.8403	0.8990	0.8596	0.8897

Significant accounting policies

Goodwill

Goodwill is a separate asset representing the future economic benefits that cannot be individually identified and separately recognised from the net assets obtained through a business combination. Goodwill is allocated to the cash-generating-units (CGUs) / groups of CGUs acquired and to any other CGUs for which synergies are expected due to the business combination. Accordingly, the goodwill

recognised by the Group is allocated to CGUs which correspond to the legal entities HKO (segment “Site location: Germany”) and HKF (segment “Site location: France”):

EUR '000	31.12.2021	31.12.2020
Site location: Germany	4,016	4,016
Site location: France	1,133	1,133
Total	5,149	5,149

Goodwill is capitalised and, in accordance with IFRS 3, not amortised but instead, in line with IAS 36, subjected to impairment testing at least annually, as of the balance sheet date, and during the year if there is an indication that an impairment may have occurred. Additional information on this impairment testing for the reporting period is provided in note 16. If the carrying value is no longer recoverable, an impairment is recognised. Otherwise, the prior year carrying value is retained. Any impairment recognised against goodwill is not reversed, even if the valuation exceeds the carrying value.

Goodwill from business combinations is capitalised; negative goodwill from an acquisition prior to the IFRS transition on January 1, 2006 has been offset against reserves. On divestment of a consolidated company any goodwill relating to it, other than negative goodwill, is included in the computation of the deconsolidation result.

Intangible assets

Purchased intangible assets, mainly trademarks, patents, licences and software, are capitalised at acquisition cost. Internally generated intangible assets, with the exception of goodwill, are capitalised if it is sufficiently probable that a future economic benefit will flow from the use of the asset and the costs of the asset can be determined reliably. The manufacturing costs of internally generated intangible assets are determined on the basis of directly attributable individual costs as well as a proportion of directly allocated overheads. Financing costs are only capitalised to the extent that they are directly attributable to the acquisition or production of a qualifying asset.

With the exception of goodwill and the trademark “Heckler & Koch”, all intangible assets have finite useful lives and are amortised using the straight-line method over this period. The €8,393k (2020: €8,393k) trademark is allocated to the cash-generating unit HKO (segment “Site Location: Germany”) and at least annually, as of the balance sheet date, but also during the year, if there is an indication that an impairment may have occurred, is subject to impairment testing in line with that described for goodwill. Additional information on this impairment testing for the reporting period is provided in note 16. Licences and software usually have useful lives of 1 - 10 years; capitalised development costs usually have useful lives of 8 years from the date that sales of the developed product commence. If the expected useful life for an individual asset is materially longer or shorter than these standard periods, the expected useful life is used. If there is an indication that an impairment may have occurred, the assets are subject to impairment testing.

Property, plant and equipment

Tangible assets which will be used in the business for more than one year are capitalised and valued at acquisition or manufacturing costs less depreciation calculated using the straight-line, use-related method, together with impairment if appropriate. The manufacturing costs of internally generated tangible assets are determined on the basis of directly attributable individual costs as well as a

proportion of directly allocated overheads. Financing costs are not currently capitalised, since financing costs are only capitalised to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset, and this is not the case at present. The permitted alternative method of revaluation is not applied.

The following useful lives are applied for scheduled depreciation on owned assets throughout the Group:

Category of tangible asset	years
Buildings	25 - 40
Plant and machinery	3 - 10
Tooling	3
Vehicles	3 - 9
Fixtures, fittings and office equipment	3 - 15

The useful lives for right-of-use assets recognised in accordance with IFRS 16 are detailed in Note 5 section “Leases”.

The useful lives and methods of depreciation are reviewed regularly, and in individual cases, to ensure that these are in line with the actual expected economic use.

Impairment of tangible assets, intangible assets and right-of-use assets

If there are triggering events for impairment, material tangible assets, intangible assets and right-of-use assets are submitted to an impairment test in accordance with IAS 36. If the carrying value of an asset exceeds its recoverable amount, an impairment loss is recognised. The recoverable amount is the higher of (i) fair value less costs to sell and (ii) value in use. If the recoverable amount for an individual asset cannot be determined, an estimate is made of the recoverable amount at the level of next higher cash generating unit.

If, in the following periods the recoverable amount exceeds the carrying value, reversal of impairment is only made for the lower of the amount necessary to (i) bring the carrying value of the asset to its recoverable amount or (ii) to restore the asset to its pre-impairment carrying amount less subsequent depreciation or amortisation that would have been recognised.

The impairment and any reversal of impairment are recorded in the income statement.

Financial instruments

i. Recognition and initial measurement

Trade receivables and debt securities issued etc. are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

ii. Classification and subsequent measurement

On initial recognition, a financial asset is classified as being measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For 2021 the financial assets are primarily cash and cash equivalents, trade receivables, other receivables and deposit accounts. The financial liabilities include trade payables, liabilities to lenders, bondholders and lessors, and derivatives relating to currency forward-cover contracts with negative fair values at the balance sheet date. Trade receivables and payables result from the delivery / receipt of goods and or services to / from third parties in the normal course of business.

As a result, in line with IFRS 9 - with the exception of the derivatives - all the financial instruments held by the Group during 2021 were classified and measured “at amortised cost”. The derivatives are classified and measured at “fair value through profit or loss”.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. At present the Group does not recognise any such interest income since the assets do not have any related transaction costs to be recognised over the terms of the assets using this method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Financial liabilities

Financial liabilities are in particular trade payables, liabilities to lenders, bondholders or credit institutes, and other financial liabilities, including lease liabilities recognised according to IFRS 16.

All the Group's financial liabilities in the reporting period are subsequently measured at amortised cost using the effective interest method in accordance with IFRS 9 or, in the case of lease liabilities, at amortised cost using the effective interest method in accordance with IFRS 16. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

iii. Impairment of financial assets

The Group recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost.

IFRS 9 sets out three stages in the development of the credit risk of a financial instrument:

- Providing there has been no significant increase in credit risk since initial recognition, expected losses are to be measured as the current value of 12-month ECL. Interest income is calculated using the effective interest method, based on the gross book value (Stage I).
- If credit risk has increased significantly, but there is no evidence of an impairment, the allowance is to be increased to cover expected losses for the remaining term of the instrument. The method for recognition of interest remains unchanged (Stage II).
- If there is evidence of impairment, from this time onwards, interest income must only be accrued on the basis of the net book value (gross book value less allowances) of the instrument (Stage III).

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

Impairment allowances for trade receivables are always measured as lifetime ECLs.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

If there is evidence of a reduction in creditworthiness, for example due to the insolvency of a customer, a transfer from level II to level III is recognised.

The gross carrying amount of a financial asset is written down when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For commercial market customers, based on historical experience of recoveries of similar assets, the Group has a policy of writing down the gross carrying amount when the financial asset is 90 days past due. For governmental agency customers, the Group individually makes an assessment with respect to the timing and value of write-downs based on whether there is a reasonable expectation of recovery. The Group expects no significant recovery from the amount written down. However, financial assets that are written down could still be subject to enforcement activities.

Impairment allowances against financial assets that are held at amortised cost are deducted from the gross carrying amounts of these assets.

iv. Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred. A derecognition also occurs if 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. The Group also derecognises a financial asset when its terms are modified and the cash flows of the modified asset are substantially different, in which case a new financial asset based on the modified terms is recognised at fair value.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

v. Offsetting

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position, if the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

vi. Derivatives

H&K AG Group policy is, dependent upon the exchange rates on offer and the conditions of potential forward cover contracts and taking expected USD developments into consideration, to cover a proportion of the expected USD (\$) income and the associated foreign exchange transaction exposure with forward cover transactions. These derivatives are initially recognised at fair value; subsequently they are also valued at fair value, with changes in their fair value being recognised through profit or loss since these derivatives are not designated as hedges. The treatment of designated hedges will not be covered here since during 2020 and 2021 the Group did not have any.

Inventories

The inventories are recognised at acquisition or manufacturing costs or, if lower, their net realisable value. Raw materials, supplies and consumables as well as merchandise are measured at their adjusted average acquisition costs. The manufacturing costs of work in progress and finished goods are determined on the basis of directly attributable individual costs as well as a proportion of production-related overheads. The manufacturing costs do not include selling expenses, general and administrative expenses or financing costs. The net realisable value is the estimated selling price less the estimated cost of completion and the estimated costs necessary to make the sale. Provisions are made to recognise impairment of slow-moving inventories or to take account of reduced selling prices;

above and beyond this, an inventory range analysis is also carried out to ensure that impaired inventories are valued at net realisable value.

Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. These assets are held at the lower of their carrying values and their fair value less costs to sell. These assets are not depreciated. If any such assets or liabilities are held, they are shown separately in the statement of financial position.

Provisions for pensions and similar defined benefit obligations

The provisions for defined benefit obligations are computed using the projected unit credit method in accordance with IAS 19. Under this method, in addition to the pensions and vested rights known at the balance sheet date, expected future increases in pensions and salaries, with estimates of the demographic variances are also taken into consideration. The actuarial valuation is carried out by an actuary.

Actuarial gains and losses are recognised outside profit or loss, in the period in which they occur, in accordance with IAS 19. These are shown in the statement of comprehensive income.

In determining the discount interest rates in accordance with IAS 19, the actuaries refer to market yields on high quality corporate bonds at the balance sheet date.

Other non-current and current provisions

Other general liability provisions are recognised when a past event gives rise to a present obligation, it is probable that the obligation will be claimed and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the balance sheet date, or, if the effect of the time value of money is material, the present value thereof. Reimbursement claims are recognised separately if it is virtually certain that reimbursement will be received if the Group settles the obligation.

Leases

At inception the Group assesses whether the contract is or contains a lease. This is the case 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 includes such a right, the Group uses the definition of a lease in IFRS 16.

i. Leases in which the Group is a lessee

The Group's main leases are for offices and vehicles.

Upon the commencement or modification of a lease, the Group recognises a right-of-use asset and a lease liability.

The lease liability is initially measured at the present value of the outstanding lease payments including expected payments for:

- any residual value guarantees,
- purchase or extension options, the exercise of which is reasonably certain, or
- potential penalties for the early termination of a lease, unless it is reasonably certain that such an early termination will not occur.

discounted using the interest rate implicit in the lease or, if this rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate; during 2020 and 2021, this was 7.25%.

The right-of-use asset is initially measured at cost, being the value of the lease liability adjusted for:

- any payments made on or before the commencement date,
- any initial direct costs;
- estimated dismantlement or similar costs; and
- any leasing incentives received.

Subsequently the right-of-use asset is amortised from the commencement date to the end of the lease term using the straight-line method. An exception to this occurs for contracts for which the exercise of a purchase option by the lessee is reasonably certain and the associated costs are included in the right-of-use asset. In such cases, the right-of-use asset will be amortised over the useful life of the underlying asset. In addition, when applicable the right-of-use asset is adjusted for impairment losses and under certain circumstances for remeasurements or modifications of the lease liability.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in the future lease payments or term, when the estimated amount expected to be payable under any residual value guarantee changes and when the assessment of the likelihood that purchase, extension or early termination options will be exercised changes. If the lease liability is remeasured, a corresponding adjustment is made to the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has reduced to zero. In addition, if a contract is modified, adjustments are recognised within, or outside, profit or loss.

