Annual Financial Statements of

HENSOLDT AG

for the year ended on

31 December 2023

STATEMENT OF FINANCIAL POSITION

ASSETS	31 Dec.	31 Dec.
in € thousand	2023	2022
A. Fixed assets	**2,690,278**	**2,670,418**
I. Intangible assets	2,910	7
II. Property, plant and equipment	2,368	411
III. Financial assets	2,685,000	2,670,000
B. Current assets	**549,024**	**256,867**
I. Advance payments made	264	279
II. Accounts receivable and other assets	173,055	88,510
III. Cash and cash equivalents	375,705	168,077
C. Prepaid expenses and deferred charges	**7,240**	**7,220**
D. Surplus of offsetting	**64**	**–**
Total assets	**3,246,606**	**2,934,504**

EQUITY AND LIABILITIES	31 Dec.	31 Dec.
in € thousand	2023	2022
A. Equity	**1,898,094**	**1,778,547**
I. Share capital	115,500	105,000
II. Capital reserve	1,725,395	1,635,025
III. Balance sheet profit	57,199	38,522
B. Provisions	**42,941**	**27,230**
1. Provisions for pensions and similar obligations	18,377	17,598
2. Other provisions	24,564	9,632
C. Liabilities	**1,305,571**	**1,128,727**
1. Liabilities to banks	627,153	624,182
2. Trade payables	22,462	7,359
3. Liabilities to affiliated companies	607,109	470,735
4. Other liabilities	48,848	26,451
Total equity and liabilities	**3,246,606**	**2,934,504**

INCOME STATEMENT

	Fiscal year	
in € thousand	2023	2022
1. Revenue	56,766	41,543
2. Cost of sales	-56,969	-41,762
3. Gross profit	**-203**	**-219**
4. Selling expenses	-527	-2,008
5. General administrative expenses	-28,231	-28,320
6. Other operating income	1,428	5,377
7. Other operating expenses	-15,773	-5,247
8. Operating result	**-43,306**	**-30,418**
9. Finance result	**-45,546**	**-22,014**
10. Income taxes	-927	-42
11. Result after taxes	**-89,779**	**-52,474**
12. Other taxes	-44	-24
13. Net loss for the fiscal year	**-89,823**	**-52,498**
14. Profit carry-forward	7,022	6,020
15. Withdrawal from the capital reserve	140,000	85,000
16. Balance sheet profit	**57,199**	**38,522**

NOTES

I Bases and Methods of the Annual Financial Statements

As of 31 December 2023, HENSOLDT AG, Taufkirchen, (Local Court of Munich HRB 258711) (the “Company”) was the parent company of the HENSOLDT Group.

On 24 September 2020, the shares of the Company were admitted to trading on the Frankfurter Stock Exchange with admission to the sub-segment of the regulated market with the ticker symbol HAG000. Trading commenced on the following day. As part of the regular review of the DAX index family composition, HENSOLDT AG was included in the SDAX index and the TecDAX index by Deutsche Börse on 20 June 2022 and in the MDAX with effect from 20 March 2023. The main reason was that the market capitalisation based on free float had risen compared to other companies. The Federal Republic of Germany is a shareholder of HENSOLDT AG through the Kreditanstalt für Wiederaufbau (KfW) with a share of 25.1 % on 31 December 2023 as well as Leonardo S.p.A., Italy, which holds 22.8 % in HENSOLDT AG.

The annual financial statements of HENSOLDT AG were prepared in accordance with sections 242 et seq. and 264 et seq. of the German Commercial Code (HGB) and in accordance with the relevant provisions of the German Stock Corporation Act (AktG) and the articles of association. The provisions applicable to large corporations apply.

The applicable measurement provisions set forth in the German commercial code were observed by taking into account the going concern principle. The valuation methods applied to the previous annual financial statements were retained.

Items in the statement of financial position and the income statement were combined to provide a clearer presentation and are broken down accordingly in the notes.

The annual financial statements are presented in Euro (€). Unless otherwise stated, all financial figures presented herein in € are rounded to the nearest thousand € according to proven commercial principles. Due to rounding, numbers presented may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures. Absolute amounts of less than € 500 and greater than zero are shown as 0 or -0, depending on the sign. On the other hand, for items that have no value, the indication of a false display is made with “-”.

The income statement is prepared according to the cost-of-sales method.

Accounting and valuation methods

The accounting and valuation methods set forth below were essential for the preparation of the annual financial statements.

Intangible assets are valued at cost of acquisition and are reduced by scheduled amortisation. For the purpose of scheduled amortisation of intangible assets, the company predominantly expects a useful life of 3 years. The straight-line method of amortisation is applied.

Property, plant and equipment are valued at cost of acquisition and are reduced by scheduled depreciation. The planned depreciation is based mainly on the following useful lives: 3 to 10 years for other plants and business and factory equipment, 4 to 20 years for land, rights equivalent to land and buildings, including buildings on third-party land. The straight-line method of depreciation is applied.

Additions to low-value assets with cost of acquisition or production of up to € 800 are immediately recognised as an expense in the year of acquisition or production.

Financial assets are recognised at cost or, in the case of expected permanent impairment, at the lower fair values. That applies if objective indications, in particular events or changes in circumstances, indicate a significant or prolonged impairment. In the case of a previous write-down, a lower valuation may not be retained if the reasons for it no longer exist.

Advance payments made are recognised at their nominal amount.

Accounts receivable and other assets are recognised at their nominal value. Recognisable individual risks and general credit risks are taken into account by appropriate value allowances.

Cash and cash equivalents are disclosed at the nominal value.

The difference between the higher settlement amount of a liability and the issue amount is included in a **prepaid expenses** item. Repayment is made through scheduled annual depreciation, which is distributed over the entire term of the liability.

Provisions for pensions and similar obligations are recognised at the settlement amount and determined actuarially using the projected unit credit method.

The following premises were used for the calculation:

- Actuarial interest rate: 1.82 %
- Pension trend: 2.00 %
- Salary trend: 2.00 % - 4.00 %

The calculated final age is essentially based on the age limits stipulated in the *Rentenversicherungs-Altersgrenzen-Anpassungsgesetz* [German Pension Insurance Age Limit Adjustment Act] of 2007 as well as the current biometric *Richttafeln* [Mortality Tables] 2018 G by Heubeck. The final funding age was set at 63 years. In addition, assumptions were made regarding the payout options granted to pension beneficiaries.

The provision for pensions as at 31 December 2023 are discounted at a flat rate in accordance with section 253 (2) HGB using the average market interest rate of the past ten fiscal years, which results from an assumed residual term of 15 years.

The plan assets for pensions and similar obligations measured at fair value are netted with the provisions in accordance with section 246 (2) sentence 2 HGB.

In the income statement, interest expenses from the calculation of retirement benefit obligations and comparable long-term obligations and income or expenses from the fair value measurement of plan assets are netted and reported in the finance result.

Other provisions take into account all contingent liabilities and are recognised as liabilities at the settlement amount required in accordance with the principles of reasonable business judgement, taking into account future price and cost increases, if applicable. Non-current provisions are discounted to the date of their expected utilisation using the average term-adequate interest rates for the past seven fiscal years published by Deutsche Bundesbank.

Other provisions are recognised for anticipated losses arising from foreign currency forward transactions or interest rate swap transactions concluded to hedge exchange rate or interest rate fluctuations in the amount of the negative market values. The valuation was made using recognised valuation methods such as “option pricing” models and “discounted cash flow” models. The input parameters used are based on observable market data such as interest rate curves. Positive market values represent unrealised gains and are not recognised in the statement of financial position.

Liabilities are recognised at their settlement amounts.

Deferred taxes are calculated for temporary differences between the commercial and tax valuations of assets, liabilities and accruals. In addition, deferred tax assets are calculated on the existing corporate and trade tax loss carryforwards, insofar as a utilisation of the loss carryforwards is expected in the next 5 years. Any resulting tax burden will, in total, be recognised in the statement of financial position as deferred tax liabilities. In the case of a tax relief, no use is made of the corresponding capitalisation option pursuant to section 274 (1) sentence 2 HGB and capitalisation is waived.

Receivables and liabilities denominated in foreign currencies with a residual term of less than one year are valued at the spot foreign exchange rate prevailing on the balance sheet date. Accounts receivables in foreign currencies with a residual term of more than one year are translated at the foreign exchange rate on the accounting date or at the lower rate on the balance sheet date, foreign currency liabilities at the foreign exchange rate prevailing on the accounting date or at the higher rate on the balance sheet date. Advance payments made or received will be converted at the selling or bid rate prevailing on the accounting date.

II Explanations on the statement of financial position

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1. Intangible assets

Intangible assets amount to € 2,910 thousand as of 31 December 2023 (previous year: € 7 thousand).

Advance payments made for the implementation of the business transformation for SAP S/4HANA in the amount of € 2,909 thousand were capitalised in the fiscal year.

For a breakdown of the items summarised in the statement of financial position and their changes refer to the "Changes in fixed assets" section.

2. Property, plant and equipment

Property, plant and equipment amount to € 2,368 thousand as of 31 December 2023 (previous year: € 411 thousand).

Hardware in the amount of € 1,740 thousand required for the implementation of the business transformation for SAP S/4HANA was capitalised in the fiscal year under property, plant and equipment .

For a breakdown of the items summarised in the statement of financial position and their changes refer to the "Changes in fixed assets" section.

3. Financial assets

Financial assets consist of the investment in the subsidiary HENSOLDT Holding GmbH in the amount of € 2,670 million (previous year: € 2,670 million) and a long-term loan, granted in the fiscal year by the Company to GEW Technologies (Pty) Ltd., in which an indirect participation exists, in the amount of € 15 million.

For a breakdown of the items summarised in the statement of financial position and their changes refer to the "Changes in fixed assets" section.

4. Advance payments made

Advance payments were made in the amount of € 264 thousand (previous year: € 279 thousand) to third parties.

5. Accounts receivable and other assets

in € thousand	31 Dec. 2023	31 Dec. 2022
Trade receivables	55	33
Accounts receivable from affiliated companies	172,638	88,108
Other assets	362	369
Accounts receivable and other assets	**173,055**	**88,510**

Accounts receivable from affiliated companies relate mainly to receivables from cash pooling of € 89,680 thousand (previous year: € 46,461 thousand) as well as to accounts receivable from advance VAT returns of controlled companies in the amount of € 54,913 thousand (previous year: € 31,907 thousand) as well as to financial receivables from HENSOLDT Nexeya France S.A.S. in the amount of € 21,685 thousand (previous year: € 5,509 thousand). Receivables from internal settlements amount to € 5,798 thousand in the reporting year (previous year: € 3,924 thousand).

Other assets comprise mainly credit balances with suppliers amounting to € 150 thousand (previous year: € 90 thousand).

All accounts receivable and other assets have a residual term of less than one year.

6. Cash and cash equivalents

Balances at banks relate to cash and cash equivalents in the amount of € 8,705 thousand (previous year: € 68,077 thousand) as well as to a short-term deposit in the amount of € 367 million (previous year: € 100 million).

7. Prepaid expenses and deferred charges

This balance sheet item mainly includes directly attributable transaction costs in connection with the first-time raising of a long-term syndicated loan ("Term Loan") in the amount of € 3,681 thousand (previous year: € 5,377 thousand) and a revolving credit facility ("RCF") of € 1,048 thousand (previous year: € 1,371 thousand). These are reversed on a straight-line basis over a period of five years.

In December 2023, a further syndicated loan agreement ("Term Facility") for € 450 million was concluded with a duration until April 2027. Transaction costs of € 1,125 thousand incurred for this purpose are deferred and amortised on a straight-line basis over a period from the time the Term Facility is utilised in 2024.

In addition, the balance sheet item includes insurance premiums of € 280 thousand (previous year: € 187 thousand) and other deferred charges mainly for software licences of € 1,107 thousand (previous year: € 285 thousand).

8. Equity

As of 31 December 2023, the subscribed capital of HENSOLDT AG amounts to € 115.5 million and is divided into 115,500,000 ordinary bearer shares (no-par value shares).

At the beginning of December 2023, a capital increase was carried out, excluding subscription rights, amounting to 10.0 % of the share capital, which was registered in the commercial register on 8 December 2023. 10,500,000 new shares were issued at a price of € 22.94 per share. This resulted in net proceeds before transaction costs of around € 241 million. The amount exceeding the nominal value from the issue of the new shares of € 230 million was allocated to the capital reserve according to section 272 (2) No. 1 HGB.

	31 Dec.	31 Dec.
in € thousand	2023	2022
Capital reserve section 272 (2) no. 1 HGB	280,406	50,036
Capital reserve section 272 (2) no. 4 HGB	1,444,989	1,584,989
Capital reserve	**1,725,395**	**1,635,025**

In accordance with the articles of association, the share capital of the Company may be increased by the Management Board until 11 August 2025, with the approval of the Supervisory Board, by issuing new ordinary bearer shares against contributions in cash and/or in kind on one or more occasions by up to a total of € 36 million (Authorised Capital 2020/I). After the capital increase in 2023, the Authorised Capital 2020/I amounts to € 25.5 million as of 31 December 2023.

