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H&K AG

QUARTERLY REPORT

Results for the
six month period
to June 30, 2022

About HK

We are a leading defence contractor in the small arms sector of the European NATO defence industry. We design, produce and distribute small arms, including rifles, side arms, fully automatic weapons and grenade launchers, and a variety of other related products. We supply the armed forces of NATO and its allies and many law enforcement agencies. We have been in operation for more than 70 years and have a strong history of design innovation. We have a strong management team and a highly skilled work force. Our brand name, Heckler & Koch, is well respected and our products are widely considered to be of the highest quality.

Our sales strategy remains focussed 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 to these, for countries that are classed as partners by the German government, deliveries may be approved on a case-by-case basis. This "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 focus on "Green Countries" since 2016 has stabilised the Group's forecasting and delivery capabilities.

For more information, please visit our web site:

www.heckler-koch.com

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Note regarding forward-looking statements

This report includes forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes," "estimates," "anticipates," "expects," "intends," "may," "will" or "should" or, in each case, their negative, or other variations or comparable terminology, or by discussions of strategy, plans or intentions. These forward-looking statements include statements that are not statements of historical facts and relate to our current intentions, beliefs or expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate.

By their nature, forward-looking statements involve risk and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this report, in statements made by HK representatives in their presentations or in a "Question and Answer" period following such presentations. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with the forward-looking statements contained in this report, those results or developments may not be indicative of results or developments in subsequent periods.

We undertake no obligation to publicly update or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise. All written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the above cautionary statements.

Results as at and for the six-month period ended June 30, 2022

Chief Executive Officer Dr Jens Bodo Koch and Chief Financial Officer Dr Björn Krönert commented:

Sales in the first half of 2022 were €156 million, almost 9% higher than in the first half of 2021. We generated €39 million EBITDA in the half-year, an increase of almost 38% over H1 2021. Cash and cash equivalents fell by just €1.6 million during the half-year, with operating cash-flow generated being almost sufficient to finance the cash flows for our investing and financing activities, despite these including an €8 million partial repayment of the SFA-loan. This continuing strong performance is the result of successful, ongoing optimisation programmes and modernisation over the past four years, so that we are once again a profitable and innovative company.

As we commented in our Q4 2021 and Q1 2022 reports, the Russian invasion of Ukraine in February 2022 has made it clear that the defence industry is crucial when it comes to maintaining and defending democracy, liberty and human rights. This 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 fund would be set up; this fund together with the annual budget allocations are to be used for necessary investments and armament projects of the German Armed Forces. In addition, he announced that the defence budget would be permanently increased to “more than two percent” of the gross domestic product. Other nations have similar programmes to improve their defence capabilities, in some cases long-standing and also as a result of the current situation.

In Q1 2021, the German Federal Office of Bundeswehr Equipment, Information Technology and In-service Support (BAAINBw) informed us that, since the only other competitor had been excluded from the procurement procedure, it was intended that the new assault rifle for the German Army be procured from HK. That competitor requested a review of the BAAINBw’s decision, however in June 2021 the German Federal Cartel Office (BKartA) rejected the challenge. The competitor filed an appeal against the BKartA’s decision but in June 2022 this was rejected as unfounded. Consequently, the competitor is legally excluded from the award procedure for replacement of the G36 standard assault rifle for the German Army and HK is now the only remaining bidder in this tender.

As previously reported, due to the preventative measures we implemented 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 so far. However we cannot rule out that the significant increase in inflation, the loose monetary policy of the central banks and effects of the invasion of Ukraine will affect the purchase of raw materials and services in particular. At this point in time, our forecasts for the balance of 2022, remain subject to the effects of potential new virus mutations and also of effects resulting from the invasion of Ukraine (e.g. supply bottlenecks, price increases for raw materials, increased demand); we currently expect any such additional orders from our current customer base to be for delivery in later years. The following guidance for the next quarter is based on the current situation, as it is known to us today, and so the actual Q3 2022 results may vary.