The Group shows right-of-use assets in "property, plant and equipment" and lease liabilities in liabilities in the statement of financial position.

ii. Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases (with terms up to a maximum of 12 months). Leasing fees for these leases are recognised in the income statement. Leasing expenses are recognised on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit or the variance between these methods and the actual leasing fees is immaterial.

iii. Leases in which the Group is a lessor

Since we had no such leases during 2020 or 2021, we will not go into further detail in this report.

Recognition of income and expense

Sale of goods and services

Revenue is measured based on the compensation agreed in a contract with a customer. The Group recognises revenue when control of the goods or services is transferred to a customer.

In principle, customers obtain control over our products when the goods are collected by the customer or his representative or are delivered to the customer's property. At this time, the invoice is generated. Revenues are recognised when the goods are collected by the customer or delivered to the customer's property.

Occasionally a customer may request that we store their goods separately for them for a while; in such cases ("bill-and-hold"), revenues are recognised when the goods are ready for shipment and are to be stored separately on our site. Such transactions are always for products produced specially for, approved by and registered to that customer.

Interest and other income

Interest income is recognised in the period to which it relates.

Other income is recognised in the period to which it relates, in accordance with the associated contract.

Other expenses

Other expenses are recognised on the basis of a direct link between the costs incurred and the related income in the income statement, either when the benefit is used or when the costs are caused.

Expenses for research and development

Research costs are expensed as they are incurred. Development costs are also expensed as they are incurred unless they satisfy the criteria for recognition as internally generated intangible assets according to IAS 38.

Borrowing costs

Borrowing costs as defined in IAS 23 are capitalised to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset; the remaining borrowing costs are recognised as an expense in the period in which they are incurred. No borrowing costs were capitalised during the business year.

Income taxes and deferred taxes

The income tax expense represents the sum of current tax expense and deferred tax expense.

The current tax expense is determined on the basis of the taxable income for the relevant year. The taxable income is different from the pre-tax result shown in the income statement since it excludes expenses and income which will be tax deductible / taxable in other years or which will never be tax deductible or taxable. The liability of the group for current tax expense is computed on the basis of the valid tax rates or of tax rates which have been enacted by the balance sheet date.

Deferred taxes are the expected tax charge or relief arising from differences between the carrying values of assets and debts in the Group IFRS consolidated financial statements and their values in the tax accounts of the individual companies. The balance sheet-oriented liability method is applied. In general, deferred tax liabilities are recorded for all taxable temporary differences, and deferred tax assets are recorded to the extent that it is probable that taxable profits will be available for which the deductible temporary differences can be used. Such assets and liabilities are not recognised if the

temporary difference arises from (i) the initial recognition of goodwill or (ii) from the initial recognition of other assets and liabilities in a transaction that affects neither the accounting profit / (loss) nor taxable profit / (loss). In addition, deferred taxes are recognised for the carry forward of unused tax losses to the extent that it is probable that it will be possible to utilise them in the future.

The carrying amount of deferred tax assets is reviewed each year at the balance sheet date and is reduced if it is no longer probable that sufficient taxable income will be available to allow the benefit of all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date.

The changes in deferred taxes are recognised in the income statement as tax income or expense unless they relate to transactions recognised in other comprehensive income or directly in equity; in this case the deferred taxes are recognised in other comprehensive income and the associated equity position.

Contingent liabilities and contingent assets

Contingent liabilities are not recognised. If any are identified, they are disclosed in the notes unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised. They are disclosed in the notes, where an inflow of economic benefits is probable.

The use of estimates and assumptions

The preparation of the consolidated financial statements in compliance with the pronouncements of the IASB requires estimates to be made affecting the values recognised in the balance sheet, the nature and extent of contingent assets and liabilities identified at the reporting date and the value of income and expenses in the reporting period. The main assumptions and estimates for the H&K AG Group concern the impairment tests for goodwill and trademarks, the setting of useful lives, the recoverability of accounts receivable, the valuation of inventories, the recognition and measurement of provisions, the probability of future utilisation of deferred tax assets and the recognition and measurement of leases.

Guarantee and warranty obligations can arise from legal or contractual requirements. Provisions are recognised for the expected cost of meeting claims under guarantee or warranty obligations. Claims are particularly likely if the warranty period has not yet expired, if warranty costs have been incurred in the past or if particular warranty claims are known. The evaluation of the risk of warranty claims is based on past experience and is used in determining the level of provision required (Note 24).

Provisions for litigation risks are recognised if a company in the Group is a defendant in a lawsuit and a judgement against the defendant is more likely than not. A provision is made for the amount likely to be incurred by the company if the judgement is against it. This figure includes the payments likely to be made by the company, in particular compensation, damages and settlements, as well as the expected legal expenses. If a company in the Group is a defendant in a lawsuit and a judgement for the defendant is more likely than not, or if the company is the claimant, only litigation fees are provided for (Note 24).

Due to the adoption of IFRS 16 it must be determined whether a contract fulfils the definition of a lease according to IFRS 16; in such cases the Group must select a reasonable discount factor and judge whether the exercise of options to extend are sufficiently certain, in order to determine the period of the lease. Additional information on the effects of IFRS 16 are provided in notes 25 and 33.

The use of estimates in other positions in the Group balance sheet and income statement are described in the notes relating to the individual positions. In particular, these relate to: impairment of goodwill, trademarks and other intangible assets (Note 16), impairment of non-current tangible and right-of-use assets (Note 17), provisions for doubtful debts (Note 20), allowances for inventories (Note 19), the valuation of deferred tax assets (Note 15) and of pension provisions (Note 23).

Notes on the income statement

(6) Revenue

Net revenue increased by €15,223k to €290,207k compared with revenue of €274,984k in 2020. In accordance with IFRS 15, associated expenses for late delivery penalties are included in sales deductions (discounts, bonuses etc.). The revenue of the Group was made up as follows:

EUR '000	2021	2020
Sale of goods	287,103	270,339
Sale of services	5,796	8,334
Gross revenue	292,899	278,673
Discounts, bonuses, etc.	(2,692)	(3,689)
Net revenue	290,207	274,984

Breakdown by customer location:

EUR '000	2021	2020
Domestic (Germany)	63,039	76,042
Foreign - other "Green Countries"	229,734	202,629
Foreign - rest of the world	126	2
Gross revenue	292,899	278,673
Discounts, bonuses, etc.	(2,692)	(3,689)
Net revenue	290,207	274,984

The Group's revenues result primarily from transactions recognised at a point in time in line with IFRS 15.38.

The following table provides information about receivables and contract liabilities from contracts with customers:

EUR '000	31.12.2021	31.12.2020
Trade receivables	28,943	23,444
Contract liabilities	(12,985)	(5,001)
Gesamt	15,958	18,443

Contract liabilities primarily relate to advance consideration received from customers. Of the €5,001k contract liabilities recognised at the beginning of 2021 (€4,275k at the beginning of 2020) €3,485k (2020: €3,954k) was recognised as revenue during the year. The amount of revenue recognised in the year relating to performance obligations satisfied (or partially satisfied) in previous periods was nil (2020: nil).

As permitted by IFRS 15, no information is provided about remaining performance obligations at December 31, 2021 that have an original expected duration of one year or less.

(7) Cost of sales

The cost of sales includes materials, production labour and overhead expenses and depreciation relating to the revenue. The cost of sales increased by €5,711k to €193,149k compared with €187,438k cost of sales in 2020; increased revenues and a change in the product mix contributed to this.

(8) Research and development expenses

The research and development expenses comprise those personnel and overhead expenses and depreciation relating to these activities, together with the costs of test materials and tools that do not meet the criteria for capitalisation under IAS 38. In addition, the normal amortisation and the retirement of capitalised development costs are included. These research and development expenses increased by €2,376k to €8,930k compared with €6,554k in 2020; the amount included for the retirement of capitalised development costs relating to projects that have been cancelled because of changed market conditions decreased by €15k to €2.679k, compared with €2.693k in 2020.

(9) Sales, marketing & distribution expenses

The sales, marketing & distribution expenses mainly comprise personnel expenses, material and marketing costs as well as depreciation relating to the sales function and project-related costs. They decreased by €507k to €22,600k compared €23,108k in 2020; the decrease is primarily due to a lower creation of provisions for onerous contracts relating to options exercised from old contracts.

(10) Administration expenses

General administration expenses include personnel expenses and overheads as well as the depreciation relating to the administration function. They increased by €2,757k to €20,127k compared

with €17,371k in 2020, primarily due to higher provisions for litigation and other administration overheads.

(11) Other operating income

EUR '000	2021	2020
Insurance benefits	645	757
Profit on disposal of non-current assets	112	23
Income from the disposal of scrap etc.	576	265
Other	319	405
Total	1,652	1,450

The other operating income includes out-of-period income of €951k (2020: €1,087k). This primarily relates to income from insurance benefits and refunds amounting to €839k (2020: €1,064k).

(12) Other operating expenses and impairment losses on trade receivables, net of reversals

The other operating expenses include the following material items that are not allocated to functional areas:

EUR '000	2021	2020
Provision for the possible calling of bank guarantees	(148)	39
Prior year credit notes	(244)	-
Loss on disposal of non-current assets	(39)	(186)
Other taxes	(100)	(562)
Insurance for natural hazards and business interruption	(339)	(236)
Late delivery penalties, other periods	317	55
Other	(167)	(111)
Total	(720)	(1,000)

The other operating expenses include out-of-period net income of €407k (2020: €319k net expenses). In 2021 the out-of-period net income related primarily to the release of a provision for potential payroll back-taxes following a tax audit and of a provision for potential contractual penalties. In 2020, out-of-period net expenses related mainly to losses on the disposal of non-current assets.

In 2021, the position “impairment loss on trade receivables, net of reversals” relates primarily to an increase in specific allowances offset by a reduction in the general impairments determined in accordance with IFRS 9, (Note 20); in 2020 this position related primarily to an increase in the impairments determined in accordance with IFRS 9.

(13) Analysis of expenses by nature, showing EBITDA

The income statement shows operating expenses analysed by function; the following table shows operating profit, with expenses analysed by nature, and EBITDA.

EUR '000	2021	2020
Net sales	290,207	274,984
Material costs and movement in inventories	(124,327)	(122,836)
Capitalised costs	3,347	3,312
Other operating income	1,652	1,450
Payroll	(81,980)	(75,379)
Other operating expenses	(30,815)	(29,613)
Impairment loss on trade receivables, net of reversals	(107)	(1,970)
EBITDA	57,976	49,949
Depreciation and amortisation	(11,750)	(10,954)
Results from operating activities	46,226	38,995

No definition of EBITDA is given in IFRS; various methods can therefore be used to determine EBITDA.

(14) Financial result

EUR '000	2021	2020
Financial income		
Interest income	3	14
Gains on translation of foreign currencies	2,835	1,377
Total financial income	2,838	1,391
Financial expenses		
Interest expenses	(13,945)	(13,397)
Accretion of non-current liabilities	(1,791)	(2,294)
Losses on valuation of derivative financial instruments	(1,118)	(73)
Losses on translation of foreign currencies	(732)	(4,381)
Other	(54)	(70)
Total financial expense	(17,641)	(20,216)
Financial result	(14,803)	(18,825)

The interest income primarily includes interest on bank balances; currently no interest income results from using the effective interest method (Note 5). The losses on valuation of derivative financial instruments result from forward cover contracts to reduce the currency risk for the conversion of expected USD cash flows. The gains and losses on translation of foreign currencies include realised exchange variances together with translation differences for balance sheet positions held by Group companies in currencies other than their own functional currency. The interest expenses are primarily

due to interest on the bonds and on other long-term loans. The accretion of non-current liabilities relates to defined benefit and other long-term provisions, the bonds and the SFA-loan; (Note 25). Other financial expenses relate to guarantee costs, primarily for the provision of guarantees to our customers.