In addition, the share capital of the Company has been conditionally increased by up to € 16 million by issuing up to 16,000,000 new no-par value bearer shares on or before 11 August 2025 against contributions in cash or in kind (Conditional Capital 2020/I). The conditional capital increase shall only be implemented to the extent that the holders or creditors of option or conversion rights or those obliged to exercise the conversion/option exercise their option or conversion rights or, to the extent that they are obligated to exercise the conversion/option, fulfil their obligation to exercise the conversion/option or to the extent that the Company exercises an option to grant shares in the Company in whole or in part instead of payment of the cash amount due. The Company has not used the Conditional Capital 2020/I until 31 December 2023. Accordingly, the Conditional Capital 2020/I thus amounts to € 16 million on 31 December 2023.

The equity contains amounts banned from distribution in accordance with section 253 (6) sentence 2 HGB of € 331 thousand (previous year: € 1,362 thousand).

In the context of the preparation of the annual financial statements, an amount of € 140 million (previous year: € 85 million) was withdrawn from the capital reserve and allocated to the balance sheet profit.

Net loss for the fiscal year 2023 amounted to € 89,823 thousand (previous year: net loss € 52,498 thousand). Taking into account the profit carry-forward of € 7,022 thousand less the distribution of € 31,500 thousand, and the withdrawal from the capital reserve of € 140,000 thousand, this results in a balance sheet profit of € 57,199 thousand (previous year: € 38,522 thousand).

9. Provisions for pensions and similar obligations

Provisions for pensions and similar obligations amount to € 18,377 thousand (previous year: € 17,598 thousand) and are disclosed at their settlement amount and determined actuarially according to the projected unit credit method.

The assets transferred in trust to Allianz Treuhand GmbH, Frankfurt am Main, within the framework of a Contractual Trust Arrangement (CTA), and thus representing dedicated assets for the fulfilment of pension obligations, are plan assets within the meaning of section 246 (2) sentence 2 HGB and are therefore offset against the corresponding pension obligations at their fair value.

Information on netting in accordance with section 246 (2) sentence 2 HGB:

	Fiscal year	
in € thousand	2023	2022
Expected settlement amount for pensions and similar obligations	20,938	20,058
Acquisition cost of plan assets	2,587	2,794
Fair value of plan assets	2,561	2,460
Offset of expenses	201	579
Offset of income	101	334

The interest expenses of the obligations, the current income from the plan assets and the income or expenses from changes in the fair value of the plan assets are presented offset in the finance result.

The difference in accordance with section 253 (6) sentence 3 HGB amounts to € 331 thousand (previous year: € 1,362 thousand) and is banned from distribution.

10. Other provisions

Other provisions relate to personnel-related provisions in the amount of € 13,107 thousand (previous year: € 7,917 thousand) and miscellaneous other provisions of € 11,456 thousand (previous year: € 1,715 thousand).

Provisions relating to staff include variable remuneration components of € 2,775 thousand (previous year: € 3,031 thousand) and non-current variable remuneration components (Long-Term Incentive Bonus) of € 9,473 thousand (previous year: € 4,062 thousand).

The personnel-related provisions also include provisions for anniversary allowances. This provision amounts to € 289 thousand on the balance sheet date (previous year: € 312 thousand). An interest rate of 1.33 % was used for their actuarial valuation as at the reporting date of 31 December 2023.

Furthermore, there are obligations to employees from the Company's lifetime work account model, in the amount of the remuneration components contributed by employees; these amount to € 386 thousand (previous year: € 393 thousand). For this purpose, the underlying securities-based plan assets were calculated using financial mathematics and the corresponding amount of the obligation was derived from this. As at the balance sheet date, these securities are reported as trust assets at fair value (€ 386 thousand; previous year: € 393 thousand) at cost of acquisition of € 411 thousand. Trust assets and obligation are presented on a net basis.

Personnel-related provisions also include the obligations arising from the replenishment and severance payments of part-time retirement obligations of € 211 thousand. The obligations arising from the payment arrears of part-time retirement obligations amounting to € 504 thousand have been offset against earmarked plan assets which serve to secure this obligation. The fair value of the plan assets amount to € 568 thousand at cost of acquisition of € 575 thousand. The difference on the asset side of € 64 thousand is shown as a separate balance sheet item under assets. The offset interest expenses amount to € 0 thousand, the income from the fair value adjustment is € 4 thousand. An interest rate of 1.00 % was used for the actuarial valuation as at the reporting date of 31 December 2023.

Other provisions include provisions for anticipated losses arising from the valuation of interest rate swaps as of the reporting date in the amount of € 9,538 thousand (previous year: € 0 thousand), provisions for the remuneration of the Supervisory Board and the annual general meeting amounting to € 1,124 thousand (previous year: € 986 thousand) and provisions for auditing and consulting fees of € 795 thousand (previous year: € 730 thousand).

11. Liabilities

in € thousand	31 Dec. 2023	31 Dec. 2022
Liabilities to banks	627,153	624,182
Trade liabilities	22,462	7,359
Liabilities to affiliated companies	607,109	470,735
Other liabilities	48,848	26,451
Liabilities	**1,305,571**	**1,128,727**

Liabilities to banks include liabilities from a syndicated loan agreement (Senior Facility Agreement; "SFA") consisting of a long-term loan ("Term Loan") in the nominal amount of € 620 million (previous year: € 600 million) with a maturity date of 14 April 2027, and thus a remaining term of more than one year.

The financing is secured among others by pledging the shares in the direct and indirect subsidiaries HENSOLDT Holding GmbH, HENSOLDT Holding Germany GmbH, HENSOLDT Sensors GmbH, HENSOLDT Optronics GmbH, HENSOLDT Holding France S.A.S. and HENSOLDT Nexeya France S.A.S.

Trade payables amount to € 22,462 thousand (previous year: € 7,359 thousand) and have a residual term of less than one year.

Liabilities to affiliated companies of € 607,109 thousand (previous year: € 470,735 thousand) are liabilities from the cash pooling of € 601,866 thousand (previous year: € 468,002 thousand) and trade payables of € 5,243 thousand (previous year: € 2,734 thousand). All payables to affiliated companies have a residual term of less than one year.

Other liabilities mainly include liabilities from taxes (wage tax and VAT) in the amount of € 48,268 thousand (previous year: € 25,981 thousand). All other liabilities have a residual term of less than one year.

12. Financial instruments

The Company had interest rate swap transactions at 31 December 2023 with a total volume of € 620 million and a maturity from 16 January 2023 until 14 April 2027. The nominal interest expense of the 3-month EURIBOR will be exchanged for this period for an interest rate of 2.99 %. The negative fair values of interest rate swap transactions represent unrealised losses and are recognised as liabilities in accordance with the imparity principle.

The market values were determined on the basis of the market information available on the balance sheet date, in particular interest rates, and constitute the values at which a third party would assume the rights and obligations arising from the financial instruments.

13. Contingent liabilities

The obligations entered into from contingent liabilities amount to € 230,490 thousand (previous year: € 132,094 thousand), were concluded for affiliated companies and relate mainly to advance payment and contract performance guarantees towards third parties. These were not to be recognised as liabilities, as the underlying obligations can probably be fulfilled due to the creditworthiness of the debtors and therefore a utilisation is not to be expected.

14. Other financial obligations

Payment obligations for tangible and intangible assets totalling € 593 thousand (previous year: € 0 thousand) exist for long-term rental and leasing agreements. Thereof € 212 thousand (previous year: € 0 thousand) are due within one year.

III Explanations on the income statement

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15. Revenue

The Company provides administrative, advisory and other services to subsidiaries and affiliated companies in Germany. For this purpose, € 54,624 thousand (previous year: € 40,506 thousand) of the costs were passed on accordingly. The increase mainly results from the passing on of costs for the business transformation for SAP S/4HANA to HENSOLDT Sensors GmbH and HENSOLDT Optronics GmbH in the amount of € 11,910 thousand (previous year: € 0 thousand).

16. General administrative expenses

The general administrative expenses include the expenses for the further strategic development of the HENSOLDT Group as well as central administrative expenses of HENSOLDT AG which are not passed on to the operating companies of the HENSOLDT Group. In addition, in the previous year, the expense for the employee share programme, which was not passed on to the participating companies of HENSOLDT Group, was included with an amount of € 133 thousand.

17. Other operating income

Other operating income mainly includes realised income from current interest rate swap transactions of € 1,286 thousand. In the previous year, costs of the employee share programme passed on to the participating companies of HENSOLDT Group in the amount of € 5,161 thousand were included. In addition, prior-period income from the reversal of other provisions amounting to € 87 thousand (previous year: € 157 thousand) is included in this fiscal year.

18. Other operating expenses

Other operating expenses in the amount of € 15,773 thousand (previous year: € 5,247 thousand) mainly consist of expenses arising from allocations to provisions for anticipated losses arising from the valuation of interest rate swaps as of the reporting date of € 9,538 thousand (previous year: € 0 thousand), as well as costs for the capital increase in the fiscal year of € 4,301 thousand (previous year: € 0 thousand). In the previous year, this item included the cost of the employee share programme amounting to € 5,161 thousand, which was passed on to the participating companies of the HENSOLDT Group. In addition, it includes realised exchange rate losses of € 14 thousand in the fiscal year (previous year: € 36 thousand).

19. Finance result

	Fiscal year	
in € thousand	2023	2022
Income from other securities and loans classified as financial assets	45	0
Other interest and similar income	9,606	882
Interest and similar expenses	-55,197	-22,903
Other financial result	0	7
Finance result	**-45,546**	**-22,014**

The income from other securities and loans classified as financial assets solely includes interest income from affiliated companies from the loan to GEW Technologies (Pty) Ltd.

Other interest and similar income includes mainly interest income from affiliated companies from cash pooling amounting to € 5,113 thousand (previous year: € 800 thousand) and interest income on short-term deposits of € 3,535 thousand (previous year: € 0 thousand).

Interest and similar expenses contain interest expenses of € 34,241 thousand (previous year: € 20,457 thousand) mainly for the Term Loan, interest expenses to affiliated companies from cash pooling of € 17,236 thousand (previous year: € 1,440 thousand), transaction costs of € 2,831 thousand for the syndicated loan agreement ("Term Facility") concluded in the fiscal year, expenses for pension obligations of € 100 thousand (previous year: € 914 thousand) as well as bank charges in the amount of € 788 thousand (previous year: € 51 thousand).

The other finance result of € 0 thousand (previous year: € 7 thousand) comprises income from foreign currency valuation.

20. Income taxes

Income taxe expenses of € 927 thousand (previous year: expense € 42 thousand) include an current tax expense amounting to € 932 thousand (previous year: expense € 47 thousand) as well as tax income, relating to the previous year, of € 5 thousand (previous year: income € 5 thousand).

21. Other taxes

Other taxes amount to € 44 thousand (previous year: € 24 thousand) and relate mainly to VAT not deductible in the amount of € 26 thousand (previous year: € 20 thousand).

