



H&K AG

QUARTERLY REPORT

Results for the
twelve-month period
to December 31, 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

Analysts, investors, media and others seeking financial and general information, please contact:

Investor Relations

E-mail: info.ir@heckler-koch-de.com

Public Relations

E-mail: presse@heckler-koch-de.com

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 year ended December 31, 2022

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

Building on the positive developments in recent years, last year was the most successful year in the Group's history: Sales of €305 million were 5.1% higher than in 2021 and we generated €82 million EBITDA, a 41.5% increase over 2021. The increase in revenues was primarily due to currency conversion effects (changed USD/EUR exchange rates), the positive business development in the US commercial markets and the positive effects of price escalation clauses; there were opposing effects from a partly scheduled reduction in the military business in the US, France and Great Britain. Both in prior years and in 2022 high investments in capacity and process optimisation were made and cost-saving measures implemented; these continue to have a positive effect on the result. Cash and cash equivalents fell by €10.7 million during the year; although operating cash-flow generated was more than sufficient to finance the cash flows for our investing activities and interest payments, some of our own funds were used in the refinancing described below. This continuing strong operating 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.

In August 2022, the Group received a new term loan and revolving credit facility from a syndicate of banks and used €50 million of these funds, together with cash balances, to repay the then remaining balance of the SFA loan. In December 2022 an additional €40 million was drawn from the syndicated loan and one of our main shareholders granted us an unsecured loan of €20 million; these funds were used to fully repurchase the listed bond and it was subsequently cancelled.

To strengthen the Group's equity position, in August 2022 the three shareholder loans were converted to hybrid loans totalling €95 million. As a result, previously accrued interest for 2022 was reversed since interest for the hybrid loans will not be recognised for 2022 unless the AGM in 2023 decides to pay dividends for 2022. Accrued interest to December 31, 2021 was paid in November 2022. In a next step we currently expect that these loans will be converted into equity in Q2 2023.

As we commented previously, 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. Inflation has started to affect our suppliers and consequently their prices to us; we are able to pass on some of these effects to our customers where we have price escalation clauses in our existing sales contracts and are taking this into account when pricing new contracts.

During its session on December 14, 2022, the Budget Committee of the German Parliament approved funds for the successor to the G36 assault rifle. The "System Assault Rifle Bundeswehr", a new assault rifle from Heckler & Koch GmbH based on the HK416 A8, will replace the G36 as the standard assault rifle for the German Army. The first test weapons will be made available in 2023; series production is planned for 2025. The selection decision was actually made in the Spring of 2021, however review proceedings against the decision initiated by an unsuccessful tenderer delayed the contract signature. The contract was signed in January 2023.

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, the significant increase in inflation, due to delivery problems during the corona pandemic and the conflict in Ukraine, is likely to affect the purchase of raw materials and services in particular, and it may not be possible to pass this on to the market.

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 audited consolidated statements of financial position at December 31, 2022 and 2021 and the related statements of income, comprehensive income, equity and cash flows for the twelve month periods ended December 31, 2022 and 2021 prepared in accordance with IFRS.

Attached are our

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

with figures determined according to IFRS as at and for the twelve-month periods to December 31, 2022 and 2021.

Consolidated Statement of Financial Position

(€ millions)	31.12.2022	31.12.2021
Property, plant & equipment	67.9	61.7
Intangible assets - goodwill	5.1	5.1
Intangible assets - other	43.5	40.3
Other investments	2.4	9.5
Deferred tax assets	16.8	11.8
Total non-current assets	135.7	128.4
Inventories	117.6	96.7
Prepayments for inventories	0.1	0.6
Prepayments for other current assets	0.2	0.3
Other deposits	2.5	4.4
Current tax assets	1.1	0.1
Trade receivables	29.9	28.9
Other receivables	5.3	3.2
Cash & cash equivalents	35.8	46.5
Total current assets	192.5	180.9
Total assets	328.2	309.3
Equity		
Share capital	27.6	27.6
Additional paid in capital	53.0	53.0
Other reserves	(9.3)	(19.2)
Consolidated retained earnings	(96.0)	(146.7)
Total equity attributable to H&K AG shareholders	(24.7)	(85.3)
Equity attributable to hybrid capital investors	95.0	-
Total equity	70.3	(85.3)
Liabilities		
Loans & borrowings	102.4	163.1
Lease liabilities	1.1	1.0
Employee defined benefit obligations	45.1	60.5
Provisions	2.5	2.9
Other payables	0.1	-
Deferred tax liabilities	23.9	21.6
Total non-current liabilities	175.0	249.1
Loans & borrowings	4.8	79.4
Trade payables	21.2	19.0
Other payables	13.8	12.2
Contract liabilities	18.7	13.0
Derivatives	1.5	1.1
Tax liabilities	8.3	3.9
Other provisions & accruals	14.6	16.8
Total current liabilities	82.9	145.5
Total liabilities	257.9	394.6
Total equity & liabilities	328.2	309.3