(15) Income taxes

Income taxes include German corporation tax (“Körperschaftsteuer”), trade income tax (“Gewerbsteuer”) and associated reunification surcharges (“Solidaritätszuschlag”) for the German companies, together with similar income taxes for the foreign subsidiaries. Through the German companies’ fiscal unity, from 2013 income taxes are due from the top-level company, H&K AG.

The companies in Germany have a calculated statutory tax rate of 28.075% (2020: 28.075%). Foreign taxation is calculated at the rates valid in each country; these vary between 19.0% and 26.5% (2020: between 19.0% and 28.0%). Deferred taxes are calculated on the basis of statutory tax rates, or of tax rates which have been enacted as of the balance sheet date in each country, that are expected to be in place on realisation.

The income tax expense comprises:

EUR '000	2021	2020
Current tax expense	(5,807)	(5,743)
Deferred tax income / (expense)	(3,771)	(945)
Income tax expense	(9,578)	(6,688)

Primarily due to the improved result before taxes of €31,422k profit (2020: €20,170k profit), the current income tax expense recognised increased to €5,807k (2020: €5,743k). Deferred tax expenses increased to €3,771k (2020: €945k).

The following table shows a reconciliation of the expected tax using the current statutory tax rate for the parent company of 28.075% (2020: 28.075%) and the actual income tax shown for the Group:

EUR '000	2021	2020
Profit / (loss) before income tax	31,422	20,170
Expected tax rate (current German statutory rate)	28.075%	28.075%
Expected tax (expense) / income	(8,822)	(5,663)
Adjustments to expected tax expense due to:		
- change in tax rates	(0)	(3)
- non-tax-deductible expenses	(1,597)	(1,678)
- non-taxable income	6	8
- taxes relating to other periods	(44)	(78)
- differences in foreign tax rates	978	694
- other effects	(100)	31
Actual tax expense	(9,578)	(6,688)
Effective tax rate	30.5%	33.2%

Deferred tax relates to the following positions:

Balance Sheet Item	Deferred	Deferred	Deferred	Deferred
	tax	tax	tax	tax
EUR '000	assets	assets	liabilities	liabilities
	31.12.2021	31.12.2020	31.12.2021	31.12.2020
Intangible non-current assets	-	-	16,735	16,336
Tangible non-current assets	142	129	4,546	4,148
Inventories	1,200	851	101	136
Trade accounts receivable	159	137	12	9
Other current assets	110	764	1	-
Employee defined benefit obligations	8,013	8,607	-	-
Other non-current provisions	808	634	-	-
Non-current financial liabilities	-	-	96	325
Other non-current liabilities	31	29	-	-
Current provisions	96	188	-	-
Trade accounts payable	2	-	-	2
Other current liabilities	945	852	0	-
Carryforward of unused tax losses	273	2,817	-	-
Total	11,780	15,009	21,553	20,956

During 2021, a net increase in deferred tax assets of €198k (2020: €331k net increase) was recognised through other comprehensive income into equity since it related to the actuarial variances on defined benefit schemes. The variances due to the effects of changing exchange rates on the translation of deferred tax assets and liabilities in foreign subsidiaries' accounts are also recognised within "Forex translation differences for foreign operations" in other comprehensive income (2021: €144k net increase; 2020: €317k net decrease). Apart from these, all other changes in deferred tax assets and liabilities were recognised in the income statement.

Balance Sheet Item	Deferred	Recognised	Recognised	Deferred	Recognised	Recognised	Deferred
	Tax	in profit	in other	Tax	in profit	in other	Tax
EUR '000	01.01.2020	or loss	comprehensive	31.12.2020	or loss	comprehensive	31.12.2021
			income			income	
Intangible non-current assets	(16,497)	161	-	(16,336)	(399)	-	(16,735)
Tangible non-current assets	(3,784)	(338)	103	(4,019)	(289)	(94)	(4,403)
Inventories	795	(51)	(29)	715	360	24	1,099
Trade accounts receivable	276	(133)	(15)	128	7	12	147
Other current assets	171	592	-	764	(654)	-	109
Employee defined benefit obligations	8,590	(282)	299	8,607	(414)	(181)	8,013
Other non-current provisions	528	75	31	634	192	(17)	808
Non-current financial liabilities	(523)	198	-	(325)	229	-	(96)
Other non-current liabilities	60	(30)	(1)	29	1	1	31
Current provisions	92	112	(15)	188	(104)	11	96
Trade accounts payable	2	(3)	-	(2)	4	-	2
Other current liabilities	901	29	(78)	852	20	72	945
Carryforward of unused tax losses	4,371	(1,273)	(281)	2,817	(2,661)	117	273
Total	(5,016)	(945)	14	(5,947)	(3,771)	(55)	(9,773)

Potential deferred tax assets of €248k (2020: €229k) relating to tax-losses carried forward by US subsidiaries have not been recognised since they relate to losses incurred prior to the current US fiscal unity and therefore cannot be utilised at present. Potential deferred tax assets of the parent company amounting to €33,631k (2020: €32,543k) relating to the tax carry-forward of interest expenses, have also not been recognised.

In 2021 income tax payments amounted to €5.2 million (2020: €3.4 million). Of these, €3.3 million (2020: €3.3 million) relate to advance payments for current year German income taxes, €0.4 million net payments (2020: €1.7 million net refunds) relate to German income taxes for prior years, while foreign income taxes account for €1.5 million net payments (2020: for €1.8 million net payments).

Notes on the balance sheet

(16) Intangible assets

EUR '000	Development costs (self-generated)	Goodwill (acquired)	Trade marks Patents, licences, software (acquired)	Total
Net carrying value at 01.01.2020	27,545	5,149	10,652	43,346
Acquisition / manufacturing costs				
Balance at 01.01.2020	45,679	6,649	25,236	77,565
Effect of movement in exchange rates	(219)	-	(61)	(280)
Additions	6,007	-	738	6,745
Reclassifications	1,035	-	(1,035)	-
Disposals / retirements	(2,693)	-	(533)	(3,226)
Balance at 31.12.2020	49,809	6,649	24,345	80,803
Amortisation & depreciation				
Balance at 01.01.2020	(18,135)	(1,500)	(14,584)	(34,219)
Effect of movement in exchange rates	1	-	40	40
Amortisation for the year	(2,569)	-	(704)	(3,272)
Disposals / retirements	-	-	495	495
Balance at 31.12.2020	(20,703)	(1,500)	(14,752)	(36,956)
Net carrying value at 31.12.2020	29,106	5,149	9,592	43,847
Acquisition / manufacturing costs				
Balance at 01.01.2021	49,809	6,649	24,345	80,803
Effect of movement in exchange rates	213	-	40	252
Additions	6,222	-	1,347	7,569
Disposals / retirements	(2,693)	-	(559)	(3,252)
Balance at 31.12.2021	53,551	6,649	25,172	85,372
Amortisation & depreciation				
Balance at 01.01.2021	(20,703)	(1,500)	(14,752)	(36,956)
Effect of movement in exchange rates	(0)	-	(37)	(38)
Amortisation for the year	(2,583)	-	(862)	(3,445)
Disposals / retirements	14	-	510	525
Balance at 31.12.2021	(23,272)	(1,500)	(15,141)	(39,914)
Net carrying value at 31.12.2021	30,279	5,149	10,031	45,458

As described in Note 5, goodwill and other intangible assets with indefinite lives are subject to annual impairment testing. Goodwill is allocated to the associated CGUs acquired.

As shown in the above table, aggregate goodwill is unchanged from the previous year at €5,149k. This is the portion of the net book value of the goodwill (excluding trademarks), through acquisitions

from independent third parties, held in the Defence Technology Sub-Group's consolidated financial statements under German GAAP at the date of that sub-group's transition to IFRS (January 1, 2006). Originally, the parent company of this Sub-Group was called Heckler & Koch Wehrtechnik Holding GmbH. This company acquired the design, manufacturing and distribution company Heckler & Koch Gesellschaft mit beschränkter Haftung, at the end of 2003. In 2004 the two companies were merged and renamed Heckler & Koch GmbH. As a result, the Group has goodwill of €4,016k allocated to the merged company, Heckler & Koch GmbH (HKO), a CGU that is equivalent to the segment "site location: Germany". The balance of €1,133k relates to the acquisition of Heckler & Koch France SAS (HKF) in 2004 and is therefore allocated to this CGU, equivalent to the segment "site location: France". On the acquisition of Heckler & Koch Gesellschaft mit beschränkter Haftung, at the end of 2003, the trademark "Heckler & Koch" was also recognised as an intangible asset (2021: €8,393k; 2020: €8,393k) and allocated to the CGU HKO. Since the Group's reputation is associated with this trademark, like goodwill, it is treated as being of indefinite life. The use of the trademark is charged to the other operating companies in the Group via internal pricing and certain licence fees; the impairment test for the trademark is therefore simply carried out at the level of the CGU HKO.

As described in Note 5, the Group conducts an impairment test of goodwill and trademarks at least annually. Since only a small proportion of H&K AG's shares are traded on a stock exchange, and comparable companies were not bought or sold regularly on an active market during the past year, it was not possible to base the impairment tests on market value. Instead, for the test, the recoverable value – the value in use – of the CGU is compared with its carrying value. The value in use of the CGUs is determined by discounting future cash flows. If, as a result of this calculation, there is indication of an impairment, the fair value less cost of disposal (FVLCOD) is also determined in order to measure the potential impairment.

The computations for the CGU HKO (goodwill €4,016k and trademark €8,393k) and the CGU HKF (goodwill €1,133k) are based on the following material assumptions:

A detailed plan is made of the cash flows for the cash-generating units for the forecast period of five years. Subsequent periods are accounted for by a terminal value determined on the basis of the final year, adjusted for material one-off events and effects in the current order book and applying a 1% growth rate. The key assumptions for the determination of the value in use are the planned sales, taking account of order intake and order book, output and EBITDA. Plans are based on past experience together with available information over future requirements and take account of management recharges. The fulfilment of these plans assumes that the current regulation of market access continues and that the Group can maintain its strong competitive position. IAS 36.134(f) does not apply.

H&K AG, Oberndorf am Neckar – Consolidated Statements as of December 31, 2021

The discount rates used for December 31, 2021 are pre-tax cost of capital rates determined using the CAPM.

	2021	2020
HKO	7.5%-7.9%; terminal value 6.5%	6.6%-7.1%; terminal value 6.0%
HKF	4.9%-6.0%; terminal value 4.6%	3.9%-5.0%; terminal value 4.4%

Changes within the reasonably possible interest range at the balance sheet date would not lead to an impairment of goodwill or of trademarks.

Under a security assignment agreement certain patents, trademarks and domains have been pledged as security for a long-term financing loan (*Senior Facilities Agreement*, "SFA-loan") (net book value 2021: €8,393k; 2020: €8,393k); (Note 25).