22. Cost of materials

	Fiscal year	
in € thousand	2023	2022
Cost of raw materials, consumables and supplies and goods purchased	217	151
Cost of materials	**217**	**151**

23. Personnel expenses / staff

	Fiscal year	
in € thousand	2023	2022
Wages and salaries	22,419	25,709
Social security contributions and expenses for pensions and similar obligations	2,832	5,125
thereof pensions € 842 thousand (PY: € 3,305 thousand)		
Personnel expenses	**25,251**	**30,833**

The following overview shows the average number of employees during the fiscal year, broken down by groups:

	Fiscal year	
Average	2023	2022
Employees	114	110
Apprentices / Trainees	12	12
Total	**126**	**122**

IV Other disclosures

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24. Composition and mandates of the Management Board and the Supervisory Board

Members of the Management Board and mandates of the members:

- Müller, Thomas (Munich), Chairman of the Management Board, Chief Executive Officer of HENSOLDT AG
- Dörre, Oliver (Munich), member of the Management Board of HENSOLDT AG (since 1 January 2024)
- Ladurner, Christian (Vaterstetten), Chief Financial Officer of HENSOLDT AG
- Dr. Immisch, Lars (Munich), Chief Human Resources Officer of HENSOLDT AG
- Pelaz Perez, Celia (Friedrichshafen), Chief Strategy Officer of HENSOLDT AG

Members of the Supervisory Board and mandates of the members

The following persons are members of the Supervisory Board:

Name	Born	Member since	Appoin-ted until	Profession
Johannes P. Huth (Chairman until 12 May 2023 and retired from the Supervisory Board)	1960	2017	2025	Partner at KKR Square Aggregator L.P., Kanada (KKR) and Head of KKR in EMEA
Reiner Winkler (Chairman since 12 May 2023, before ordinary member)	1961	2022	2025	CEO at MTU Aero Engines AG (until December 2022), Independent Consultant
Armin Maier-Junker[1] (Vice Chairman)	1962	2017	2026	Chairman of the Works Council of HENSOLDT Sensors GmbH, Ulm; Chairman of the General Works Council of HENSOLDT Sensors GmbH and Chairman of the Group Works Council
Dr. Jürgen Bestle[1]	1966	2021	2026	Head of Engineering Governance of HENSOLDT AG and Head of Design Organisation of HENSOLDT Sensors GmbH
Jürgen Bühl[1]	1969	2017	2026	Head of Sector Policy Coordination in the Executive Board of IG Metall
Letizia Colucci	1962	2022	2025	General Manager at the Med-Or Leonardo-Foundation
Marco R. Fuchs (since 12 May 2023)	1962	2023	2025	Chairman of the Management Board of OHB SE
Achim Gruber[1]	1963	2021	2026	Chairman of the Works Council of HENSOLDT Optronics GmbH, Oberkochen
Ingrid Jägering	1966	2017	2025	Member of the Management Board, CFO of Stihl AG
Marion Koch[1]	1978	2020	2026	Member of the Works Council of HENSOLDT Sensors GmbH, Immenstaad, and member of the Group Works Council; Project Manager in the Airborne, Space & ISR Radars business unit of HENSOLDT Sensors GmbH
Giuseppe Panizzardi (since 1 December 2023)	1963	2023	2024	Senior Vice President M&A & Corporate Development of Leonardo S.p.A.
Giovanni Soccodato (until 31 October 2023)	1961	2022	2025	Chief Strategic Equity Officer at Leonardo S.p.A. (until May 2023) Executive Group Director Sales & Business Development MBDA and Managing Director of MBDA Italia (since June 2023)
Julia Wahl[1]	1987	2019	2026	Press Officer at IG Metall Baden-Württemberg
Hiltrud Werner	1966	2022	2025	Management Consultant

[1] Representative of the employees

The following members of the Supervisory Board of the Company are also member of an executive body of the Supervisory Board of the following companies:

Name	Position
Dr. Jürgen Bestle	• Member of the Supervisory Board of HENSOLDT Sensors GmbH*
Jürgen Bühl	• Member of the Supervisory Board of HENSOLDT Sensors GmbH* • Member of the Supervisory Board of Airbus Defence & Space GmbH
Letizia Colucci	• Member of the Board of Directors of Avio S.p.A. • Chairwoman of the Board of Directors of MBDA Italia S.p.A. • Member of the Board of Directors of e-GEOS S.p.A.
Achim Gruber	• Member of the Supervisory Board of HENSOLDT Optronics GmbH*
Johannes P. Huth	• Member of the Supervisory Board of Axel Springer SE • Member of the Board of Coty Inc.
Ingrid Jägering	• Member of the Advisory Board of Wegmann Group
Giuseppe Panizzardi	• Member of the Board of Leonardo International S.p.A.
Giovanni Soccodato	• Chairman of the Supervisory Board of Thales Alenia Space • Deputy Chairman of the Board of Directors of Telespazio S.p.A. • Deputy Chairman of the Management Board of MBDA B.V. • Member of the Board of Directors of GEM Elettronica S.r.l. • Member of the Board of AIAD • Member of the Management Board of AMSH B.V. • Member of the Board of G.I.E. Avions de Transport Regional (ATR)
Julia Wahl	• Member of the Supervisory Board of HENSOLDT Sensors GmbH*
Hiltrud Werner	• Chairwoman of the Supervisory Board of Mitteldeutsche Flughafen AG

Mandates within the HENSOLDT Group are marked with an asterisk (*). Members not mentioned have no mandates in other companies.

25. Remuneration of the Management Board and the Supervisory Board

Remuneration of the members of the Management Board

The total remuneration of the members of the Management Board in the fiscal year amounted to € 4,638 thousand (previous year: € 6,629 thousand). This figure includes the fair value at grant for share-based compensation of € 1,399 thousand (previous year: € 2,605 thousand) for the award of 57,353 (previous year: 117,092) virtual shares. For the performance targets linked to these awards, we refer to the remuneration report of HENSOLDT AG published on the website of HENSOLDT at https://investors.hensoldt.net in the “Corporate Governance” section.

Former members of the Management Board received total remunerations of € 55 thousand from short-term remuneration for the fiscal year 2022 (previous year: € 4,945 thousand in connection with the termination of the employment relationship). HENSOLDT AG has made pension provisions of € 3,358 thousand for pension commitments to former members of the Management Board and their surviving dependents (previous year: € 3,324 thousand).

Remuneration of Supervisory Board members

The remuneration of the members of the Supervisory Board comprised a basic remuneration and an additional remuneration for committee activities amounting in total to € 727 thousand in the fiscal year (previous year: € 694 thousand) of which € 96 thousand (previous year: € 225 thousand) relate to the Supervisory Board members who resigned from the board in the fiscal year 2023.

Information on the remuneration of individual Management Board and Supervisory Board members is presented in the remuneration report of HENSOLDT AG published on the website of HENSOLDT at https://investors.hensoldt.net.

26. Declaration of conformity with the German Corporate Governance Code

The Management Board and the Supervisory Board of HENSOLDT AG issued the declaration prescribed in accordance with section 161 AktG on 28 November / 5 December 2023. It is available on the website of HENSOLDT at https://investors.hensoldt.net in the “Corporate Governance” section.

27. Information on shareholdings

Company	Registered office	Share of capital	Equity in € thousand	Profit/ Loss in € thousand
Direct shareholdings				
HENSOLDT Holding GmbH [5, 10]	Taufkirchen / Germany	<100.0 %	1,377,975	-48,748
Mittelbarer Anteilsbesitz				
HENSOLDT Holding Germany GmbH [5, 7, 10]	Taufkirchen / Germany	<100.0 %	1,066,014	–
HENSOLDT Sensors GmbH [5, 10]	Taufkirchen / Germany	<100.0 %	233,128	54,825
HENSOLDT Optronics GmbH [5, 8, 10]	Oberkochen / Germany	<100.0 %	19,660	–
GEW Integrated Systems (Pty) Ltd. [11]	Brummeria / South Africa	100.0 %	n/a	n/a
GEW Technologies (Pty) Ltd. [5]	Brummeria / South Africa	93.3 %	29,195	-2,210
HENSOLDT South Africa (Pty) Ltd. [5]	Irene / South Africa	70.0 %	43,596	7,744
HENSOLDT Australia Pty Ltd [1]	Fyshwick / Australia	100.0 %	2,730	428
HENSOLDT Cyber GmbH [2]	Taufkirchen / Germany	90.6 %	-8,859	-6,945
HENSOLDT Avionics Holding GmbH [5, 8]	Pforzheim / Germany	100.0 %	38,852	–
HENSOLDT Avionics GmbH [5, 9]	Pforzheim / Germany	100.0 %	38,029	–
EuroAvionics UK Ltd. [5]	Slinfold / United Kingdom	100.0 %	1,338	163
EuroAvionics Schweiz AG [2, 12]	Sissach / Switzerland	100.0 %	1,094	68
HENSOLDT Avionics US HoldCo. Inc. [5]	Sarasota / USA	100.0 %	-3,445	-271
HENSOLDT Avionics USA LLC [5]	Sarasota / USA	100.0 %	5,991	288
HENSOLDT UK Limited [5]	Enfield / United Kingdom	100.0 %	48,820	48
KH Finance No. 2 Limited [5]	Enfield / United Kingdom	100.0 %	16,542	-1,514
KH Finance Limited [5]	Enfield / United Kingdom	100.0 %	-56,701	-230
Kelvin Hughes Limited [5]	Enfield / United Kingdom	100.0 %	86,005	-4,412
Kelvin Hughes BV [2]	Rotterdam / The Netherlands	100.0 %	3,691	-858
A/S Kelvin Hughes [5]	Ballerup / Denmark	100.0 %	-568	-59
HENSOLDT Singapore Pte. Ltd. [2]	Singapore / Singapore	100.0 %	3,387	-183
HENSOLDT Holding France S.A.S. [5]	Paris / France	100.0 %	37,033	-2,478
HENSOLDT France S.A.S. [5]	Paris / France	100.0 %	18,439	3,586
Kite Holding France S.A.S. [5]	Paris / France	100.0 %	-49	-10
HENSOLDT Nexeya France S.A.S. [5]	Toulouse / France	100.0 %	32,290	-5,026
HENSOLDT Space Consulting S.A.S. [5]	Toulouse / France	100.0 %	274	145
Midi Ingénierie S.A.S. [5]	Toulouse / France	85.0 %	2,303	341
Nexeya Canada Inc. [3]	Markham / Canada	100.0 %	5,390	77
Atlas Optronics LLC	Abu Dhabi / UAE	49.0 %	n/a	n/a

EURO-ART Advanced Radar Technology GmbH [4]	Munich / Germany	25.0 %	204	-4
EURO-ART International EWIV [5]	Munich / Germany	50.0 %	9,082	–
EUROMIDS S.A.S. [5]	Paris / France	25.0 %	4,085	487
LnZ Optronics Co. Ltd. [5]	Seoul / South Korea	50.0 %	1,352	-40
PMTL-PEINTURE COMPOSITE S.A.S. [3]	L'Isle-Jourdain / France	49.8 %	120	33
J.A.M.E.S GmbH [5]	Taufkirchen / Germany	50.0 %	1,664	-1,126
Société Commune Algérienne de Fabrication de Systèmes Electroniques SPA [5]	Sidi Bel Abbès / Algeria	49.0 %	29,803	3,420
Deutsche Elektronik Gesellschaft für Algerien mbH [5]	Ulm / Germany	66.7 %	-214	-80
Antycip Iberia SL [2]	Barcelona / Spain	100.0 %	27	2
HENSOLDT Analytics GmbH [2]	Vienna / Austria	100.0 %	-2,384	-959
HENSOLDT do Brasil Segurança e Defesa Electrónica e Optica Ltda [5]	São Paulo / Brazil	99.9 %	-214	-80
HENSOLDT Private Ltd. [6]	Bangalore / India	100.0 %	567	209
MaHyTec S.A.S. [5]	Dole / France	100.0 %	464	-13
Nexeya USA Inc. [3]	Beaufort / USA	100.0 %	1	–
HENSOLDT Nexeya Belgium SRL	Mouscron / Belgium	100.0 %	n/a	n/a
Kelvin Hughes LLC [5]	Bethesda / USA	100.0 %	-122	-123
HENSOLDT Middle East Limited Company	Riad / KSA	100.0 %	n/a	n/a
HENSOLDT Theon NightVision GmbH	Wetzlar / Germany	100.0 %	n/a	n/a
HENSOLDT Switzerland GmbH	Bern / Switzerland	100.0 %	n/a	n/a
21strategies GmbH [5]	Hallbergmoos / Germany	11.4 %	-18	-186

n/a: No information available

[1] Equity as of 30/06/2021 and annual result of 2020/2021

[2] Equity as of 31/12/2021 and annual result of 2021

[3] Equity as of 30/06/2022 and annual result of 2021/2022

[4] Equity as of 30/09/2022 and annual result of 2021/2022

[5] Equity as of 31/12/2022 and annual result of 2022

[6] Equity as of 31/03/2023 and annual result of 2022/2023

[7] Profit and loss transfer agreement with HENSOLDT Holding GmbH

[8] Profit and loss transfer agreement with HENSOLDT Holding Germany GmbH

[9] Profit and loss transfer agreement with HENSOLDT Avionics Holding GmbH

[10] Participation by the Federal Republic of Germany with one share with a nominal value of € 1

[11] No separate financial statements are published for the company as it is fully consolidated into GEW Technologies (Pty) Ltd, Brummeria / South Africa

[12] in liquidation

28. Auditor’s fees

The fees for the audit services provided by KPMG AG were mainly related to the audit of the Consolidated Financial Statements of the Group, the annual financial statements together with the combined management report and group management report of HENSOLDT AG and the review of the interim report for the half year.

Other assurance services mainly relate to the audit of the Group’s non-financial report.

The information on the auditor’s fees is included in the Consolidated Financial Statements of HENSOLDT AG. Disclosure at this point is waived due to the exempting group clause set forth in section 285 No. 17 HGB.

29. Disclosures in accordance with section 160 (1) no. 8 AktG

With voting rights notification dated 26 January 2023, Lazard Asset Management L.L.C., Wilmington, USA, reported that as of 20 January 2023, 5,268,420 voting rights under Section 34 WpHG are attributed to it. Based on the share capital of HENSOLDT AG, which is divided into 105,000,000 shares, this represents a shareholding of approximately 5.02 % of the voting rights. The notification was made to withdraw a voting rights notification transmitted on 23 January which was not subject to a notification obligation under section 33 WpHG.