Q3 2022 Guidance: In Q3 2022, as usual given the holiday period, we currently expect to achieve slightly lower net sales and EBITDA compared to Q2 2022. Net working capital is currently expected to be at a similar level to the end of Q2 2022; the resulting operating cash flow is currently expected to be positive. We currently expect to refinance our financial debt in Q3, including the repayment of the SFA loan due in August 2022.

Note regarding presentation of financial information

Some financial information in this report has been rounded and, as a result, the totals in this report may vary slightly from the exact arithmetic aggregation of the figures that precede them.

Certain financial information in this release has been derived from our unaudited, interim, consolidated statements of financial position at June 30, 2022 and 2021 and the related unaudited, interim, consolidated statements of income, comprehensive income, equity and cash flows for the six month

periods ended June 30, 2022 and 2021 prepared in accordance with IFRS, subject only to normal year-end audit adjustments and the absence of notes.

Attached are our

- Unaudited, Interim, Consolidated Statement of Financial Position
- Unaudited, Interim, Consolidated Income Statement
- Unaudited, Interim, Consolidated Statement of Comprehensive Income
- Unaudited, Interim, Consolidated Statement of Changes in Equity, and
- Unaudited, Interim, Consolidated Statement of Cash Flows

with figures determined according to IFRS as at and for the six month periods to June 30, 2022 and 2021.

Unaudited, Interim, Consolidated Statement of Financial Position

(€ millions)	30.06.2022	31.12.2021
Property, plant & equipment	61.9	61.7
Intangible assets - goodwill	5.1	5.1
Intangible assets - other	41.8	40.3
Other investments	6.9	9.5
Deferred tax assets	11.2	11.8
Total non-current assets	127.0	128.4
Inventories	101.3	96.7
Prepayments for inventories	0.1	0.6
Prepayments for other current assets	0.9	0.3
Other deposits	5.4	4.4
Current tax assets	0.2	0.1
Trade receivables	37.9	28.9
Other receivables	2.1	3.2
Cash & cash equivalents	45.0	46.5
Total current assets	192.9	180.9
Total assets	319.9	309.3
Equity		
Share capital	27.6	27.6
Additional paid in capital	53.0	53.0
Other reserves	(18.2)	(19.2)
Consolidated retained earnings	(130.7)	(146.7)
Total equity	(68.2)	(85.3)
Liabilities		
Loans & borrowings	166.7	163.1
Lease liabilities	1.0	1.0
Derivatives	0.6	-
Employee defined benefit obligations	59.5	60.5
Provisions	2.9	2.9
Deferred tax liabilities	22.3	21.6
Total non-current liabilities	252.9	249.1
Loans & borrowings	71.9	79.4
Trade payables	15.4	19.0
Other payables	13.4	12.2
Contract liabilities	10.2	13.0
Derivatives	2.2	1.1
Tax liabilities	6.3	3.9
Other provisions & accruals	15.7	16.8
Total current liabilities	135.2	145.5
Total liabilities	388.1	394.6
Total equity & liabilities	319.9	309.3

Unaudited, Interim, Consolidated Income Statement

For the period January 1 to June 30

(€ millions)	2022	2021
Revenue	156.1	143.5
Cost of sales	(97.6)	(99.2)
Gross profit	58.5	44.3
Research & development expenses	(3.5)	(1.9)
Sales, marketing & distribution expenses	(12.6)	(11.8)
Administration expenses	(10.6)	(8.2)
Other operating income	1.5	1.1
Other operating expenses	(0.2)	(0.6)
Impairment loss on trade receivables, net of reversals	0.3	(0.0)
Results from operating activities	33.4	22.8
Interest income	0.0	0.0
Gains on translation of foreign currencies	3.2	1.1
Total financial income	3.2	1.1
Interest expense	(8.4)	(6.4)
Accretion of non-current liabilities	(0.9)	(0.9)
Losses on val'n of other derivative financial instruments	(1.7)	(0.2)
Losses on translation of foreign currencies	(2.5)	(0.0)
Other financial expense	(0.0)	(0.0)
Total financial expense	(13.6)	(7.5)
Net financial result	(10.4)	(6.4)
Profit / (loss) before income tax	23.0	16.4
Income tax expense	(7.0)	(4.9)
Profit / (loss) for the period	16.0	11.5
Attributable to the shareholders of H&K AG	16.0	11.5
Earnings per share (€)	0.58	0.42