The normal amortisation (2021: €3,445k; 2020: €3,272k) and the impairment of intangible assets is included in the following income statement positions; the impairments relate to the retirement of capitalised development costs for projects that have been cancelled due to changed market conditions (2021: €2,679k; 2020: €2,693k):

EUR '000	2021	2020
Cost of sales	122	120
Research and development expenses	5,311	5,306
Sales, marketing & distribution expenses	13	17
Administration expenses	679	523
Total	6,124	5,965

As at December 31, 2021 the Group had a balance of €339k (2020: €602k) on order for intangible assets.

(17) Property, plant and equipment

	Land and buildings	Plant and machinery	Fixtures, fittings and other assets	Assets under construction	Total
EUR '000					
Net carrying value at 01.01.2020	24,643	13,379	8,701	3,453	50,176
Acquisition / manufacturing costs					
Balance at 01.01.2020	39,973	64,788	63,721	3,453	171,935
Effect of movement in exchange rates	(718)	(435)	(353)	(106)	(1,612)
Additions	12	10,265	5,027	1,211	16,515
Reclassifications	(33)	207	43	(217)	-
Disposals	(779)	(4,916)	(961)	(136)	(6,792)
Balance at 31.12.2020	38,454	69,909	67,477	4,206	180,046
Amortisation & depreciation					
Balance at 01.01.2020	(15,329)	(51,410)	(55,020)	-	(121,759)
Effect of movement in exchange rates	205	115	275	-	596
Depreciation for the year	(1,126)	(1,996)	(3,747)	-	(6,868)
Reclassifications	19	-	(19)	-	-
Disposals	607	3,946	1,098	-	5,651
Balance at 31.12.2020	(15,625)	(49,344)	(57,413)	-	(122,381)
Net carrying value at 31.12.2020	22,830	20,566	10,065	4,206	57,665
Acquisition / manufacturing costs					
Balance at 01.01.2021	38,454	69,909	67,477	4,206	180,046
Effect of movement in exchange rates	652	392	362	121	1,527
Additions	82	6,777	3,203	1,343	11,405
Reclassifications	10	1,175	(80)	(1,105)	0
Disposals	(471)	(2,441)	(446)	-	(3,357)
Balance at 31.12.2021	38,727	75,812	70,517	4,564	189,621
Amortisation & depreciation					
Balance at 01.01.2021	(15,625)	(49,344)	(57,413)	-	(122,381)
Effect of movement in exchange rates	(200)	(124)	(297)	-	(621)
Depreciation for the year	(1,060)	(3,539)	(3,706)	-	(8,305)
Reclassifications	-	(56)	56	-	(0)
Disposals	471	2,441	444	-	3,355
Balance at 31.12.2021	(16,414)	(50,623)	(60,916)	-	(127,953)
Net carrying value at 31.12.2021	22,313	25,190	9,601	4,564	61,668

Right-of-use assets for leasing agreements are recognised for land and buildings and for fixtures, fittings and other assets. At the end of 2021, land and buildings included such assets with net carrying values of €551k (2020: €671k) and fixtures, fittings and other assets included such assets with net carrying values of €359k (2020: €496k); these right-of-use assets are allocated to the applicable CGUs and segments and increase their book values accordingly (the associated lease liabilities are also allocated to the CGUs and segments). At the year-end there were no indications of potential impairments for these right-of-use assets. See Note 25 for details of the associated lease obligations and the reconciliation between the total minimum lease payments at the balance sheet date and their present values.

Under various floating charges and other security agreements almost all of the Group's property, plant and equipment has been pledged as security for a long-term financing loan ("SFA-loan"); (Note 25).

As at December 31, 2021 the H&K AG Group had a balance of €7,183k (2020: €3,368k) on order for tangible non-current assets.

(18) Non-current investments and current deposits

The non-current “Other investments” and the current “Other deposits” include bank deposits of €9,536k (2020: €1,620k) recognised as non-current assets and bank deposits of €4,418k (2020: €2,774k) recognised as current assets since they have terms of more than three but less than twelve months. These deposits serve as security for certain bank guarantees and similar.

(19) Inventories

EUR '000	31.12.2021	31.12.2020
Raw materials, consumables and supplies	29,855	29,516
Work in progress	55,163	55,722
Finished goods and merchandise	11,640	9,252
Total	96,659	94,489

Within inventories, provisions of €14,862k (2020: €13,225k) have been made to account for marketability risks, slow-moving items and inventory range. These provisions reduce certain items of inventory to carrying values in line with their net realisable values as at December 31, 2021 of €6,458k (2020: €5,993k). Impairment losses of €1,508k (2020: €1,133k) were recognised as an expense. Due to the sale or scrapping of related items and to improved inventory movements, impairment losses recorded in prior years of €22k (2020: €314k) have been reversed within cost of sales.

Under various floating charges and other security agreements almost all of the Group's inventories have been pledged as security for the SFA-loan; (Note 25).

(20) Trade receivables, prepayments and other assets

EUR '000	31.12.2021	31.12.2020
Trade receivables	28,943	23,444
Prepayments for inventories	641	451
Prepayments for other current assets	341	333
Other assets	3,229	1,774
Total	33,154	26,001

Trade receivables are not interest-bearing; they usually have due dates between 30 and 60 days; with the exception of normal trading ownership retention clauses, they are not secured. Under various floating charges and other security agreements certain of the Group's pledgeable trade receivables have been pledged as security for the SFA-loan; (Note 25).

The other assets are mainly for VAT & other tax claims arisen in the normal course of business.

If there is an indication that a trade receivable may be impaired, at the latest if it is over 90 days overdue, the possibility of an impairment is reviewed by the finance, sales and legal departments. In addition, general provisions for expected credit losses have been recognised in accordance with IFRS 9; these relate to trade receivables from our US commercial market customers, since our other

trade receivables are primarily against governmental authorities with very good credit-standing and therefore a minimal risk of credit losses. Consequently, provisions have been made for expected credit losses within trade receivables; all impairments in the allowance account for this are determined on the basis of the expected credit losses over the lifetime of the trade receivables. The account has had the following movements during the reporting period:

EUR '000	2021	2020
Opening balance January 1	2,706	1,726
Creations	699	1,965
(Release) / (utilisation)	(592)	(918)
Effects of foreign currency conversion	54	(68)
Closing balance December 31	2,867	2,706

Expenses from the impairment of trade receivables and income from the reversal of such impairments are shown under a separate position in the consolidated income statement (Note 12). The impairment expenses in 2021 primarily relate to the creation of allowances for specific trade receivables; the reduction of allowances in 2021 was primarily due to a reduction in the general allowances determined in accordance with IFRS 9. Trade receivables with specific impairment allowances at the end of 2021 are still subject to collection procedures.

The aging of financial instruments that are trade accounts receivable is as follows:

EUR '000	31.12.2021	31.12.2020
Neither overdue nor impaired:	24,672	19,669
Overdue but not impaired:		
- within 30 days	2,477	2,291
- between 30 and 60 days	123	457
- between 60 and 90 days	15	47
- between 90 and 180 days	(32)	161
- after more than 180 days	1,066	742
Total:	3,650	3,697
General allowance	(78)	(623)
Impaired (gross)	3,489	2,783
Specific allowance(s)	(2,789)	(2,083)
Net trade accounts receivable	28,943	23,444

As at the balance sheet date, no evidence of reduced creditworthiness had been identified for any of the accounts receivable that were neither overdue nor impaired.

(21) Cash and cash equivalents

The position “cash and cash equivalents” includes cash balances, cheques, bank balances on current accounts and short-term deposits, the original term of which is less than three months. These are valued at nominal value. Information on potential credit risks is provided in Note 28.

One of the prerequisites for the provision of certain guarantee lines etc. is that we are required to maintain a varying level of deposits as security (Note 25). As at December 31, 2021 we had no such security deposits (2020: €0.0 million) included in cash and cash equivalents. The remaining Group bank accounts have been pledged as security for the SFA-loan (2021: €46.5 million; 2020: €33.3 million); (Note 25).

(22) Shareholders' equity and earnings per share

H&K AG has a share capital of €27.6 million (2020: €27.6 million), divided into 27.6 million (2020: 27.6 million) no-par shares.

The calculation of the basic earnings per share of €0.79 profit (2020: €0.49 profit) is based on the following earnings attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding:

EUR '000	2021	2020
Profit / (loss) for the year attributable to the owners of the parent company	21,844	13,482
of which not attributable to ordinary shareholders	-	-
Profit / (loss) attributable to ordinary shareholders	21,844	13,482

Thousands of shares	2021	2020
Issued ordinary shares at 01.01.	27,641	27,641
Weighted average number of ordinary shares at 31.12.	27,641	27,641

A calculation of diluted earnings per share would be based on the earnings attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares. There were no dilutive effects for the reporting period.

The additional paid in capital arises from additional capital contributions from the shareholders.

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

The reserve for defined benefit obligations comprises the cumulative actuarial gains and losses arising on the employee defined benefit obligation provisions, net of tax. The net increase is due to actuarial gains of €707k (2020: €1,178k losses) net of €198k (2020: €331k) deferred taxes.

The consolidated retained earnings include a reduction of €62,333k arising from the effects of the transition of the H&K AG Group (then Heckler & Koch Beteiligungs GmbH Group) to IFRS on January 1, 2008, mainly due to the valuation difference on the acquisition of treasury stock in

November 2007. An additional reduction of €2,857k arose from the difference between the acquisition price and the associated net assets for each of the common control transactions involving the acquisition of Suhler USA, Inc. (since merged into SAGH), in April 2009, and Suhler Jagd- und Sportwaffen Holding GmbH (since merged into H&K AG), in May 2009.

The H&K AG Group shows a negative equity of €85.3 million (2020: €108.3 million) at the balance sheet date. The current H&K AG Group business plan shows an improvement in the equity position and assumes the reduction of debt.

Under the German companies act (AktG), the distributable dividend is determined by the retained earnings in the annual financial statements of the parent company, H&K AG, prepared in accordance with German accounting principles (HGB). The executive directors and supervisory board will propose that the shareholders' meeting resolve to carry forward that company's €135.7 million cumulative profits as at December 31, 2021.

(23) Provisions for pensions and similar employee defined benefit obligations

The pension schemes at the Group's foreign companies are defined contribution plans, while HKO has both defined benefit and defined contribution plans. The defined benefit schemes for employees were finally closed to new entrants in 2002. In addition, contributions are made to the applicable state pension schemes.

Under the defined contribution plans the company pays contributions to state or private pension schemes on the basis of statutory or contractual obligations or on a voluntary basis. Having paid the contributions, the company has no further obligations. The current contribution payments are shown as payroll expense for the relevant year: they amounted to a total of €5,360k (2020: €4,839k) for the Group.

The defined benefit plans are accounted for in the Group by setting up provisions for pensions and death benefits determined by the Projected Unit Credit Method in accordance with IAS 19. Under this method, in addition to the pensions and vested rights known at the balance sheet date, expected future increases in pensions and salaries, with realistic estimates of the demographic variables are also taken into consideration. The value is obtained from an actuarial report calculated using biometric actuarial assumptions (Prof. Dr Klaus Heubeck's 2018 G guideline tables).