With voting rights notification dated 3 April 2023 (date of threshold contact: 31 March 2023) The Capital Group Companies Inc., Los Angeles, USA, as a reporting person under section 33 WpHG, reported that 3,159,713 voting rights were attributable to its according to section 34 WpHG. Based on the share capital of HENSOLDT AG, which is divided into 105,000,000 shares, this represents a shareholding of approximately 3.01 % of the voting rights.

With voting rights notification dated 2 May 2023, (date of threshold contact: 28 April 2023), Lazard Asset Management, Wilmington, USA, as person subject to the reporting requirements pursuant to section 33 WpHG, reported that 5,240,946 voting rights are attributed to it according to section 34 WpHG. Based on the share capital of HENSOLDT AG, which is divided into 105,000,000 shares, this represents a shareholding of approximately 4.99 % of the voting rights.

With voting rights notification dated 2 June 2023, (date of threshold contact: 1 June 2023) SMALLCAP World Fund, Inc., Lutherville Timonium, USA, as a reporting person under section 33 WpHG, reported that 3,152,259 voting rights are attributed to it according to section 33 WpHG. Based on the share capital of HENSOLDT AG, which is divided into 105,000,000 shares, this represents a shareholding of approximately 3.00 % of the voting rights.

With voting rights notification dated 8 September 2023, (date of threshold contact: 7 September 2023) The Capital Group Companies Inc., Los Angeles, USA, as a reporting person under section 33 WpHG, reported that 5,264,928 voting rights were attributable to its according to section 34 WpHG. Based on the share capital of HENSOLDT AG, which is divided into 105,000,000 shares, this represents a shareholding of approximately 5.01 % of the voting rights.

With voting rights notification dated 17 November 2023, (date of threshold contact: 16 November 2023) The Capital Group Companies Inc., Los Angeles, USA, as a reporting person under section 33 WpHG, reported that 4,586,011 voting rights (which corresponds to a voting interest of 4.37 %) are attributed to it under section 34 WpHG. In addition, 770,000 voting rights (corresponding to 0.73 %) are attributable to The Capital Group Companies Inc. under section 38(1), No. 2 WpHG. Based on the share capital of HENSOLDT AG, which is divided into 105,000,000 shares, this represents a total shareholding of approximately 5.10 % of the voting rights.

With voting rights notification dated 30 November 2023, (date of threshold contact: 29 November 2023) The Capital Group Companies Inc., Los Angeles, USA, as a reporting person under section 33 WpHG, reported that 4,945,305 voting rights (which corresponds to a voting interest of 4.71 %) are attributed to it under section 34 WpHG. In addition, 150,000 voting rights (corresponding to 0.14 %) are attributable to The Capital Group Companies Inc. under Section 38(1), No. 2 WpHG. Based on the share capital of HENSOLDT AG, which is divided into 105,000,000 shares, this represents a total shareholding of approximately 4.85 % of the voting rights.

By notification dated 11 December 2023, HENSOLDT AG reported that the new total number of voting rights resulting from the capital measure taken pursuant to section 41(1) WpHG amounts to 115,500,000 with effect from 8 December 2023.

With voting rights notification dated 13 December 2023, (date of threshold contact: 8 December 2023), Leonardo S.p.A., based in Rome, Italy, reported that 26,355,000 voting rights under section 33 WpHG were still attributed to them. Based on the share capital of HENSOLDT AG, which, after the capital increase performed in December, is divided into 115,500,000 shares, this represents a shareholding of approximately 22.8 %.

For details, please refer to the publication on our homepage at https://investors.hensoldt.net.

30. Parent company

HENSOLDT AG, Taufkirchen, is the ultimate German parent company and prepares, pursuant to section 290 HGB, Consolidated Financial Statements pursuant to section 315e (1) HGB according to the IFRS as approved in the European Union for the biggest and smallest group of companies. HENSOLDT AG, including its main subsidiaries, is included in the Consolidated Financial Statements of HENSOLDT AG.

The annual financial statements and the Consolidated Financial Statements of HENSOLDT AG, including the combined management report of the Group, are published in the German Company Register and are filed with the Commercial Register of Munich under HRB 258711 in German language.

31. Tax relations

HENSOLDT AG acts as parent company of the tax group for value added tax purposes. No tax group for corporation and trade tax purposes exists currently with HENSOLDT AG.

32. Events after the reporting date

At the beginning of 2024, HENSOLDT AG submitted a letter of comfort worth €238 million as security for a customer order.

There were no other events of particular significance that occurred after the end of the fiscal year and were not taken into account in the income statement or in the statement of financial position.

33. Profit appropriation proposal

The Management Board and the Supervisory Board propose the distribution of a dividend of € 0.40 (previous year: € 0.30) per share to holders entitled to dividends. This corresponds to an expected total payment of around € 46.2 million (previous year: € 31.5 million). The payment of the proposed dividend is subject to the approval of the annual general meeting.

Taufkirchen, 13 March 2024

HENSOLDT AG

Management Board

Thomas Müller	Oliver Dörre	Christian Ladurner	Dr. Lars Immisch	Celia Pelaz Perez

V Annex

Changes in fixed assets

in € thousand	Acquisition and production cost 1 Jan. 2023	Addi-tions	Disso-lution	31 Dec. 2023	Accumulated amortisation and depreciation 1 Jan. 2023	Addi-tions	Disso-lution	31 Dec. 2023	Carrying amounts 31 Dec. 2023	31 Dec. 2022
Concessions, industrial property and similiar rights and assets acquired for consideration as well as licenses to such rights and assets	24	–	–	24	18	5	–	23	1	6
Advance Payments	–	2,909	–	2,909	–	–	–	–	2,909	–
Intangible assets	**24**	**2,909**	**–**	**2,933**	**18**	**5**	**–**	**23**	**2,910**	**6**
Land, rights similar to land and buildings, including buildings on third party land	190	8	–	198	11	11	–	21	177	179
Other equipment, operating and office equipment	306	2,071	–	2,377	74	111	–	185	2,192	233
Property, plant and equipment	**495**	**2,080**	**–**	**2,575**	**84**	**123**	**–**	**207**	**2,368**	**412**
Investments in associated companies	2,670,000	–	–	2,670,000	–	–	–	–	2,670,000	2,670,000
Loans to affiliated companies	–	15,000	–	15,000	–	–	–	–	15,000	–
Financial assets	**2,670,000**	**15,000**	**–**	**2,685,000**	**–**	**–**	**–**	**–**	**2,685,000**	**2,670,000**
Fixed assets	**2,670,519**	**19,989**	**–**	**2,690,508**	**102**	**128**	**–**	**230**	**2,690,278**	**2,670,418**

Annual Report Combined Management Report and Consolidated Financial Statements 2023

Combined Management Report of

HENSOLDT AG

for the year ended

31 December 2023

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

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

Numerical data:
Unless otherwise stated, all financial figures presented herein are rounded to the nearest million € in accordance with established commercial principles. Due to rounding, there may be slight deviations from the absolute numbers when forming totals and calculating percentages. Absolute amounts less than € 500,000 and greater than zero € are represented as 0 or -0 depending on the sign. In contrast, items that have no value are indicated as missing with "-".

Christian Ladurner
CFO
HENSOLDT AG

Dear Shareholders,

Since its foundation, HENSOLDT has been on a growth path. Our promotion to the MDAX in March 2023 is a testament to our successful growth trajectory in recent years and marks a special day in HENSOLDT's young history. Today, HENSOLDT is a leading player in the European defence industry, with an attractive and innovative business model and a sustainably strong financial base.

In the fiscal year 2023, we were able to further increase our growth rate. Our revenue rose significantly by more than 8 percent, driven in particular by a 16 percent increase in our core business. Over the last four years, our order backlog has grown significantly by a factor of 2.5 to currently 5.5 billion euros. We have been able to book groundbreaking projects such as Eurofighter Mk1, PEGASUS and our TRML-4D radar with a business volume of almost 3 billion euros. Against the background of structural market growth and the long project cycles in our industry, we believe that HENSOLDT is in an excellent position to achieve sustainable growth. This allows us to continue to share the company’s success with our shareholders. Therefore, the dividend of 0.40 euros per share is 33 percent higher than in the previous year. We aim to continue this growth trajectory in the coming years and have set important levers in motion in the 2023 financial year. With growth on the horizon, we need to adapt and harmonise our processes. To this end, it is important that we set up all processes in line with our HENSOLDT strategy and define KPIs. The launch of the global SAP transformation is the key to this. We are driving our digital processes forward and are becoming more efficient. This process harmonisation will offer greater support for global and cross-divisional work and enable us to actively manage our growth.

In addition, strategic investments will take our business to the next level. The acquisition of the ESG Group is an excellent example of this. By combining the highly complementary skills of HENSOLDT and ESG Group, we are taking a decisive step towards becoming a leading European provider of seamlessly integrated solutions. The ESG Group is characterised by strong growth and high cash generation, as the business model requires relatively little investment. We have identified significant cost and revenue synergies that will lead to attractive value creation while maintaining our discipline in capital allocation and net debt.

In order to actively manage our rapid growth and the necessary changes, the strategic transformation programme HENSOLDT GO! Wave 3 is essential. In concrete terms, this means that we are increasingly moving from a manufacturing company with small batch sizes to a company that manufactures larger quantities of products in ever shorter timeframes. The transformation programme is a key factor in our targeted growth and Wave 3 has therefore been deliberately extended to the entire HENSOLDT world. The focus of Wave 3 is on increasing efficiency in engineering, optimising our supply chains and industrialising our key products.

Finally, the continuous development of our colleagues is a high priority for me. As part of the Finance Vision project, we have established the HENSOLDT Finance Academy, which uses an effective training approach to ensure that our finance community is well positioned for long-term success: we are focusing on developing and refining our skills today to meet the challenges of tomorrow!

Dear shareholders, one thing is particularly important to us: dialogue with investors and analysts. This often provides valuable impetus for our discussions in the Executive Board team. I am therefore delighted that we held our third Capital Markets Day last November. At our largest production site in Ulm, we not only engaged in a dialogue with our investors, but also had the opportunity to present our products and production processes. We intend not only to maintain this exchange in the future, but to intensify and deepen it.

Together with all HENSOLDTians we are in the same direction to realise our goals.

I am delighted that we are growing even closer together, both at HENSOLDT and with our partners, and that we are on this path together!

Yours,

Christian Ladurner

CONTENT

I Group fundamentals

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1 Business model

The HENSOLDT Group (the Group or HENSOLDT) is a German Champion and specialised provider of defence and security sensor solutions in the defence and security industry. HENSOLDT develops and manufactures innovative and customised solutions in the fields of radars, electronic warfare, avionics and optronics. The product portfolio as of 31 December 2023, included a variety of products with a lifecycle of ten years or more. HENSOLDT is constantly striving to increase and improve its current product offering through its own developments, industrial cooperations and acquisitions, in order to increase its competitiveness and expand into new markets.

As a platform-independent provider, HENSOLDT supplies products for a variety of platforms (such as combat aircraft, naval ships and land vehicles) from various manufacturers. In addition, the HENSOLDT Group sells independent electronic defence and security solutions. HENSOLDT sells its products and solutions to German and foreign governments as well as to supranational organisations such as NATO and their armed forces and security forces. This occurs both directly and indirectly, for example via commercial customers or as part of consortia or joint ventures. Such forms of industrial cooperation are entered into with other companies, for example with the Euroradar consortium, which is developing the nose radar for the Eurofighter jet. In indirect sales, HENSOLDT's products are usually installed as components of integrated products or platforms as part of procurement projects for armed and security forces of governments and supranational organisations as end customers. These procurement projects are subject to a strict regulatory environment at both national and international levels in the form of parliamentary or administrative approvals as well as trade regulations and export controls.

In the fiscal year 2023, HENSOLDT generated more than half of its revenue in its home market of Germany. More than a quarter of revenues in 2023 were generated with other end customers in the EU and NATO (excluding Germany) as well as in NATO-equivalent countries (Australia, Japan, New Zealand and Switzerland), for which HENSOLDT relies on well-established export control procedures. A detailed list of revenue by region is included in note 9.3.

HENSOLDT offers a very wide range of solutions, products and services on the market. As a result, the depth of production between the different solutions, at the different locations and, inter alia, depending on the level of series maturity, is very variable. This ranges from the manufacture of circuit boards and individual components to their integration and final acceptance through to installation at the customer's premises. Our suppliers, which are divided into optical, electronic and mechanical suppliers depending on their focus, play an important role.

2 Organisation and group structure

2.1 Legal structure

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

The Consolidated Financial Statements include the financial statements of HENSOLDT AG and the financial statements of all material subsidiaries that are directly and indirectly controlled by HENSOLDT AG. 30 entities, including the parent company (previous year: 30) were fully consolidated.