Consolidated Income Statement

For the period January 1 to December 31

(€ millions)	2022	2021
Revenue	305.1	290.2
Cost of sales	(183.3)	(193.1)
Gross profit	121.8	97.1
Research & development expenses	(6.5)	(8.9)
Sales, marketing & distribution expenses	(26.5)	(22.6)
Administration expenses	(20.7)	(20.1)
Other operating income	2.2	1.7
Other operating expenses	(0.3)	(0.7)
Impairment loss on trade receivables, net of reversals	0.4	(0.1)
Results from operating activities	70.3	46.2
Interest income	0.2	0.0
Gains on translation of foreign currencies	4.1	2.8
Total financial income	4.2	2.8
Interest expense	(11.1)	(13.9)
Accretion of non-current liabilities	(2.2)	(1.8)
Losses on val'n of other derivative financial instruments	(0.3)	(1.1)
Losses on translation of foreign currencies	(7.5)	(0.7)
Other financial expense	(0.1)	(0.1)
Total financial expense	(21.2)	(17.6)
Net financial result	(17.0)	(14.8)
Profit / (loss) before income tax	53.4	31.4
Income tax expense	(2.7)	(9.6)
Profit / (loss) for the period	50.6	21.8
Attributable to the shareholders of H&K AG	50.6	21.8
Earnings per share (€)	1.83	0.79

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the period January 1 to December 31

(€ millions)	2022	2021
Profit / (loss) for the period	50.6	21.8
Other comprehensive income		
DBO actuarial gains / (losses)	13.5	0.7
Related deferred tax	(3.8)	(0.2)
Items that will never be reclassified to profit or loss	9.7	0.5
Forex translation differences for foreign operations	0.2	0.7
Items that are or may be reclassified to profit or loss	0.2	0.7
Other comprehensive income / (expense), net of tax	9.9	1.2
Total comprehensive income for the period	60.6	23.0
Attributable to the shareholders of H&K AG	60.6	23.0

Consolidated Statement of Changes in Equity

For the period January 1, 2021 to December 31, 2022

(€ millions)	Share Capital	Additional Paid in Capital	Translation Reserve	Reserve for Defined Benefit Obligations	Consolidated Retained Earnings	Shareholders' Equity	Equity Attributable to Hybrid Capital Investors	Total Equity
As of 01.01.2021	27.6	53.0	(0.5)	(19.9)	(168.5)	(108.3)	-	(108.3)
Total recognised income & expense	-	-	0.7	0.5	21.8	23.0	-	23.0
As of 31.12.2021	27.6	53.0	0.1	(19.4)	(146.7)	(85.3)	-	(85.3)
Conversion of loans to Hybrid Capital	-	-	-	-	-	-	95.0	95.0
Total recognised income & expense	-	-	0.2	9.7	50.6	60.6	-	60.6
As of 31.12.2022	27.6	53.0	0.3	(9.6)	(96.0)	(24.7)	95.0	70.3

Consolidated Statement of Cash Flows

For the period January 1 to December 31

(€ millions)	2022	2021
Cash flows from operating activities		
Profit / (loss) for the period	50.6	21.8
Adjustments for:		
Depreciation of property, plant & equipment	8.8	8.3
Amortisation of intangible assets	2.9	3.4
(Reversal of) impairment losses on intangible assets	-	2.7
Net interest expense	13.2	15.8
Change in fair value of derivatives	0.3	1.1
(Gain) / loss on disposal of property, plant & equipment	0.1	(0.1)
Income tax expense	2.7	9.6
	78.8	62.7
Change in inventories	(20.0)	(0.7)
Change in trade & other receivables	(0.8)	(6.2)
Change in prepayments	0.7	(0.2)
Change in trade & other payables	7.0	8.0
Change in provisions & employees' defined benefits	(5.3)	(1.9)
	60.4	61.7
Income tax paid	(5.6)	(5.2)
Net cash flows due to operating activities	54.8	56.5
Cash flows from investing activities		
Interest received	0.1	0.0
Proceeds from sale of property, plant & equipment	0.0	0.1
Acq'n of property, plant, equipment and intangibles	(14.7)	(12.6)
Investments in other financial assets	(0.0)	-
Movement in deposits with terms >3 months	9.0	(9.6)
Capitalised development expenditure	(5.2)	(6.2)
Net cash flows due to investing activities	(10.9)	(28.3)
Cash flows from financing activities		
Proceeds from loans	90.0	-
Payment of transaction costs	(4.9)	-
Repayment of loans	(120.0)	(3.0)
Interest paid	(19.5)	(12.4)
Repayment of lease liabilities	(0.4)	(0.4)
Net cash flows due to financing activities	(54.7)	(15.7)
Net cashflows	(10.8)	12.4
Cash & cash equivalents at 1st January	46.5	33.3
Effect of exchange rate fluctuations on cash held	0.2	0.7
Cash & cash equivalents at December 31	35.8	46.5