Under the defined benefit schemes, on reaching the retirement age of 65, employees are entitled to benefits based on their length of service. The defined benefit schemes in operation before 1995 entitle members to benefits for the first ten years' service of 8% of the average monthly salary for the final year, plus 0.25% for each additional year of service. Increases are no longer possible since these schemes are closed and members' entitlements remain fixed.

Under the defined benefit scheme from January 1, 1995, members are entitled to benefits of a fixed sum per year of service depending on the member's grade. The relevant grade for active members is the grade on retirement. This scheme was closed to new entrants on November 30, 2002.

H&K AG, Oberndorf am Neckar – Consolidated Statements as of December 31, 2021

The following table shows the development of the defined benefit liability for asset-backed and non-asset-backed obligations:

EUR '000	Defined benefit obligation		Fair value of plan assets		Net obligation for defined benefit plans	
	2021	2020	2021	2020	2021	2020
Balance at January 1	64,456	65,482	(1,035)	(970)	63,421	64,512
Included in profit or loss						
Current service cost	487	472	-	-	487	472
Interest cost (income)	565	733	(9)	(11)	556	722
Total recognised in profit or loss	1,052	1,206	(9)	(11)	1,043	1,195
Included in other comprehensive income						
Actuarial loss (gain) arising from:						
- financial assumptions	(1,235)	2,093	-	-	(1,235)	2,093
- experience adjustments	609	(1,012)	-	-	609	(1,012)
Return on plan assets exc. interest income	-	-	(18)	(14)	(18)	(14)
Total recognised in OCI	(627)	1,081	(18)	(14)	(645)	1,066
Other						
Contributions paid by employer			(40)	(40)	(40)	(40)
Benefits paid	(3,239)	(3,312)	-	-	(3,239)	(3,312)
Total other	(3,239)	(3,312)	(40)	(40)	(3,279)	(3,352)
Balance at December 31	61,643	64,456	(1,102)	(1,035)	60,541	63,421
represented by:						
Net defined benefit obligation for funded plan	1,102	1,035	(1,102)	(1,035)	-	-
Defined benefit obligation for unfunded plans	60,541	63,421	-	-	60,541	63,421
Balance at December 31	61,643	64,456	(1,102)	(1,035)	60,541	63,421

The current service costs are shown within functional areas and the annual net interest expense is shown within the interest result. Actuarial gains and losses are not recognised in the income statement but are shown in the statement of comprehensive income and taken to reserves.

The fair market value of the plan assets relates solely to asset values from reinsurance policies and associated credit balance. The expected long-term returns from these plan assets were calculated at 0.90% (2020: 1.15%). This is based on the discount rate for the associated pension obligations. The actual earnings from the plan assets were €28k (2020: €26k). Since the investment phase is over, no further contributions will be paid in.

The calculated average duration of the pensions schemes is 13.5 years (2020: 12.9 years). The following table shows the principle actuarial assumptions at the reporting date:

	31.12.2021	31.12.2020
Discount rate	1.05%	0.90%
Future salary growth for active plan members	0.00%	0.00%
Future pension growth	1.50%	1.50%
Longevity rates according to	RT 2018 G	RT 2018 G
Invalidity rates according to	RT 2018 G	RT 2018 G

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

31.12.2021	Defined benefit obligation	
	Increase	Decrease
Effect in EUR '000		
Discount rate (0.5% movement)	(3,819)	4,297
Future pension growth (0.25% movement)	3,589	(3,292)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

(24) Other current and non-current general liability provisions

The current and non-current general liability provisions are as follows:

EUR '000	31.12.2021	31.12.2020
Current provisions & accruals	16,837	15,883
Non-current provisions	2,890	2,990
Total	19,727	18,873

The provisions comprise:

EUR '000	Personnel obligations	Warranty obligations	Other obligations relating to sales	Other risks	Total
Balance at 01.01.2021	4,969	1,511	7,289	5,105	18,873
Exchange rate difference / reclassification	-	2	25	-	26
Utilisation	(2,822)	(888)	(1,664)	(673)	(6,049)
Release	(1,107)	-	(654)	-	(1,761)
Creation	4,501	777	902	2,459	8,638
Balance at 31.12.2021	5,540	1,401	5,896	6,890	19,727

Provisions for the German early retirement scheme ("Altersteilzeit") are included in the personnel obligations (€499k; 2020: €542k). These include the reduced pay taken by employees in this scheme during the working phase together with the accumulated additional costs to the company during the remainder of each early retirement period. The value is based on the associated contractual obligations and is obtained from actuarial reports; these use biometric actuarial assumptions from Prof. Dr Klaus Heubeck's 2018 G guideline tables and discounted at 1.05% (2020: 0.90%). There are no material uncertainties with regard to the value of these provisions. These obligations are secured by certain securities; these plan assets are offset against the associated provisions. The current early retirement scheme agreements are for between two and six years. In the working phase (first half of early retirement agreement term) the provision is created; the outflows of economic benefits occur in

the non-working phase (second half). Accordingly, the outflows of economic benefits for early retirement agreements are expected over up to six years, currently however primarily within the next four years.

Other personnel obligations also include provisions for long-service anniversary benefits, bonuses and similar obligations. These personnel provisions are determined based on the associated contractual obligations and the outflows of economic benefits are generally expected within twelve months, although the outflows for anniversary benefits (€751k; 2020: €733k) could be over a period of up to forty years. There are no material uncertainties with regard to the value of these provisions.

The provisions for warranties were recognised on the basis of past experience with regard to the Group liability for a warranty period of two years. Accordingly, the outflows of economic benefits are expected within two years. There are no material uncertainties with regard to the value of these provisions.

Provisions relating to sales include provisions for offset obligations, onerous conditions, late delivery and other contractual penalties, costs to complete and price-audits on certain contracts. These provisions have been recognised in line with the probability of their incidence, based on the associated contractual obligations and the current status; the outflows of economic benefits are generally expected within twelve months. There are no material uncertainties with regard to the value of these provisions.

The provisions for other risks relate mainly to litigation risks and expenses, recognised in line with the probability of their incidence. As at December 31, 2021 the outcome of a significant proportion of the litigation risks is dependent on associated legal proceedings and accordingly the provision for these is based on particular uncertainties. The outflows of economic benefits are generally expected within twelve months; however, the final conclusion of certain cases is not expected until later. The provision for litigation risks includes the following case:

As a result of the Stuttgart Public Prosecutor's Office's preliminary investigation into former HKO employees, commenced in 2010, in which allegations of unauthorised export of rifles to Mexico between 2006 and 2009 are being probed, criminal charges have been made in the Stuttgart District Court against five former employees and the former agent in Mexico. HKO has cooperated fully with the authorities, both during the initial investigation and during the court case. The verdict by the court of first instance was that three former employees were found not guilty and two former employees were given suspended sentences of one year and five months and one year and ten months respectively. The accused also included two former directors, who were both found not guilty. Both not guilty verdicts are now legally binding. HKO was sentenced to pay over €3.7 million. HKO appealed this verdict; the Public Prosecutor and the two accused who were sentenced also appealed. In March 2021, the Federal Court of Justice (BGH) confirmed the Stuttgart District Court's verdicts and as a result, the suspended sentences against two former employees became legally binding, as did the confiscation of €3.0 million from HKO; the BGH severed its consideration regarding the confiscation of a further €0.7 million. So far, the confiscation of €3.0 million has not taken place.

The effects of accretion and changes in discount rates were material for the valuations of certain non-current general liability provisions. The financial result includes €12k net expense (2020: €14k net

expense) due to discounting and accreting these other non-current provisions; this led to a corresponding increase in the value recognised for these provisions.

(25) Financial liabilities and credit lines

Financing loans and bond

As at December 31, 2021 the H&K AG Group has the following five financing loans:

- Secured, private financing agreement (“SFA-loan”), nominal €80 million
- Unsecured bond, nominal €60 million.
- Unsecured bridging loan, €30 million (excluding accrued interest added).
- Unsecured bridging loan, €50 million (excluding accrued interest added).
- Unsecured bridging loan, €15 million (excluding accrued interest added).

SFA-loan and bond

The H&K AG Group has two material financial liabilities resulting from the refinancing during 2017: a secured financing loan (December 31, 2021: €80 million; December 31, 2020: €83 million) and an unsecured bond listed on the Luxembourg Euro MTF (December 31, 2021: €60 million; December 31, 2020: €60 million). The financing loan relates to a private €150 million financing agreement (“SFA-loan”) from July 24, 2017, maturing on August 21, 2022, under which a total of €130 million was drawn down on August 21, 2017 and, up to the end of 2021, a total of €50 million (up to the end of 2020: a total of €47 million) had been repaid. The interest rate is 7.25% plus EURIBOR (if this is positive) and interest is payable at the end of each agreed interest period, which can be between one and six months. The listed bond was created on December 15, 2017 by the conversion of a private note purchaser loan. This bond, maturing April 30, 2023 has a fixed interest rate of 6.5% payable six-monthly, on April 30 and October 31. Together with a €50 million short-term shareholder loan that was converted into equity as a contribution in kind in October 2017, the funds from the refinancing were primarily used on August 24, 2017 for the early redemption of HKO's 2011 bond, due May 2018, with accrued interest (€226 million).

Under the SFA-loan agreement H&K AG and its subsidiaries are subject to strict limitations on certain transactions; the Group must also meet specified ratios between net debt and the contractually defined EBITDA (“Financial Covenants”) and make partial repayments for example dependent upon the annual contractually defined “Excess Cashflow”. The Group is permitted to partially or fully redeem the SFA-loan liability. However, the voluntary redemptions must comply with contractual conditions, including in some cases prepayment premia.

As security for liabilities under the SFA-loan (nominal including accrued interest as at December 31, 2021: €80.2 million; December 31, 2020: €85.3 million), the direct and indirect subsidiaries of H&K AG have also entered into the agreement as guarantors. In addition, all shares in HKM and all of its direct and indirect subsidiaries together with, through floating charges and other security agreements, certain non-current assets, inventories, receivables and bank accounts (all other bank accounts serve as security deposits for bank guarantees and similar) are pledged to the agent for the lenders; (Notes 16, 17, 19, 20, and 21).

In March and December 2018, the SFA agreement was amended inter alia to permit H&K AG to draw unsecured bridging loans from a main shareholder, to set a minimum cash resource level for the Group of €10 million and to adjust the required ratios of net debt to contractually defined EBITDA (“Financial Covenants”) for the quarters ending December 2017 through June 2018. In February 2020, the SFA agreement was amended inter alia to permit H&K AG to draw an unsecured bridging loan from a main shareholder during that month. The associated partial repayment of €10.5 million (70% of the new loan) foreseen under the SFA agreement was made in October 2020.

Loans from related companies

On March 28, 2018 one of H&K AG’s main shareholders, Compagnie de Développement de l’Eau S.A. (CDE), agreed a €30 million interest-free, unsecured bridging loan to H&K AG with a term until July 15, 2019; funds were received in late April 2018. In November 2018 the duration was extended until July 15, 2023 and an interest rate of 2% was agreed, charged retrospectively from the initial loan payment, with accrued interest added to the loan principal quarterly. In another amendment following the June 30, 2021 termination of the supplementary-hours agreement and considering the Group’s significantly improved financial and earnings position, the interest rate was revised within the contractually agreed range to 6.5%, applicable from October 1, 2021. As a result, the nominal value of this loan increased to €32.7 million on December 31, 2021 (€31.7 million on December 31, 2020).