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

2.2 Locations and employees

HENSOLDT's headquarters are located in Taufkirchen near Munich, an important innovation centre of the defence industry in Germany. In addition, business activities in Germany are conducted in Ulm, Oberkochen and Pforzheim in particular. Other locations in Germany include Wetzlar, Immenstaad and Kiel. As per 31 December 2023, of the 6,907 employees (previous year: 6,463) of HENSOLDT, among them 683 trainees, interns, etc. (previous year: 611), approx. 5,100 (previous year: approx. 4,700) were employed in Germany. HENSOLDT's larger locations outside Germany are mainly based in France, South Africa and the UK.

2.3 Operating segments

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

In order to provide a clearer and more accurate presentation of business activities, precisions to the operating segments and divisions were made in the fourth quarter of the fiscal year 2023. From the fiscal year 2023, the previously segment-specific divisions are presented on a cross-segment basis. The clarification has no material impact on the operating results of the segments.

Sensors segment

The Sensors segment provides system solutions with a focus on technical sensor technology from the four divisions Radar & Naval Solutions, Spectrum Dominance & Airborne Solutions, Optronics & Land Solutions and Services & Aerospace Solutions.

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

Radar & Naval Solutions

In the Radar & Naval Solutions division, the Group develops and manufactures mobile and stationary radar and IFF systems (Identification Friend or Foe) used for surveillance, reconnaissance, civil air traffic control (ATC) and air defence. These systems are deployed on various platforms, including the Eurofighter, the German Navy's Frigates 124 and 126, the US Navy's Littoral Combat Ship and the IRIS-T-SLM air defence system. The Radar & Naval Solutions division also includes systems for establishing secure data connections for air, sea and land platforms.

Spectrum Dominance & Airborne Solutions

The Spectrum Dominance & Airborne Solutions division includes electronic systems for the acquisition and evaluation of radar and radio signals and jammers, which are used, for example, to protect convoys or individual vehicles against improvised explosive devices. In addition to applications on the electromagnetic spectrum for operations on land, at sea and in the air, the product range is being expanded to include defensive cyber-solutions. Furthermore, the division also provides military and civil avionics systems such as situational awareness systems, mission computers and flight data recorders. Systems of the Spectrum Dominance & Airborne Solutions division are used in combat aircraft such as the Eurofighter and the Tornado, the Airbus A400M transport aircraft, the airborne signals intelligence system PEGASUS and various helicopter models.

Optronics & Land Solutions

The Optronics & Land Solutions division within the Sensors segment includes electronic self-protection systems that integrate missile, laser and radar warning sensors with countermeasures for air, sea and land platforms, for example in various helicopter models and on the PUMA infantry fighting vehicle.

Services & Aerospace Solutions

The division Services & Aerospace Solutions mainly includes customer support and service activities, as well as maintenance over the entire lifecycle of the platforms and systems developed in the other divisions of the Sensors segment. Simulation solutions, training courses and special services as well as HENSOLDT Space Solutions are part of this division. HENSOLDT Space Solutions develops and manufactures components and solutions for space-based sensors that are used, inter alia, in the fields of earth observation, weather and environmental monitoring, scientific research of space and for laser communication in space.

Optronics segment

The Optronics segment offers system solutions with a focus on optronics from the three divisions Optronics & Land Solutions, Radar & Naval Solutions and Services & Aerospace Solutions.

The focus is on the products of the Optronics & Land Solutions division supplemented by Radar & Naval Solutions in the value chain. Services & Aerospace Solutions is a downstream from the other divisions and essentially includes the aftersales area.

Optronics & Land Solutions

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

Radar & Naval Solutions

The Radar & Naval Solutions division within the Optronics segment includes solutions in the areas of defence and security as well as air traffic management. The defence and security portfolio includes friend-or-foe detection systems, radar for ship and land applications, cryptographic devices and tactical point-to-point communication systems. The air traffic management portfolio includes the delivery, installation and maintenance of air traffic control radar, weather radar, navigation, voice communications and runway lighting systems for military and civil airports.

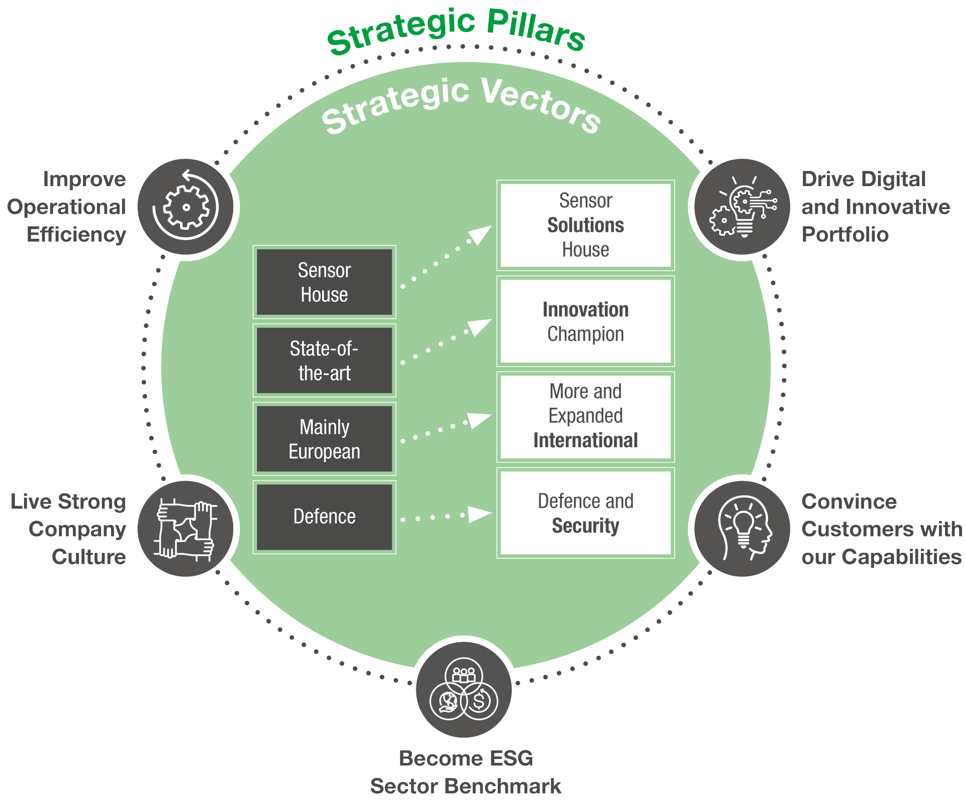
Services & Aerospace Solutions

In the Services & Aerospace Solutions division, service solutions for the products of the Optronics segment are developed, implemented and delivered. This ensures that the availability of products and systems is maintained for decades to ensure optimal functionality, performance and usability for customers.

3 Goals and strategies

In fiscal year 2023, HENSOLDT made further important progress toward its goal of becoming Europe’s leading platform-independent provider of sensor solutions in the defence and security sector with global reach. Existing growth and efficiency plans were followed up in the fiscal year 2023 and important goals were achieved.

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



The four strategic objectives in the form of vectors remained unchanged during the fiscal year 2023:

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

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

- Drive digital and innovative portfolio
- Convince customers with our capabilities
- Become ESG[1] sector benchmark
- Live strong company culture
- Improve operational efficiency

[1] Environmental Social Governance

3.1 Drive digital and innovative portfolio

With its about 2,200 engineering staff, HENSOLDT stands for high-performance sensor electronics. In order to further expand this core competence and further increase its competitiveness, the Group relies above all on a digital and innovative product portfolio. The continuous development of products and technologies enables HENSOLDT to enhance its competitiveness and to meet the operative challenges and concepts of its customers. For this purpose, HENSOLDT is continuously expanding its self-funded research and development expenditure (R&D). Compared to 2022, HENSOLDT increased its self-funded R&D expenditure recognised in expenses in the reporting year by 12.6 % to € 62 million. In total, HENSOLDT's self-financed R&D expenses in 2023 (consisting of R&D costs recognised as expenses and additions to capitalised development costs) amounted to € 92 million (previous year: € 91 million). In addition, HENSOLDT builds up its own competencies within the framework of customer-financed projects and enters into strategic partnerships to enable its own portfolio additions and expansions. An M&A strategy strongly focused on growth and innovation (with company acquisitions, joint ventures or minority shareholdings) rounds off the strategic portfolio development.

The evolution of products into complete solutions led to a more innovative and competitive portfolio. From the Management Board's point of view, the further dovetailing of the divisions of the HENSOLDT Group and the intensified orientation according to customer segments once again brought about an increase in innovative strength in the reporting year 2023 through cross-divisional cooperation and intensive exchange between employees.

3.2 Convince customers with our capabilities

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

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

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

In order to achieve the goal of developing customer relationships domestically and abroad, HENSOLDT built up a Business Development Organisation which as of 31 December 2023 has around 200 employees, distributed among the sales centres in Europe, the Middle East, Asia-Pacific, Africa, North America and Latin America.

3.3 Become ESG sector benchmark

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

The "ESG Strategy programme 2026" is the basis for HENSOLDT not only fulfilling its responsibility towards its customers, employees, investors and, above all, towards society and the environment, but also for exceeding expectations in this area for HENSOLDT. This responsibility is also reflected in the Group's accession to the UN Global Compact[2], a United Nations initiative. HENSOLDT is thus committed to the ten universal sustainability principles in the areas of human rights, labour standards, the environment and corruption prevention.

The extensive ESG activities contributed once again significantly to HENSOLDT's excellent performance in the ESG rating by Sustainalytics. HENSOLDT was again ranked first in the "Aerospace & Defence" sector in fiscal year 2023. For a detailed presentation of ESG activities, please refer to the Group's sustainability report which is made available on the website of HENSOLDT at https://investors.hensoldt.net.

[2] The UN Global Compact is the world's largest initiative for sustainable and responsible corporate governance.

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

3.4 Live strong company culture

One of the most important success factors for HENSOLDT is a strong and lived corporate culture. This is the only way the Group can ensure that joint success and the employee appreciation will continue to be guaranteed in the future. The success of all measures implemented so far is reflected in the interest of potential new employees as well as in an employee fluctuation in the mid-single-digit range in 2023.

The focus in the reporting period was on the “NEXT Leadership” initiative. This initiative was carried out “bottom-up” with employees and forms the foundation of the future leadership culture at HENSOLDT. It describes how leadership should look like and be practised in the company in the future.

Beyond this, HENSOLDT runs an initiative to strengthen the global corporate culture. This focuses on HENSOLDT’s mission “Together we make the difference for a secure future” and the corresponding leadership development. The aim is to ensure and develop an outstanding corporate and leadership culture. This is intended to attract and retain talents and help HENSOLDT's success story continue, thereby increasing the attractiveness of the HENSOLDT Group for existing and future employees.

3.5 Improve operational efficiency

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

In the future, HENSOLDT intends to focus on improving production, further increasing its development efficiency through organisational measures,securing supply chains and improving supply chain management as well as the quality of products and processes as part of business excellence (based on the APQP model – holistic quality management). Also other measures for efficiency improvements in the general administrative functions will continue to be in focus. Furthermore, potential for increasing efficiency is recorded in the HENSOLDT GO! specialist steering groups. The methods benchmarking, continuous improvement process, Kaizen and lean management are used here, inter alia. The potential that comes to light is consistently worked through. All members of the Management Board will be informed quarterly about the current progress of all HENSOLDT GO! work packages. A strong focus is placed on optimising the cash conversion cycle and working capital.

4 Financial performance indicators

Most significant financial performance indicators

HENSOLDT uses certain key performance indicators (KPIs) to measure performance, identify trends and make strategic decisions. In order to ensure a comparability of these indicators over multiple year periods and within the sector, even adjusted performance indicators are used. The most important financial performance indicators are revenue and order intake, the book-to-bill ratio and the adjusted EBITDA.

Revenue map the total value of the operating activities and are thus a key figure for the company’s success. For revenue, HENSOLDT differentiates revenue from the core business and revenue from pass-through business. The latter essentially result from large projects in which HENSOLDT is the consortium leader, as costs for certain components purchased from the respective consortium partners are passed on to the customer without any significant margin.

Order intake shows the future revenue potential from orders where a contract becomes effective and enforceable.

The book-to-bill ratio is defined as the ratio of order intake to revenues in the relevant fiscal year.

Adjusted EBITDA is defined as EBIT adjusted for depreciation and amortisation (including effects on earnings from purchase price allocations), as well as certain special items relating to transaction costs, OneSAPnow-related special items as well as other special items.

Other financial performance indicators

In addition, with the order backlog HENSOLDT uses another key operating figure as performance indicator and with the adjusted EBIT as well as the adjusted pre-tax free cash flow two further non-GAAP performance indicators as alternative performance indicators. These are intended to provide a better understanding of the financial situation of the HENSOLDT Group by excluding items that are not classified as part of ongoing operations.