Unaudited, Interim, Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the period January 1 to June 30

(€ millions)	2022	2021
Profit / (loss) for the period	16.0	11.5
Other comprehensive income		
DBO actuarial gains / (losses)	-	-
Related deferred tax	-	-
Items that will never be reclassified to profit or loss	-	-
Forex translation differences for foreign operations	1.1	0.2
Items that are or may be reclassified to profit or loss	1.1	0.2
Other comprehensive income / (expense), net of tax	1.1	0.2
Total comprehensive income for the period	17.0	11.7
Attributable to the shareholders of H&K AG	17.0	11.7

Unaudited, Interim, Consolidated Statement of Changes in Equity

For the period January 1, 2021 to June 30, 2022

(€ millions)	Share Capital	Additional Paid in Capital	Translation Reserve	Reserve for Defined Benefit Obligations	Consolidated Retained Earnings	Shareholders' Equity
As of 01.01.2021	27.6	53.0	(0.5)	(19.9)	(168.5)	(108.3)
Total recognised income & expense	-	-	0.3	-	3.3	3.6
As of 31.03.2021	27.6	53.0	(0.3)	(19.9)	(165.2)	(104.7)
Total recognised income & expense	-	-	(0.0)	-	8.1	8.1
As of 30.06.2021	27.6	53.0	(0.3)	(19.9)	(157.0)	(96.5)
Total recognised income & expense	-	-	0.2	-	5.7	5.8
As of 30.09.2021	27.6	53.0	(0.1)	(19.9)	(151.4)	(90.7)
Total recognised income & expense	-	-	0.2	0.5	4.7	5.5
As of 31.12.2021	27.6	53.0	0.1	(19.4)	(146.7)	(85.3)
Total recognised income & expense	-	-	0.2	-	8.1	8.3
As of 31.03.2022	27.6	53.0	0.3	(19.4)	(138.6)	(77.0)
Total recognised income & expense	-	-	0.9	-	7.9	8.8
As of 30.06.2022	27.6	53.0	1.2	(19.4)	(130.7)	(68.2)

Unaudited, Interim, Consolidated Statement of Cash Flows

For the period January 1 to June 30

(€ millions)	2022	2021
Cash flows from operating activities		
Profit / (loss) for the period	16.0	11.5
Adjustments for:		
Depreciation	4.3	4.0
Amortisation of intangible assets	1.6	1.7
(Reversal of) impairment losses on intangible assets	-	0.3
Net interest expense	9.3	7.3
Change in fair value of derivatives	1.7	0.2
(Gain) / loss on disposal of property, plant & equipment	(0.0)	0.0
Income tax expense	7.0	4.9
	40.0	29.9
Change in inventories	(3.4)	4.3
Change in trade & other receivables	(6.9)	(8.6)
Change in prepayments	(0.1)	(0.7)
Change in trade & other payables	(7.9)	(1.8)
Change in provisions & employees' defined benefits	(2.6)	(4.4)
	19.2	18.8
Income tax paid	(3.3)	(2.5)
Net cash flows due to operating activities	15.9	16.3
Cash flows from investing activities		
Interest received	0.0	0.0
Proceeds from sale of property, plant & equipment	0.0	0.0
Acq'n of property, plant, equipment and intangibles	(3.7)	(3.5)
Movement in deposits with terms >3 months	1.7	(2.3)
Capitalised development expenditure	(2.6)	(3.5)
Net cash flows due to investing activities	(4.6)	(9.3)
Cash flows from financing activities		
Repayment of loans	(8.0)	(1.0)
Interest paid	(5.0)	(5.2)
Repayment of lease liabilities	(0.2)	(0.2)
Net cash flows due to financing activities	(13.2)	(6.4)
Net cashflows	(1.9)	0.5
Cash & cash equivalents at 1st January	46.5	33.3
Effect of exchange rate fluctuations on cash held	0.4	0.4
Cash & cash equivalents at June 30	45.0	34.3