At the end of November 2018 CDE agreed and paid out an additional €50 million unsecured bridging loan to H&K AG with a term until July 15, 2023. The interest rate is 2%; accrued interest is added to the loan principal quarterly. In an amendment following the June 30, 2021 termination of the supplementary-hours agreement and considering the Group’s significantly improved financial and earnings position, the interest rate was revised within the contractually agreed range to 6.5%, applicable from October 1, 2021. As a result, the nominal value of this loan increased to €53.8 million on December 31, 2021 (€52.2 million on December 31, 2020).

At the end of February 2020, to ease compliance with certain SFA-loan conditions, H&K AG received an interest-bearing unsecured bridging loan of €15 million, with a term until July 15, 2023, from another of its main shareholders. The interest rate is 6.5%; accrued interest is added to the loan principal quarterly. As a result, the nominal value of this loan increased to €16.9 million on December 31, 2021 (€15.9 million on December 31, 2020).

Overview of the development of the financing liabilities

The bond and the SFA-loan are recognised in the statement of financial position at their amortised amounts totalling €139,067k (2020: €140,844k). The associated accrued interest liabilities totalling €822k (2020: €2,955k) are recognised within other liabilities. There were no material transaction costs for the bridging loans so their amortised amounts, amounting to €103,470k (2020: €99,707k), are identical to their nominal values (including quarterly reclassification of accrued interest, see above).

	2021 Nominal	2021 Book value	2021 Associated interest liabilities	2020 Nominal	2020 Book value	2020 Associated interest liabilities
EUR '000						
Balance at 01.01.	242,737	240,552	2,955	237,170	233,485	3,186
Accretion of SFA loan and 2017 bond	-	1,222	-	-	1,499	-
Interest expense for SFA loan and 2017 bond	-	-	9,972	-	-	10,708
Interest payments for SFA loan and 2017 bond	-	-	(12,104)	-	-	(10,939)
Partial repayment of SFA loan	(3,000)	(3,000)	-	(11,970)	(11,970)	-
Funds from refinancing - bridging loans	-	-	-	15,000	15,000	-
Interest expense for bridging loans	-	-	3,763	-	-	2,537
loans	3,763	3,763	(3,763)	2,537	2,537	(2,537)
Balance at 31.12.	243,500	242,537	822	242,737	240,552	2,955

Other Group credit lines

The other credit lines are only for the issue of advance payment or performance guarantees, including bid bonds and similar. The value of guarantees currently outstanding is not recognised in the statement of financial position. As of December 31, 2021, a total of €12.5 million (2020: €4.6 million) guarantees to customers were outstanding. As a prerequisite for the provision and maintenance of these and other guarantee lines, deposits must be provided as security. As at December 31, 2021 we had no such security deposits (2020: €0.0 million) included in cash and cash equivalents. Additional security for these lines is provided through bank deposits with terms in excess of three months recognised within other current investments (2021: €4.4 million; 2020: €2.8 million) (Note 18), and within other non-current investments (2021: €9.5 million; 2020: €1.6 million) (Note 18).

Group lease liabilities

As described in Notes 17 and 33, the Group uses certain leased assets (in particular offices and vehicles) for which right-of-use assets and lease liabilities are recognised and allocated to the applicable CGUs and segments.

The lease liabilities, for which corresponding right-of-use assets are recognised, are payable as follows:

	Contractual Cashflows	Contractual Cashflows
EUR '000	31.12.2021	31.12.2020
Less than one year	462	472
Between one and five years	760	1,008
More than five years	-	92
Total lease payments	1,222	1,572
Effects of discounting and options	(200)	(329)
Lease liabilities recognised	1,022	1,243

Additional information on leases is provided in Note 33.

(26) Trade and other payables and derivatives

Trade and other payables include outstanding liabilities from trade and operating costs, together with accrued interest payable on the SFA-loan and the bond, in addition there are derivatives for forward cover contracts.

EUR '000	31.12.2021	31.12.2020
Trade payables	19,049	18,217
Interest payables	822	2,955
Other liabilities	11,350	8,659
Derivatives	1,118	0
Total	32,340	29,831

With the exception of normal trading ownership retention clauses for the trade payables, security agreements relating to the interest liabilities for the SFA-loan (Notes 16, 17, 19, 20, 21, 25) and security deposits for forward cover contracts, these payables are not secured.

(27) Contract liabilities

The €12,985k (2020: €5,001k) contract liabilities comprise payments received from customers in advance of the delivery of the associated products or services.

Other disclosures

(28) Financial risk management

Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may change depending on market rates. Market risk includes three types of risk: currency risk, interest rate risk and other rate risks. These risks for the Group are covered individually below.

Currency risk

The H&K AG Group is exposed to currency risk on sales and purchases that are denominated in a currency other than the respective functional currencies of Group entities, primarily the euro (EUR), but also US dollars (USD) and Sterling (GBP). The majority of both costs and sales are in euro, so we only have foreign exchange transaction exposure for those sales in currencies different to the associated costs. H&K AG Group policy is, dependent upon the exchange rates on offer and the conditions of potential forward cover contracts and taking expected USD developments into consideration, to cover a proportion of the expected USD (\$) income and the associated foreign exchange transaction exposure with hedging transactions. As at December 31, 2021 there were forward cover contracts in place for a total of \$24.0 million (as at December 31, 2020 there were no such forward cover contracts in place).

H&K AG, Oberndorf am Neckar – Consolidated Statements as of December 31, 2021

Group policy is not to speculate with loans or deposits in foreign currencies. Financing and investing within the Group usually take place in the appropriate functional currency and any financial instruments are purely for operating purposes.

Four subsidiaries of H&K AG are outside the Euro zone. Since the H&K AG Group reporting currency is the euro, the income and expenses of these subsidiaries are converted to euro for consolidation. Through these subsidiaries the Group has assets and liabilities in local currencies outside the Euro zone that are also converted to euro for Group reporting. The conversion of these positions to euro is also affected by fluctuations in foreign exchange conversion rates. The change in valuation of these positions is reflected in the Group reserves.

The rates used for the consolidation are shown in the following table:

Currency	Abbr.	Rate on balance sheet date 31.12.2021	Rate on balance sheet date 31.12.2020	Average exchange rate 2021	Average exchange rate 2020
US Dollar (USA)	USD	1.1326	1.2271	1.1827	1.1422
Pound (Great Britain)	GBP	0.8403	0.8990	0.8596	0.8897

In order to quantify the possible effects of foreign exchange rate fluctuations on the Group EBITDA, sales and equity, a sensitivity analysis has been carried out:

If the euro had been 5% weaker against the US dollar compared to the rates used for the 2021 consolidation, (i.e. had been an average of €1 = \$1.1236 and a spot of €1 = \$1.0760), then 2021 sales would have been approximately €6.4 million higher, EBITDA would have been approximately €4.2 million higher and equity and reserves would have been approximately €3.3 million higher.

If the euro had been 5% weaker against the pound sterling compared to the rates used for the 2021 consolidation, (i.e. had been an average of €1 = £0.8166 and a spot of €1 = £0.7983), then 2021 sales would have been approximately €0.3 million higher, EBITDA would have been approximately €0.1 million higher and equity and reserves would have been approximately €0.1 million higher.

Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument may change depending on market interest rates. As at December 31, 2021 the Group's interest profile of its interest-bearing financial instruments consisted of fixed-rate instruments with a nominal value of €163.5 million (2020: €159.7 million) and variable rate instruments with a total nominal value of €80.0 million (2020: €83.0 million).

The Group's €80 million SFA-loan has a variable interest rate of 7.25% plus EURIOBR (if this is positive); the applicable rate is set at the beginning of each interest period (originally six months, from September 2021 monthly). A 100 basis-point (Bp) reduction in EURIBOR at each of the interest-fixing dates would not have affected equity or profit or loss. A 100 basis-point (Bp) increase in EURIBOR at each of the interest-fixing dates would have reduced equity and profit by approx. €0.4 million. This analysis assumes that all other variables, in particular tax-deductibility, remain constant. Since the reform of the EURIBOR - one of the most important IBORs - was completed in November 2019, this can still be used as a reference rate, so no effects are expected on the Group due to the IBOR-reform.

The Group's €60 million bond is an interest-bearing liability with a fixed interest rate of 6.5% and the three bridging loans totalling €103.5 million bear interest at a fixed rate of 6.5 %. The fair values of the bond and the bridging loans are dependent on market interest rates, but these liabilities are not recognised at fair value and a change in interest rates at the balance sheet date would therefore not have had an effect on profit or loss or equity. This analysis assumes that all other variables remain constant.

The advance payment and performance guarantees we procure from banks in favour of our customers are not interest-bearing.

Commodity risk

The element of material costs relating to commodities is relatively small so the H&K AG Group's exposure to changes in purchase prices for raw materials is limited: for example, an increase in steel prices of 1% would have resulted in EBITDA being approx. €0.2 million lower while equity and reserves would have been around €0.1 million lower.

Credit risk

Credit risk is the risk of financial loss to the H&K AG Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's trade receivables. Risk concentrations arise for financial instruments of a similar nature, which react similarly to economic and other changes. Risk concentrations are determined per counterparty.

Trade receivables

Because the majority of the Group's trade receivables at the balance sheet date relate to sales to customers that are federal, state or local governmental agencies of NATO countries and NATO-equivalent countries, Group exposure to credit risk is limited. Goods are sold subject to retention of title clauses so that, in the event of a customer failing to pay, the H&K AG Group has a secured claim. Where management is of the opinion that the risk is not sufficiently secured by the retention of title clauses, we require letters of credit or prepayments. The Group has internal credit management processes to review and manage overdue positions and if necessary, stop further deliveries or initiate legal action.

In addition, provisions are held for doubtful debts and general expected credit losses in accordance with IFRS 9 (Note 20). The maximum risk is the value shown as trade receivables in the balance sheet. The book values of trade receivables analysed according to their aging, together with the associated provisions, are shown in Note 20. To assess risk concentrations, all of a country's authorities are treated as a single counterparty.

Cash and cash equivalents

Cash and cash equivalents include cash balances, cheques, bank balances on current accounts and short-term deposits. The H&K AG Group is exposed to credit risks if the banks holding our deposits default on their obligations. To minimise this risk, the banks are selected with care and deposits are held by several banks in Germany and abroad. Since the effects are not regarded as material, the simplified impairment model is not used.

Liquidity risk

Liquidity risk is the risk that the H&K AG Group may not be able to meet its financial obligations as they fall due. The target of the Group's approach to managing liquidity is to ensure that there will always be sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring losses or risking damage to the Group's reputation.

The Group mainly generates cash through its operating activities. The operating liquidity surplus is primarily used to finance fluctuations in working capital and capital expenditure, together with servicing the interest payment obligations from the SFA-loan and the bond.

According to the business plan, for 2022 and future years a positive net cashflow from operating activities, sufficient to cover capital expenditure and contractual interest payments, is expected.