The order backlog is defined as the value of the order book as of the respective reporting date by recording customer orders starting with the opening backlog, taking into account revenue and adjustments for the respective reporting period, and ending with the ending backlog.

"Adjusted EBIT" corresponds to earnings before finance result and income taxes (EBIT), adjusted for certain special items relating to effects on transaction costs, earnings from purchase price allocations, OneSAPnow-related special items[3] as well as other special items[4].

"Adjusted pre-tax unlevered free cash flow" is defined as free cash flow adjusted for special items, interest, income tax and M&A activities. The free cash flow is defined as the sum of the cash flows from operating and investing activities as reported in the consolidated statement of cash flows. In fiscal year 2023, "adjusted pre-tax unlevered free cash flow" will be used as non-GAAP performance indicator for the last time. Due to better comparability within the industry, this performance indicator will be replaced by the adjusted free cash flow after taxes and interests from the fiscal year 2024.

A reconciliation of the non-GAAP performance indicators "adjusted EBITDA" and "adjusted EBIT" to the key figures included in the consolidated financial statements before adjustment is included in Note 9.2.

	Fiscal year		
in € million	2023	2022	% Delta
Most significant financial performance indicators			
Revenue	1,847	1,707	8.2 %
Order intake	2,087	1,993	4.7 %
Book-to-bill-ratio[1]	1.1x	1.2x	-0.1x
Adjusted EBITDA[1]	329	292	12.8 %
Other financial performance indicators			
Order backlog	5,530	5,366	3.1 %
Adjusted EBIT[1]	246	224	9.5 %
Adjusted pre-tax unlevered free cash flow[1]	259	219	18.5 %

[1] Non-GAAP performance indicators

Non-financial performance indicators

In addition to the financial performance indicators presented above, non-financial performance indicators of a strategic nature are also used for the Group, which are included as part of the remuneration of the management and other executives of the Group as part of the long-term incentive compensation. Currently, these are the ESG goals "Diversity" and "Climate Impact" as well as the successful implementation of the business transformation for SAP S/4HANA as a special project. A detailed analysis of the non-financial topics and performance indicators can be found in chapter "V Non-financial group statement" and in the separately published sustainability report on the HENSOLDT website at https://investors.hensoldt.net.

[3] OneSAPnow-related special items include expenses associated with the business transformation for SAP S/4HANA.
[4] Other special items are "non-regularly recurring and exceptional" effects.

5 Research and development

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

R&D costs amounted to € 30 million in fiscal year 2023 (previous year: € 36 million). This corresponds to 1.6 % of revenue (previous year: 2.1 %). The expenses are divided between product lines and basic research.

Not included are additions in the fiscal year for development costs capitalised during the fiscal year of € 62 million (previous year: € 55 million), with the main focus of capitalised development costs in the Sensors segment being in the areas of naval and ground radar programmes as well as on the Identification Friend or Foe area. In the Optronics segment, the additions are mainly due to land and air programmes. This reflects a capitalisation rate of 67.5 % (previous year: 60.6 %) in terms of total research and development spend of € 92 million (previous year: € 91 million). Amortisation of capitalised development costs amounted to € 31 million in the fiscal year (previous year: € 21 million) and are included in this amount in the cost of sales.

II Economic report

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1 Economic conditions

1.1 General economic conditions

In its press release on the economic situation in Germany in January 2024, the Federal Government stated that the weak economic phase continued throughout 2023 and also at the turn of the year 2023/24. For 2023 as a whole, the gross domestic product (GDP), adjusted for prices, seasons and calendars, fell by 0.3 %. In the wake of the aftermath of the previous crises, which resulted in significant losses in purchasing power, in particular due to the massive increase in energy and food prices, this outcome had been widely anticipated in view of weak global economic developments, geopolitical conflicts and monetary tightening. So far, no current early indicators have been identified which could point to a speedy recovery of the economic development. However, with a declining inflation trend, rising real wages and a gradual revival of the global economy, key factors burdening the German economy are likely to diminish in the course of this year and a recovery is expected to begin that is based primarily on domestic factors.

Although inflation continued to decline in 2023 and wage income growth accelerated compared to the previous year, private consumption declined due to the aftermath of losses in purchasing power and the restraint in purchasing, also in the wake of increased uncertainty resulting from geopolitical conflicts. Even government consumption spending declined compared with the previous year. However, according to experts of the Federal Ministry for Economic Affairs and Climate Action (BMWK), this reflected a normalisation of government spending after the significant expansion during the COVID-19 pandemic. Interest rate hikes by the European Central Bank and the national central bank in order to combat inflation caused a further slowdown in the economic development and the German real estate market. Scientists of the ifo Institute also believe that neither global trade in goods nor global industrial production nor domestic demand provided any additional stimulus. As a result, German exports and imports continued to decline as a result of weak demand, so that foreign trade could only slightly contribute to GDP growth. The labour market continued to develop positively and proved to be robust despite the economic slowdown. The employment rate and available incomes of households increased noticeably over the course of the year. Employee compensation as well as income from enterprises and assets were clearly in the upside.

In view of the 0.3 % decline in German GDP in 2023, the period of weakness of the German economy was much stronger in international comparison. Following the COVID-19 pandemic, Russia's war against Ukraine, and global measures to contain inflation, the global economy's recovery has proved surprisingly resilient.

1.2 Conditions in the defence and security sector

Numerous crises and conflicts around the world influence the general conditions prevailing in the security and defence industry. Increasing geopolitical fragmentation, the Middle East conflict and the associated risk of further escalation in the Middle East are potentially leading to further tasks for the Bundeswehr, e.g. in securing sea routes in the Red Sea in the context of a planned EU mission. Meanwhile, Russia's war against Ukraine continues to determine the priority security and defence planning in Germany, the EU and NATO. The Federal Ministry of Defence (BMVg) has reaffirmed the core mission of national and alliance defence for the Bundeswehr when it published the new Defence Policy Guidelines (VRL) on 9 November 2023. Based on theses Guidelines, an overall concept for military defence was developed, which encompasses the capability profile of the Bundeswehr and presents a military strategy for the first time. As before, the Bundeswehr's capability planning is derived from NATO's defence planning and is complemented by the coherent capability priorities of the EU. Following on from the National Security Strategy, the most urgent goal is to quickly and fully equip the Bundeswehr to become one of the most efficient armed forces in Europe, capable of reacting quickly and acting permanently. In line with the overarching factor of time, the equipment of the armed forces is consistently geared towards market-available procurement, supplemented by development projects in the area of national key technologies. That requires a strong national and European defence industry, which is to be significantly strengthened in Germany and Europe in terms of resilience.

The German Bundestag approved the defence budget for 2024 of approximately € 51.8 billion. An additional € 19.2 billion should come from the special fund in 2024. This means an increase in the defence budget of around € 1.7 billion compared to 2023. Given the highest defence budget in the history of the Bundeswehr and funds from the special fund, Germany is expected to meet NATO’s 2 % target in 2024. In 2023, a total of 55 so-called € 25 million proposals were released by the Budget Committee of the German Bundestag with a total value of around € 47 billion. 20 proposals of the above, worth around € 24 billion came from the Bundeswehr special fund, which was contractually bound to just under two thirds by the end of 2023. In his speech at the Bundeswehr conference on 10 November 2023, Federal Chancellor Olaf Scholz made a long-term commitment to defence expenditure amounting to 2 % of Germany’s gross domestic product. As regards a time frame for this commitment, he mentioned the twenties and thirties of this century.

According to the new Defence Policy Guidelines, armaments cooperation at multilateral and international levels in the context of NATO and the EU should also be further deepened and integrated into the national planning process and into procurement procedures. In September 2023, as part of the European Sky Shield Initiative (ESSI) on air defence, Estonia and Latvia became the first ESSI Member States to sign a framework contract alongside Germany for the procurement of the medium-range ground-based air defence system IRIS-T SLM, in which HENSOLDT participates with the TRML-4D radar. On 6 December 2023, Slovenia was another country to sign a programme agreement for the procurement of an IRIS-T SLM system under the ESSI. A total of 19 European countries have declared their intention to join the ESSI.

The Federal Republic of Germany continues to provide military support to Ukraine. The total budget of the strengthening title was around € 5.4 billion for 2023 (after € 2 billion in 2022), plus commitment appropriations for the following years of around € 6 billion. The total budget of approximately € 7.1 billion is planned for 2024. These funds are planned to be used primarily for military support to Ukraine. At the same time, they will be used to finance the replenishment of Bundeswehr after it had handed over military assets to Ukraine from its stocks. In addition, a one-off contribution of € 520 million from the special fund is also planned to be made in 2024.

HENSOLDT’s portfolio of products and capabilities, the security situation, the special fund and the other investment funds of the federal budget create a wide range of business opportunities in all military dimensions. Thanks to its focus on products available on the market, development projects in the field of key national technologies and its good position in European cooperation initiatives such as the European Defence Fund (EDF) as well as bi- and multinational programmes such as the Main Ground Combat System (MGCS), the Future Combat Air System (FCAS) or the ESSI, HENSOLDT is very well positioned based on the framework conditions for the security and defence industry.

2 Business development

Russia’s war on Ukraine continues to largely determine the security policy environment in Germany, the EU and NATO.This upheaval in the global order has already left a lasting mark – on the worlds of politics, business and on the people. The so called “Zeitenwende” (turning point) in security policy proclaimed by the Federal Republic of Germany (“Federal Republic”), the main customer of the HENSOLDT Group, holds extensive opportunities for HENSOLDT. Thus, during fiscal year 2023, several orders of TRML-4D radars, amongst other things for the IRIS-T SLM air defence system, were recorded.

Overall, HENSOLDT’s operating business continued its positive development in the fiscal year 2023 and strong order intakes could be achieved. However, with a contract volume of € 2,087 million, the high order intake of the previous year’s period of € 1,993 million could even be exceeded. The main drivers in the current year were in particular orders for TRML-4D radars, Eurofighter Mk1 radars and orders for equipping the PUMA and Leopard 2 platforms. The high previous year's figure included several key orders for the Eurofighter (service contract C3 and Halcon programme) as well as for the equipment of the multi-purpose frigates F126. On a year-on-year basis, revenue increased by 8.2 % (€ 1,847 million; previous year: € 1,707 million). In addition to the two key projects PEGASUS and Eurofighter radars, the main revenue drivers in the fiscal year 2023 were TRML-4D radars, the Praetorian self-protection system and the C3 service contract for the Eurofighter. The significant increase in adjusted EBITDA (€ 329 million; previous year: € 292 million) mainly resulted from the increased revenue volume, driven primarily by the core business as well as efficient cost management, which led to lower adjusted selling and administrative costs in relation to revenue volume. The book-to-bill ratio was slightly below the previous year's value but at 1.1 it remained at a high level.

In the context of an early and long-term succession plan, the Supervisory Board of HENSOLDT AG appointed Oliver Dörre as successor of Thomas Müller as the Chairman of the Management Board of HENSOLDT AG in its meeting on 21 March 2023. At the beginning of January 2024, Oliver Dörre joined the Management Board of HENSOLDT as an additional member. Upon resignation of Thomas Müller, expected on 1 April 2024, a few months before the regular end of his appointment, Oliver Dörre will take over as Chairman of the Management Board. Until then, Thomas Müller and Oliver Dörre will collaborate closely to ensure a smooth transition.

In the course of the regular review of the composition of the DAX index family, Deutsche Börse AG announced in March 2023 the inclusion of the share of HENSOLDT AG in the MDAX. With effect from 20 March 2023, the share of HENSOLDT AG is listed in the MDAX.

HENSOLDT AG held its annual general meeting in presence on 12 May 2023. Based on the decision of the annual general meeting, a total amount of € 31.5 million (€ 0.30 per share) was distributed as dividend to the shareholders of HENSOLDT AG. Likewise, based on a resolution of the annual general meeting, Marco R. Fuchs (CEO of OHB SE) was elected to the Supervisory Board. The Supervisory Board elected Reiner Winkler as its new chairman. He succeeds the previous chairman Johannes P. Huth, who resigned from his mandate at the end of the general meeting on 12 May 2023.

On 5 December 2023, HENSOLDT AG concluded a binding agreement to acquire the shares in ESG Elektroniksystem- und Logistik GmbH (“ESG GmbH” or “ESG-Group” together with the subsidiaries of ESG GmbH). The ESG-Group is a manufacturer-independent systems integrator and technology and innovation partner for defence and public safety. The Management Board and Supervisory Board of HENSOLDT have unanimously approved the acquisition of 100.0 % of the shares in ESG GmbH and the financing of the acquisition. The financing is provided through a capital increase of 10.0 % of the share capital, which was recorded in the commercial register on 8 December 2023, as well as through taking out a loan. The acquisition is expected to be completed around the end of the first quarter of 2024, subject to certain conditions, and thus also the payment of the purchase price for the shares in ESG GmbH.