The continued existence of H&K AG and therefore of the H&K AG Group is dependent on the loans received and issued bond being extended or replaced on schedule by other external loans or an equity increase. The company is currently in ongoing financing discussions with various commercial banks and credit providers. Concurrently, on March 24, 2022 agreements with two main shareholders were reached, under which sufficient funds are guaranteed, should these financing discussions not reach a satisfactory conclusion; this ensures that the company remains a going concern.

According to the current five-year business plan, the H&K AG directors are also planning the conversion of shareholder loans into equity, to the extent permitted by law, which would reduce the indebtedness significantly.

The following table shows the timing of contractual payments due for financial instruments that are accounts payable or loan interest or repayments.

	Trade payables	Loans and bond inc. interest
EUR '000		
Balance at 31.12.2021		
Book value	19,049	243,359
Related payments	19,049	263,961
Payments due:		
- within one month	13,125	500
- between one and three months	3,435	951
- between three & twelve months	2,490	86,450
- between one and five years	-	176,060
- after more than five years	-	-
Balance at 31.12.2020		
Book value	18,217	243,506
Related payments	18,217	272,051
Payments due:		
- within one month	13,640	-
- between one and three months	2,216	963
- between three & twelve months	1,606	8,433
- between one and five years	755	262,654
- after more than five years	-	-

Variations between book value and related payments arise where certain financing liabilities, in particular the SFA-loan and the bond, are held at their amortised costs and cause additional interest payments. Additional information on the financial liabilities is given in Note 25.

Capital management

The objective of our capital management is to secure the financing of current business activities, considering the obligations and the regular interest payments due to the SFA-loan and the bond, and in the medium-term to reduce the leverage significantly. The Group's internal policies require that return on capital is reviewed on all investments and generally all contract bid decisions. The Group aims to have a corporate and capital structure, without material off-balance sheet financing. In the normal course of business, performance and advance payment guarantees are issued to our customers by banks and insurers on our behalf (Note 25).

The Group's capital structure is as follows:

EUR '000	31.12.2021	31.12.2020
Equity	(85,251)	(108,269)
as a percentage of total financing	-28%	-39%
Long-term liabilities	249,133	329,162
Short-term liabilities	145,451	53,980
Debt	394,584	383,142
as a percentage of total financing	128%	139%
Total equity & liabilities	309,333	274,873

(29) Additional disclosures on financial instruments

This note provides an overview of the significance of financial instruments and provides additional information on the balance sheet positions containing financial instruments. The following asset positions in the statement of financial position include financial instruments:

EUR '000	31.12.2021	31.12.2020
Non-current assets		
Other investments & derivatives	9,536	1,620
Current assets		
Other loans, deposits & derivatives	4,418	2,774
Trade receivables	28,943	23,444
Other receivables	3,229	1,774
Cash and cash equivalents	46,514	33,343
Asset positions containing financial instruments	92,641	62,954
of which non-financial instruments	3,094	1,543
of which financial instruments	89,547	61,411

H&K AG, Oberndorf am Neckar – Consolidated Statements as of December 31, 2021

The following table shows the book values (BV) and fair values (FV) of the financial assets:

EUR '000	Cash and cash equivalents		Trade accounts receivable		Other financial instruments	
	BV	FV	BV	FV	BV	FV
Balance at 31.12.2021						
Recognised at amortised cost	46,514	46,514	28,943	28,943	14,089	14,089
Recognised at fair value through profit or loss	-	-	-	-	-	-
Total financial assets	46,514	46,514	28,943	28,943	14,089	14,089
Balance at 31.12.2020						
Recognised at amortised cost	33,343	33,343	23,444	23,444	4,625	4,625
Recognised at fair value through profit or loss	-	-	-	-	-	-
Total financial assets	33,343	33,343	23,444	23,444	4,625	4,625

The fair values of accounts receivable are in line with their book values. This is mainly due to the short terms of these instruments.

The other financial instruments relate primarily to short and long-term bank deposits as security for certain bank guarantee lines etc. (2021: €13,954k; 2020: €4,394k) (Notes 18, 25); their aging is as follows:

EUR '000	Other financial instruments	
	31.12.2021	31.12.2020
Neither overdue nor impaired:	14,089	4,625
Net trade accounts receivable	14,089	4,625

As at the balance sheet date, no evidence had been identified to suggest that any of the above financial instruments that were neither overdue nor impaired were doubtful. Since the effects are not regarded as material, the simplified impairment model is not used. During the reporting period there were no reclassifications of financial assets between the IFRS 9 categories recognised “at amortised cost”, “at fair value through profit or loss” and “at fair value through other comprehensive income”.

H&K AG, Oberndorf am Neckar – Consolidated Statements as of December 31, 2021

The following liability positions in the statement of financial position include financial instruments:

EUR '000	31.12.2021	31.12.2020
Non-current liabilities		
Loans & borrowings	163,128	240,552
Lease obligations	1,022	1,243
Current liabilities		
Trade payables	19,049	18,217
Derivatives	1,118	-
Other payables	12,172	11,614
Liability positions containing financial instruments	275,899	271,626
of which non-financial instruments	10,570	8,580
of which financial instruments	265,328	263,046

The following table shows the book values (BV) and fair values (FV) of financial liabilities:

EUR '000	Trade payables		Bond and long-term loans		Derivative liabilities		Other financial liabilities	
	BV	FV	BV	FV	BV	FV	BV	FV
Balance at 31.12.2021								
Held at amortised cost	19,049	19,049	242,537	243,500	-	-	1,602	1,602
Held at fair value through profit or loss	-	-	-	-	1,118	1,118	-	-
Financial liabilities	19,049	19,049	242,537	243,500	1,118	1,118	1,602	1,602
Balance at 31.12.2020								
Held at amortised cost	18,217	18,217	240,552	242,737	-	-	3,034	3,034
Held at fair value through profit or loss	-	-	-	-	-	-	-	-
Financial liabilities	18,217	18,217	240,552	242,737	-	-	3,034	3,034

The fair values of the trade payables are in line with the book values. This is mainly due to the short terms of these instruments. The bond is held at amortised cost; its fair value at the balance sheet date is determined using its market price. The SFA-loan is held at amortised cost; its fair value at the balance sheet date is its nominal value. The bridging loans are held at amortised cost (identical to nominal values); their fair values at the balance sheet date largely correspond to their nominal values. The derivative liabilities relate primarily to forward cover contracts for USD / EUR, held at fair value through profit or loss. The other financial liabilities mainly relate to the interest liabilities for the SFA-loan and for the bond (2021: €822k; 2020: €2,955k).

H&K AG, Oberndorf am Neckar – Consolidated Statements as of December 31, 2021

The following table shows an analysis of financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- 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 (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31.12.2021

EUR '000	Level 1	Level 2	Level 3
Derivative financial assets	-	-	-
Derivative financial liabilities	-	1,118	-

31.12.2020

EUR '000	Level 1	Level 2	Level 3
Derivative financial assets	-	-	-
Derivative financial liabilities	-	-	-

Net income / (expenses) due to financial instruments:

EUR '000	2021	2020
Recognised at amortised cost	1,996	(4,973)
Held at fair value through profit or loss	(1,118)	(73)

The net income / (expense) from loans and receivables and financial liabilities held at amortised cost include exchange gains and losses, impairments and reversals of previous impairments and relate to receivables in particular. The net income / (expense) from financial instruments held at fair value (derivatives) relates to the recognition of changes in the valuation of forward cover contracts.

The total interest income and expenses relating to financial assets and liabilities not held at fair value through profit and loss, including guarantee fees, are as follows:

EUR '000	2021	2020
Interest income	3	14
Accretion of non-current financial liabilities	(1,222)	(1,499)
Other interest expenses	(13,912)	(13,393)

(30) Cash flow statement

The Group cash flow statement shows the change in the H&K AG Group's cash and cash equivalents due to cash inflows and outflows during the year. Cash and cash equivalents include cash balances, cheques and bank balances; these last also include amounts serving as security for certain forward-cover and guarantee lines and for the SFA-loan (Note 21, 25).

As required by IAS 7, cash flows are analysed between operating, investing and financing activities. Cash flows from investing and financing activities are determined directly while those from operating activities are calculated indirectly from the net results. The changes in balance sheet positions used in the indirect calculation are adjusted to exclude the effects of foreign exchange rate variances and, if relevant, any changes in the companies consolidated into the Group. The changes in the balance sheet positions shown in the cash flow are therefore different to the euro changes in the Group balance sheet.

Interest received is classified as a cash flow from investing activities. Interest paid is shown as cash flows from financing activities.

Security deposits with terms longer than three months are shown in the statement of financial position under deposits or non-current investments (Note 18); movements in these are therefore shown under net cash from / (used in) investing activities in the statement of cash flows. However, these deposits serve as security for bank guarantees etc. (Note 25), rather than being made for the Group's investment purposes. The Group's net cash from / (used in) investing activities, adjusted to exclude these movements would be as follows:

EUR '000	2021	2020
Net cash from / (used in) investing activities	(28,292)	(22,455)
Less amounts relating to the movement in security deposits with terms >3 months	9,560	(335)
Adjusted net cash from / (used in) investing activities	(18,732)	(22,790)

(31) Segment reporting

The organisation and reporting structure of the H&K AG Group is marked by its operating activities in the defence technology line of business.

The Defence division is organised around five (2020: five) operating companies, three of which serve customers in the defence and law enforcement sector, whilst the fourth (HKI) serves the US commercial market and the fifth (HKO) serves customers in the defence and law enforcement sector, the other Group companies and the commercial markets in certain other countries. Correspondingly, the segments analysed are the site locations in Germany Great Britain, France and the United States, split into Defence and Commercial. Since these segments mainly represent legal entities, the figures

shown for each segment are the values for the companies as included in the H&K AG Group's consolidated figures.

The activities in reporting segment Germany relate to the design, manufacture and distribution of defence and security products together with the provision of associated services. Reporting segment Germany mainly supplies to NATO member states and NATO-equivalent countries in which no Group subsidiaries are located and to Group companies and manufactures, sells and distributes commercial and security products to customers outside the US. The reporting segment "USA - commercial" has production, sales and distribution activities for commercial and security products and provides related services in the US.

The other reporting segments all have sales and distribution activities for defence and security products and provide related services. The sites located in the USA and France supply to these countries. The site located in Great Britain sells primarily to the United Kingdom; in the past it also served the British Commonwealth of Nations and certain other NATO allies. Due to the new strategic direction to focus on so-called "Green Countries" (Note 1), only the remaining order book for these countries will be served via site location Great Britain.

The "Other holding activities" reporting segment relates to H&K AG and HKM. As this reporting segment contains several companies, the figures reflect the amounts recognised for individual companies in the consolidated financial statements as well as certain consolidation adjustments within the segment.