3 Net assets, financial position and results of operations

3.1 Results of operations

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

	Order intake			Revenue			Book-to-bill			Order backlog		
	Fiscal year			Fiscal year			Fiscal year			31 Dec.	31 Dec.	
in € million	2023	2022	% Delta	2023	2022	% Delta	2023	2022	% Delta	2023	2022	% Delta
Sensors	1,587	1,675	-5.3 %	1,546	1,404	10.1 %	1.0x	1.2x	-0.2x	4,693	4,688	0.1 %
Optronics	510	333	53.1 %	309	310	-0.4 %	1.7x	1.1x	0.6x	852	692	23.2 %
Elimination/ Transversal/ Others	-9	-15		-8	-7					-15	-13	
HENSOLDT	**2,087**	**1,993**	**4.7 %**	**1,847**	**1,707**	**8.2 %**	**1.1x**	**1.2x**	**-0.1x**	**5,530**	**5,366**	**3.1 %**

Order intake

Order intake in the fiscal year 2023 remained at a very high level and exceeded the strong order intake of the previous year.

In the Sensors segment, the order intake was driven by orders for the TRML-4D radars in the Radar & Naval Solutions division to support Ukraine and as part of the European Sky Shield Initiative for the German Bundeswehr and the Estonian armed forces. Additionally, orders were also obtained as part of the contract extension for Eurofighter Mk1 radars. In the Optronics & Land Solutions division, an order for the MUSS self-protection system for the PUMA infantry fighting vehicle of the German Bundeswehr was concluded. The Spectrum Dominance & Airborne Solutions division contracted an order for the national research study as part of the FCAS programme. The previous year period included large orders in connection with the service contract C3 for the Eurofighter in the Services & Aerospace Solutions division, orders for the equipment of the Frigate 126 in the Radar & Naval Solutions division as well as orders in the context of the Eurofighter Halcon programme in the Radar & Naval Solutions and Spectrum Dominance & Airborne Solutions divisions. Due to the significant order intake in the previous year period, order intake in the Sensors segment is below the previous year's figure.

Within the Sensors segment, 55.1 % of order intake was attributable to the Radar & Naval Solutions division, 18.8 % to the Services & Aerospace Solutions division, 16.9 % to the Spectrum Dominance & Airborne Solutions division and 9.2 % to the Optronics & Land Solutions division.

The order intake in the Optronics segments in the fiscal year 2023 significantly increased compared to the previous year period. The fiscal year 2023 was characterised by order intakes in the Optronics & Land Solutions division for the PUMA and Leopard 2 platforms in the Ground Based Systems product line as well as by an order intake for the submarines of the Norwegian Ula class in the Naval product line. Orders were also contracted in the Industrial Commercial Solutions product line in conjunction with Final Focus Metrology (FFM). The previous year period was driven by order intakes in the Ground Based Systems product lines and in the South African unit.

Within the Optronics segment, 89.9 % of order intake was attributable to the Optronics & Land Solutions division, 7.4 % to the Services & Aerospace Solutions division and 2.6 % to the Radar & Naval Solutions division.

Revenue

The increase in revenue is mainly driven by the significant growth in the core business which increased significantly by 15.6 % from € 1.432 million in the fiscal year 2022 to € 1.655 million in the fiscal year 2023, while revenue from pass-through business at € 191 million in fiscal year 2023 was significantly below the previous year's figure (€ 275 million).

The growth in the core business was recorded in all divisions of the Sensors segment. Apart from the two key projects PEGASUS in the Spectrum Dominance & Airborne Solutions division and Eurofighter radars in the Radar & Naval Solutions division, the main drivers in revenue in the fiscal year 2023 were also TRML-4D radars in the Radar & Naval Solutions division, the Praetorian self-protection system for the Eurofighter in the Spectrum Dominance & Airborne Solutions division and revenues in connection with the service contract C3 for the Eurofighter in the Services & Aerospace Solutions division. The growth in revenue compared to the previous year period was achieved mainly by the Radar & Naval Solutions division.

Within the Sensors segment, 45.6 % of revenue was attributable to the Radar & Naval Solutions division, 28.7 % to the Spectrum Dominance & Airborne Solutions division, 21.1 % to the Services & Aerospace Solutions division and 4.7 % to the Optronics & Land Solutions division.

In the Optronics segment, revenue was at the previous year's level. An increase in the Services & Aerospace Solutions division was offset by a decrease in the Optronics & Land Solutions division. Main drivers of revenue were the Ground Based Systems product line as well as the South African unit.

Within the Optronics segment, 87.2 % of revenue was attributable to the Optronics & Land Solutions division, 11.3 % to the Services & Aerospace Solutions division and 1.5 % to the Radar & Naval Solutions division.

Book-to-bill ratio

The book-to-bill ratio in the fiscal year 2023 remained at a high level but was below the previous year.

In the Sensors segment, a book-to-bill ratio of 1.0 was achieved. A decrease in the Services & Aerospace Solutions division and in the Radar & Naval Solutions division was partially compensated by an increase in the Optronics & Land Solutions division. The decrease in the Services & Aerospace Solutions division was mainly the result of the high order intake for the service contract C3 for the Eurofighter in the previous year.

The book-to-bill ratio in the Optronics segment was 1.7 which was substantially above the previous year. The increase mainly resulted from the Ground Based Systems and Naval product lines in the Optronics & Land Solutions division which recorded high order intake.

Order backlog

Order backlog at group level increased due to a book-to-bill ratio of 1.0 in the Sensors segment and 1.7 in the Optronics segment to a total of € 5,530 million.

In the Sensors segment, the order backlog of € 4,693 million was slightly higher than the previous year. The slight increase compared to 31 December 2022 was mainly driven by the order intakes in the divisions Radar & Naval Solutions and the Optronics & Land Solutions. Within the Sensors segment, 57.7 % of order backlog was attributable to the Radar & Naval Solutions division. Approx. 25.3 % relate to the Spectrum Dominance & Airborne Solutions division. The Services & Aerospace Solutions division accounted for about 12.7 % and the Optronics & Land Solutions division for approx. 4.2 %.

The increase in the Optronics segment compared to 31 December 2022 resulted primarily from the order intake in the product lines Ground Based Systems and Naval in the Optronics & Land Solutions division. An increase in the order backlog was also recorded across all divisions. Within the Optronics segment, approximately 94.8 % of the order backlog was attributable to the Optronics & Land Solutions division. The Services & Aerospace Solutions and Radar & Naval Solutions divisions each accounted for around 2.6 %.

Income[5]

	Profit			Profit margin	
	Fiscal year			Fiscal year	
in € million	2023	2022	% Delta	2023	2022
Sensors	306	233	31.0 %	19.8 %	16.6 %
Optronics	24	59	-59.8 %	7.6 %	18.9 %
Adjusted EBITDA	**329**	**292**	**12.8 %**	**17.8 %**	**17.1 %**
Depreciation and amortisation	-114	-103	-10.2 %		
Special items[1]	-53	-22	-137.8 %		
Earnings before finance result and income taxes (EBIT)	**162**	**166**	**-2.3 %**	**8.8 %**	**9.7 %**
Finance result	-72	-37	-95.1 %		
Income taxes	-35	-49	28.5 %		
Group result	**56**	**80**	**-30.6 %**	**3.0 %**	**4.7 %**
Earnings per share (in €; basic/diluted)	**0.51**	**0.75**	**-31.7 %**		

[1] Special items are “non-regularly recurring and extraordinary” effects.

Adjusted EBITDA

The adjusted EBITDA of the Group increased strongly compared to the previous year, mainly due to an increased revenue volume which included significantly higher revenue in the core business and less revenue from pass-through business compared to the previous year period. A further positive effect resulted from efficient cost management which led to lower adjusted selling and distribution expenses in relation to the revenue volume. Research and development costs were below the previous year's figure.

The Sensors segment had a significant impact on the development of adjusted EBITDA of the Group. Increased revenue in the Sensors segment were the result of volume effects in the core business. Through efficient cost management, adjusted operating expenses were reduced in relation to revenues.

The Optronics segment experienced a decline compared to the previous year. While revenue was at the previous year's level, adjusted EBITDA was impacted by project mix effects and higher functional costs in conjunction with investments in new business areas and future growth.

Earnings before finance result and income taxes (EBIT)

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

The increase of special items[6] resulted mainly from OneSAPnow-related expenses in connection with the business transformation for SAP S/4HANA, transaction costs in connection with the acquisition of the ESG Group, expenses for the strategic transformation programme HENSOLDT GO! as well as impairments of acquired intangible assets from the purchase price allocation of HENSOLDT Cyber GmbH. In the previous year, expenses in the context of the long-term succession planning for the Management Board and expenses for coping with the cyber-attack on the French subsidiary Nexeya have been included.

Group result

The increase in the negative finance result mainly resulted from higher interest expenses for the term loan as well as from the valuation of interest rate swaps. A positive effect resulted primarily from higher interest income on investments.

This was offset by a decrease in income taxes of € 14 million to € 35 million as at 31 December 2023 (previous year: € 49 million). Income taxes include current tax expenses of € 42 million (previous year: € 13 million) and deferred tax income of € 7 million (previous year deferred tax expenses: € 36 million).

[5] The profit margins are calculated in relation to the corresponding revenue.
[6] Special items are “non-regularly recurring and extraordinary” effects. These are defined as “transaction costs, effects on earnings from purchase price allocations, OneSAPnow-related special items as well as other special items”.

The higher current tax expenses are due to higher tax income within the income tax group, to which HENSOLDT Sensors GmbH belongs since fiscal year 2023.

Main drivers for the changes in deferred taxes were related to the change in temporary differences of € 36 million and the changes in the realisability of deferred tax assets in the amount of € 7 million.

Earnings per share

The decline in earnings per share compared to the previous year from € 0.75 to € 0.51, calculated after the capital increase carried out in December 2023 based on a weighted average number of ordinary shares of 106 million, was mainly due to the increase in the negative finance result.

The Management Board intends to propose to the Supervisory Board the distribution of a dividend of € 0.40 per share (previous year: € 0.30 per share) to shareholders entitled to such dividends. This corresponds to an expected total payment of around € 46.2 million (previous year: € 31.5 million). The payment of the proposed dividend is subject to the approval of the general meeting.

3.2 Net assets[7]

	31 Dec.	31 Dec.	
in € million	2023	2022	% Delta
Non-current assets	1,405	1,335	5.2 %
therein: Property, plant and equipment	*140*	*121*	*15.4 %*
therein: Right-of-use assets	*189*	*140*	*34.6 %*
Current assets	2,155	1,644	31.1 %
therein: Inventories	*625*	*516*	*21.2 %*
therein: Trade receivables	*382*	*323*	*18.3 %*
therein: Cash and cash equivalents	*802*	*460*	*74.5 %*
Total assets	**3,560**	**2,979**	**19.5 %**

As at 31 December 2023, the Group's assets increased by € 581 million or 19.5 % to € 3,560 million. The increase resulted in particular from the rise in cash and cash equivalents by € 342 million and from the rise in inventories by € 109 million.

The increase in non-current assets from € 1,335 million as at 31 December 2022 to € 1,405 million as at 31 December 2023 was largely due to the recognition of additional right-of-use assets. These resulted primarily from the letter of intent issued in the second quarter of 2023 to exercise an extension option on significant parts of the real estate lease contracts at HENSOLDT locations in Germany in order to secure the planned growth of the Group. The increase of property, plant and equipment is particularly driven by investments in test, simulation and demonstration devices.

Current assets rose in the fiscal year 2023 by € 511 million or 31.1 % from € 1,644 million as of 31 December 2022 to € 2,155 million as of 31 December 2023 and primarily resulted from the increase in cash and cash equivalents. The increase was mainly attributable to the net issue proceeds from the capital increase of € 238 million, which was recorded in the commercial register on 8 December 2023, as well as from the positive Free cash flow of € 145 million. This was offset by the dividend payment to shareholders of HENSOLDT AG in the amount of € 32 million.

The increase in trade receivable resulted mainly from the scheduled realisation of a significant volume of business in the fourth quarter of the fiscal year. Among others investments for securing and increasing the production for example of TRML-4D radars played a role in the build-up of inventories.

[7] Only significant changes to balance sheet items are explained

3.3 Financial position

Basic principles of financial management

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

Capital structure of the Group

The Group has entered into external financing with credit agreements and a revolving credit facility ("Revolving Credit Facility" or "RCF"). The credit agreements comprise a long-term loan ("Term Loan") in the amount of € 620 million and another long-term loan (Term Facility) in the amount of € 450 million, which was concluded to finance the acquisition of the shares in the ESG Group in the fourth quarter of 2023 but had not yet been utilised as of 31 December 2023. As in the previous year, the RCF in the amount of € 370 million was not utilised as of 31 December 2023.