Operating segments

Site Location	Germany		USA - Commercial		USA - Defence		Great Britain		France		Holding activities		Total pre-consolidation		Consolidation transactions		H&K AG Group	
	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Net external revenues	100,628	113,818	89,434	75,091	30,483	19,813	29,537	22,122	40,125	44,141	-	-	290,207	274,984	-	-	290,207	274,984
Inter-segment revenue	107,892	86,043	223	181	138	79	289	322	-	-	-	-	108,541	86,625	(108,541)	(86,625)	-	-
Total output	214,603	209,160	95,600	74,291	26,504	23,636	27,469	24,780	40,054	43,818	-	-	404,230	375,685	(110,041)	(86,295)	294,189	289,390
Depreciation and amortisation	(10,223)	(9,478)	(1,180)	(1,170)	(112)	(176)	(113)	(111)	(19)	(25)	(41)	(42)	(11,688)	(11,001)	(63)	47	(11,750)	(10,954)
EBITDA	40,679	34,787	6,115	5,902	7,563	3,252	3,515	2,412	2,625	3,726	(1,081)	(463)	59,416	49,617	(1,440)	332	57,976	49,949
Interest income	105	132	-	-	-	0	0	1	2	5	3,807	3,229	3,914	3,367	(3,911)	(3,353)	3	14
Interest expense	(8,832)	(8,397)	(1)	(2)	(104)	(131)	(45)	(43)	(2)	(5)	(10,716)	(10,537)	(19,702)	(19,114)	3,911	3,353	(15,791)	(15,761)
Income taxes	(1)	262	(1,146)	(1,028)	(1,644)	(586)	(601)	(448)	(691)	(1,056)	(5,826)	(3,760)	(9,908)	(6,616)	330	(73)	(9,578)	(6,688)
Profit / (loss) after tax	26,984	17,264	3,699	3,570	5,704	2,348	2,564	1,909	1,914	2,645	37,956	60,704	78,821	88,439	(56,977)	(74,958)	21,844	13,482
Other material non-cash items																		
- Impairment of assets	(82)	(1,965)	(617)	-	-	-	(370)	-	(4)	-	-	-	(1,073)	(1,965)	-	-	(1,073)	(1,965)
- Impairment losses reversed	20	-	546	168	22	40	-	-	-	-	30,798	56,599	31,385	56,807	(30,798)	(56,599)	588	208
Non-current assets other than deferred taxes and financial instruments	167,388	161,931	12,692	12,385	1,001	1,016	493	566	21	40	186	226	181,780	176,166	(74,653)	(74,653)	107,126	101,513
Capital expenditure, excluding capitalised development costs	(11,708)	(15,732)	(910)	(1,079)	(16)	(1)	(3)	(15)	-	-	-	-	(12,637)	(16,827)	-	-	(12,637)	(16,827)
Provisions and liabilities	228,804	213,769	24,950	23,633	16,216	23,901	4,223	5,582	11,299	5,165	235,687	263,398	521,178	535,449	(126,594)	(152,307)	394,584	383,142

The above table shows the revenues and results together with the assets and liabilities of the individual Group segments. With the exception of sales from the German segment to other segments, trading between segments is minimal. The trade relationships between segments have been consolidated. Trade between the segments is conducted at 'arm's-length' prices, as would have been agreed with informed and willing parties outside the Group. Due to the fiscal unity ("Organschaft"), the German taxes are all incurred by the parent entity, H&K AG. The €74.7 million for non-current assets shown in the column "consolidation transactions" relate to goodwill and trademarks recognised in segment Germany as the result of a merger in 2004. These arose primarily due to transactions within the Group and on consolidation are therefore reduced to the values acquired from third parties.

Geographical and product group segments

The value of revenues from customers in different regions of the world and the proportions of revenues due to the different product groups are shown in the following tables:

Region	Percentage of revenues			Product group	Percentage of revenues	
Germany (Domestic)	2021	62,835	22%	Rifles	2021	37%
	2020	74,510	27%		2020	32%
USA	2021	119,920	41%	Sub-machine guns & machine guns	2021	17%
	2020	94,818	34%		2020	17%
UK	2021	29,546	10%	Pistols	2021	30%
	2020	22,127	8%		2020	31%
France	2021	40,722	14%	Development services	2021	0%
	2020	44,154	16%		2020	1%
Other "Green Countries"	2021	37,059	13%	Other products & services	2021	16%
	2020	39,372	14%		2020	19%
Rest of world	2021	126	0%	Total	2021	100%
	2020	2	0%		2020	100%
Total export	2021	227,373	78%			
	2020	200,474	73%			
Total	2021	290,207	100%			
	2020	274,984	100%			
of which "Green Countries"	2021	290,081	100%			
	2020	274,982	100%			

Major customers

IFRS 8 requires customers known to be under common control to be treated as one customer. Since the H&K AG Group sells to government agencies, which include law enforcement agencies and armed forces, in various countries this requirement leads to all governmental agencies in a particular country being treated as one single joint customer.

On this basis the H&K AG Group's major customers, to whom more than 10% of sales were made in 2021, are the German governmental authorities (2021: €50 million; 2020: €57 million) shown in the segment "Germany", the French governmental authorities (2021: €40 million; 2020: €44 million) shown in the segment "France", the British governmental authorities (2021: €30 million; 2020: €22 million) shown in the segment "Great Britain" and the US governmental authorities (2021: €30 million; 2020: €20 million) shown in the segment "USA – Defence".

(32) Contingent liabilities and pledged assets

There are no material contingent liabilities as of December 31, 2021 or December 31, 2020; based on the current business plan (covering five years) no related claim is expected in this period. For information on bank guarantees for customers and the related security deposits see Note 25. Almost all of the other Group assets are pledged for the SFA-loan from July 24, 2017 under various floating

charges and other security agreements. For details of pledged assets see Notes 16, 17, 18, 19, 20, 21 and 25. For liabilities relating to certain short-term and / or low value leases, see Note 33.

(33) Leases

The Group has no leases for which it is the lessor. The following information is for leases where the Group is the lessee.

Material leases

The Group leases offices; the lease agreements for these have original terms of between six and ten years, with the option to extend the leases beyond this period. Lease payments are generally renegotiated after around half of the lease term to reflect market rates; we can terminate contracts at this time.

The Group leases cars and other vehicles together with certain items of IT equipment; these lease agreements generally have original terms of between three and five years, with the option to extend the leases beyond this period.

i. Right-of-use assets

Due to the application of IFRS 16, right-of-use assets are recognised within property, plant and equipment for rented property, which does not meet the definition of investment property, and for vehicles and certain items of IT equipment.

The reclassifications in the following table relate to the acquisition of certain assets at the end of the lease terms and the associated transfer from leased to owned assets.

	Land and buildings	Fixtures, fittings and other assets	Total
EUR '000			
Net carrying value			
at 01.01.2020	1,107	266	1,374
Acquisition / manufacturing costs			
Balance at 01.01.2020	2,290	631	2,921
Effect of movement in exchange rates	(92)	(14)	(106)
Additions	-	426	426
Reclassifications	(33)	33	-
Disposals	(564)	(231)	(795)
Balance at 31.12.2020	1,601	845	2,446
Amortisation & depreciation			
Balance at 01.01.2020	(1,182)	(365)	(1,548)
Effect of movement in exchange rates	56	9	66
Depreciation for the year	(214)	(207)	(420)
Reclassifications	19	(19)	-
Disposals	392	231	623
Balance at 31.12.2020	(930)	(350)	(1,279)
Net carrying value at 31.12.2020	671	496	1,167
Acquisition / manufacturing costs			
Balance at 01.01.2021	1,601	845	2,446
Effect of movement in exchange rates	79	7	86
Additions	-	115	115
Reclassifications	-	(84)	(84)
Disposals	(466)	(196)	(662)
Balance at 31.12.2021	1,214	687	1,901
Amortisation & depreciation			
Balance at 01.01.2021	(930)	(350)	(1,279)
Effect of movement in exchange rates	(46)	(4)	(51)
Depreciation for the year	(153)	(226)	(379)
Reclassifications	-	56	56
Disposals	466	196	662
Balance at 31.12.2021	(663)	(328)	(991)
Net carrying value at 31.12.2021	551	359	910

ii. amounts recognised in profit or loss

Amortisation amounting to €379k (2020: €420k) for right-of-use assets and interest expenses amounting to €81k (2020: €94k) for lease liabilities were recognised in profit or loss. The associated deferred taxes relating to these were minimal in both years.

iii. amounts recognised in the statement of cash flows

The leasing payments were split between interest payments of €81k (2020: €96k), and repayment of lease liabilities amounting to €376k (2020: €432k); both are shown within net cash flows from / (used in) financing activities.

Other leases

The Group has other leases which have one or both of the following characteristics: (i) term of less than one year; (ii) the associated assets are of low value. These leases are recognised as in prior periods, i.e. neither right-of-use assets nor lease liabilities are recognised for these.

The Group recognised expenses of €270k (2020: €141k) for short-term leases and €18k (2020: €13k) for leases for which the associated assets are of low value. As at the balance sheet date, the group had outstanding obligations arising from these leases that fall due as follows:

EUR '000	31.12.2021	31.12.2020
Up to one year	48	33
More than one and up to five years	1	2
More than five years	0	0
Total	49	35

(34) Number of employees

The number of employees in the H&K AG Group, as an annual average, was as follows:

	2021	2020
Germany	900	848
France	2	2
Great Britain	17	17
USA - Defence	6	5
USA - Commercial	83	73
Holding activities	5	5
Average employees	1,012	950

In accordance with HGB §314 para. 1 No. 4 1st HS, these numbers for 2021 and 2020 exclude directors, people on national service, apprentices and trainees; part-time employees are fully included.

(35) Personnel expenses

Personnel expenses in 2021 were €81,980k (2020: €75,379k). Of these expenses, €5,860k (2020: €4,839k) relate to employer's contributions to social security pension funds and similar defined contribution plans for pensions.

(38) Transactions with the members of the governing bodies

EUR '000	2021	2020
Short-term benefits for the supervisory board	182	246
Short-term benefits for the executive board	1,199	1,122
Gesamt	1,381	1,368

(39) Auditor's remuneration

EUR '000	2021	2020
Audit of the financial statements	252	265
Other confirmation services	6	6
Tax services	30	-
Other services	89	-
Total	377	271

(40) Subsequent events

The current war in Ukraine has not yet had a direct effect on the operating activities of the H&K AG Group. However we cannot rule out the possibility of effects (e.g. supply bottlenecks, price increases for raw materials, increased demand) in the future.

Oberndorf am Neckar, April 8, 2022

The Executive Board

Dr. Jens Bodo Koch

Dr. Björn Krönert

TRANSLATION – GERMAN VERSION PREVAILS

INDEPENDENT AUDITOR'S REPORT

To H&K AG, Oberndorf am Neckar/Germany

Audit Opinions

We have audited the consolidated financial statements of H&K AG, Oberndorf am Neckar/Germany, and its subsidiaries (the Group) which comprise the consolidated balance sheet as at 31 December 2021, and the consolidated statement of profit and loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January to 31 December 2021, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of H&K AG, Oberndorf am Neckar/Germany, for the financial year from 1 January to 31 December 2021.

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 IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2021 and of its financial performance for the financial year from 1 January to 31 December 2021, 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.

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 Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). 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 audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS 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, the executive directors are responsible for such internal control as they 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, the executive directors are 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 unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are 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, the executive directors are 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 audit 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 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 judgement 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 audit 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 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 audit opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- conclude on the appropriateness of the executive directors' 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 audit 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 IFRS as adopted by the EU and with 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 audit 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 audit 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 the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors 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 audit 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.

Stuttgart/Germany, 8 April 2022

Deloitte GmbH

Wirtschaftsprüfungsgesellschaft

Signed:
(Franz Klinger)
Wirtschaftsprüfer
(German Public Auditor)

Signed:
(Anja Lustig)
Wirtschaftsprüferin
(German Public Auditor)