The availability and conditions of the long-term syndicated loans are tied to the compliance with a financial covenant relating to the ratio of net debt to adjusted EBITDA ("Consolidated EBITDA") as defined in the Senior Financing Agreements. In the fiscal year 2023, the financial covenants were complied with at all times. In the event of a breach, the financing partners are authorised to terminate each syndicated loan. There are currently no indications that the covenant will not be complied with in the near future.

Financial position[8]

in € million	31 Dec. 2023	31 Dec. 2022	% Delta
Equity	824	616	33.7 %
therein: Share capital / Capital reserve	*728*	*577*	*26.3 %*
therein: Other reserves	*32*	*82*	*-61.5 %*
therein: Retained earnings	*48*	*-55*	*187.8 %*
Non-current liabilities	1,266	1,160	9.2 %
therein: Non-current provisions	*357*	*282*	*26.4 %*
therein: Non-current lease liabilities	*191*	*140*	*36.3 %*
therein: Deferred tax liabilities	*74*	*94*	*-21.4 %*
Current liabilities	1,470	1,203	22.2 %
therein: Current provisions	*211*	*181*	*16.6 %*
therein: Current contract liabilities	*578*	*488*	*18.3 %*
therein: Trade payables	*457*	*379*	*20.6 %*
therein: Other current liabilities	*136*	*101*	*35.0 %*
Total equity and liabilities	**3,560**	**2,979**	**19.5 %**

As of 31 December 2023, equity and liabilities increased by € 581 million or 19.5 % to € 3,560 million compared to € 2,979 million as of 31 December 2022.This rise was primarily due to an increase in equity and current liabilities.

The increase in equity by € 208 million to € 824 million resulted especially from the net issue proceeds of the capital increase of € 237 million carried out in December. This was offset by a decrease in other reserves of € 51 million, which was mainly due to the adjustment of the provisions for post-employment benefits on the reporting date in accordance with the actuarial calculations. In addition, the negative retained earnings were reduced as a result of the positive group result attributable to the shareholders of the HENSOLDT AG in the amount of € 56 million and by € 85 million from the release of the capital reserve. This was partly offset by the dividend payment of € 32 million.

[8] Only significant changes to the Consolidated Statement of Financial Position are explained.

Non-current liabilities increased by € 106 million from € 1,160 million as of 31 December 2022 to € 1,266 million as of 31 December 2023, which mainly resulted from the build-up of non-current provisions and non-current lease liabilities. The main driver for the increase in non-current provisions consisted in the rise in of the provisions for post-employment by € 63 million to € 304 million due to lower interest rates. The increase in non-current lease liabilities by € 51 million to € 191 million was primarily due to the letter of intent issued regarding the right-of-use assets. The reduction in deferred tax liabilities by € 20 million to € 74 million is essentially related to the development of the differences between the IFRS and tax balance sheet items of the companies in the HENSOLDT Group.

Current liabilities increased by € 267 million from € 1,203 million as of 31 December 2022 to € 1,470 million as of 31 December 2023. This increase was mainly due to the increase in current contract liabilities by € 90 million, trade payables by € 78 million, current provisions by € 30 million and other current Liabilities by € 35 million. The increase in current contract liabilities was primarily due to the planned realisation of key projects. The increase in trade payables is also a result of the higher business volume as well as investments in working capital. In addition, the increase in current provisions was in particular attributable to the increase in the provision for other risks and costs, to the increase in the provision for warranties and to the increase in the personnel-related provisions. The personnel-related provisions include bonus provisions for management and employees as well as an inflation compensation premium. The increase in current other liabilities resulted primarily from higher VAT liabilities due to the increased revenue volume in the fourth quarter.

Investment and liquidity analysis[9]

	Fiscal Year		
in € million	2023	2022	Delta
Cash flows from operating activities	**267**	**244**	**23**
therein: Group result	*56*	*80*	*-25*
therein: Financial expenses (net)	*41*	*27*	*14*
therein: Income tax expense (+) / income (-)	*35*	*49*	*-14*
therein: Change in provisions	*45*	*-22*	*67*
therein: Change in inventories	*-128*	*-75*	*-53*
therein: Change in contract balances	*65*	*-25*	*90*
therein: Change in trade receivables	*-66*	*-13*	*-52*
therein: Change in trade payables	*78*	*110*	*-32*
therein: Interest paid	*-44*	*-26*	*-19*
Cash flows from investing activities	**-122**	**-101**	**-21**
therein: Acquisition / addition of intangible assets and property, plant and equipment	*-115*	*-95*	-20
Free cash flow	**145**	**143**	**2**
Special items	45	35	10
M&A activities	7	6	2
Interest and income taxes	62	36	26
Adjusted pre-tax unlevered free cash flow	**259**	**219**	**40**
Cash flows from financing activities	**197**	**-214**	**411**
therein: Issue of shares	*241*	*–*	*241*
therein: Repayment from financing liabilities to banks	*–*	*-150*	*150*
therein: Change in other financing liabilities	*10*	*-19*	*29*
therein: Dividend payments	*-32*	*-26*	*-5*
Cash and cash equivalents	**802**	**460**	**342**

[9] Only significant changes to items in the Consolidated Statement of Cash Flows are explained.

Free cash flow

The cash flows from operating activities were once again at a very high level and above the previous year's value due to the operating performance. The main effects in working capital resulted primarily from the balance of contract assets and contract liabilities. Changes in contract balances are mainly related to the scheduled execution of the key projects PEGASUS and Eurofighter Mk1 radars as well as the implementation of the industrialisation strategy for TRML-4D radars. Inventories continued to be built up in order to continue to manage the increased business volume in the future. Furthermore cash outflows for special items and interest payments were higher in fiscal year 2023.

Regarding cash flows from investing activities, there was an increase of cash outflows year-on-year. This essentially results from higher investments in property, plant and equipment and higher capitalised development costs. Investments in property, plant and equipment include capital expenditure for test, simulation and demonstration devices, as well as for upgrading and maintaining physical assets. In addition, investments include development costs which were capitalised as internally generated intangible assets (Refer to chapter “I 5 Research and development”).

Adjusted pre-tax unlevered free cash flow

The adjusted pre-tax unlevered free cash flow was once again at a very high level with € 259 million and exceeded the successful previous year by € 40 million. The special items[10] in the current year were mainly due to OneSAPnow-related expenses associated with the business transformation for SAP S/4HANA and payments as part of the strategic transformation programme HENSOLDT GO!. In the previous year, these special items were mainly connected with the allocation to plan assets and payments in the context of long-term succession planning for the Management Board. The increase in the items for interest[11], income tax[12] and M&A activities[13] was mainly related to higher interest payments for the term loan as well as higher tax payments due to higher tax income within the income tax group.

Cash flows from financing activities

Cash flows from financing activities has improved significantly compared to the previous year and were especially characterised by the capital increase carried out in December 2023 in which HENSOLDT was able to generate gross proceeds from the issuance of shares of € 241 million. The comparative period of the previous year included the full repayment of the revolving credit facility in the amount of € 150 million. Furthermore, the dividend payment to the shareholders of HENSOLDT AG of € 0.30 per share during the fiscal year 2023 exceeded the dividend payment of the previous year period of € 0.25 per share for 2021.

Cash and cash equivalents

As of 31 December 2023, cash and cash equivalents were composed of bank balances amounting to € 564 million (previous year: € 310 million) and short-term time deposits of € 238 million (previous year: € 150 million). The increase compared to the previous year resulted mainly from the cash inflow from the capital increase carried out in December 2023 and the positive free cash flow. This increase was slightly compensated by a reduction in cash and cash equivalents due to the dividend payments to the shareholders of HENSOLDT AG.

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[10] Special items are “non-regularly recurring and extraordinary” effects. These are defined as “transaction costs, OneSAPnow-related special items as well as other special items”.
[11] Defined as “Interest paid“ (including interest on leases) and “Interest received” as reported in the Consolidated Statement of Cash Flows.
[12] Defined as “Income tax payments / refunds“ as reported in the Consolidated Statement of Cash Flows.
[13] Defined as sum of “Proceeds from sale of intangible assets and property, plant and equipment”, “Proceeds from disposal of associates, other investments and non-current financial assets”, “Acquisition of associates, other investments and other non-current financial assets”, “Acquisition of subsidiaries net of cash acquired” as well as “Other cash flows from investing activities” as reported in the Consolidated Statement of Cash Flows.

3.4 Overall assessment

The Management Board assesses the economic performance of the HENSOLDT Group as being overall positive. As expected, the Group's order intake remained at a very high level and nearly achieved the moderate forecasted growth for the fiscal year 2023. The revenue targets were achieved through a significant increase in revenue volume in the core business. With an increase in revenue of 8 %, growth was within the forecasted range of 7 % to 10 % for 2023. The book-to-bill ratio of 1.1 met expectations of 1.1 to 1.2 for the fiscal year 2023. Due to the achieved increase in business volume and the consequent implementation of efficiency improvement measures, adjusted EBITDA exceeded the expectations of a moderate increase.

In the Sensors segment, the forecasted key performance indicators for sales and adjusted EBITDA were exceeded. With order intake in the Sensors segment slightly below the previous year, the order intake target could not be achieved.

In the Optronics segment, the forecasted order intake was significantly exceeded. Due to delays in order intake in the fiscal year 2022, there were time shifts in revenue recognition in 2023, so that revenue remained at the previous year's level and thus the forecast could not be achieved. This was accompanied by increased expenses for investments in new business areas and in future growth of the Optronics segment. This resulted in the forecasted performance indicator adjusted EBITDA not being achieved.

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

III Forecast

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1 Development of overall economic conditions

The IMF forecasts for 2024 that global growth is expected to remain at 3.1 % also in 2024 and will only rise slightly to 3.2 % in 2025. This forecast for 2024, which was revised upwards by 0.2 percentage points compared to October 2023, reflects, in particular, the appreciations in the economies of China and the USA as well as in other major emerging and developing countries. The global pace of growth for 2024 and 2025 remains, however, well below the historical annual average of 3.8 % recorded in the period between 2000 and 2019. This can be attributed to, among other things, restrictive monetary policy measures to combat inflation, lower fiscal policy support and reduced basic productivity, according to the study. While emerging and developing economies are projected to grow at a stable pace of 4.1 % and 4.2 %, respectively, in 2024 and 2025, expert forecasts for advanced economies point to a slight decline to 1.5 % in 2024. A potential recovery is expected in 2025, which is assumed to bring economic growth in advanced economies back to 1.8 %. The IMF expects global headline inflation, which is declining more rapidly than projected in most regions, to fall to 5.8 % in 2024 and 4.4 % in 2025.

The low economic growth of 0.5 % in the countries belonging to the euro zone in 2023 was particularly marked by the effects of Russia’s war against Ukraine and the associated sharp increases in energy prices. For 2024 and 2025, the IMF expects the Euro zone to recover slightly to 0.9 % and 1.7 %, respectively. The recovery in the economy is expected to be driven by higher consumption expenditure from private households, declining energy prices, falling inflation and a growth in real income. Compared to the last forecast in October 2023, this still represents a downward correction by 0.3 percentage points for 2024. This is mainly due to the fact that actual growth in these countries has been weaker than projected.

According to experts of the IFO Institute, the course has been set for a recovery of the German economy with the declining inflation, rising wage incomes and the positive development on the labour market. Nevertheless, the institute has reduced its current forecast for 2024 from a growth of 1.4 % to 0.9 %. Researchers justify this cut with the prevailing uncertainties, particularly from fiscal policy, which are delaying recovery. This leaves the German research institute far more optimistic than the IMF economists, who, in their study published at the end of January 2024, predict only a low growth of 0.5 % for the German economy. While they do expect an acceleration of the economic growth for the year 2025, to 1.6 %, these forecasts are also by 0.4 percentage points lower than in their October forecast.

According to the opinion of the IMF, the existing balance of risks to global growth is broadly balanced. They argue that there would be scope for other potential, positive and negative factors which could affect growth in different ways. Therefore, a faster reduction in inflation, a slower decline of fiscal support or a more rapid recovery of the Chinese economy are conceivable. Moreover, the IMF believes that software based on artificial intelligence could lead to higher productivity and incomes in the medium term. On the other hand, geopolitical tensions – particularly an escalation of the conflict in the Middle East – could lead to a significant rise in commodity prices, leading to sustained core inflation, which requires a more restrictive stance in monetary policies. There might also be the possibility of weak growth in China and changes in global financial conditions, which could exacerbate the debt problem and affect economic progress.

For political decision-makers in most economies, a sustained disinflation remains a priority in the face of the cost-of-living crisis. Given that restrictive monetary conditions and reduced economic growth may have adverse effects on financial and debt stability, the IMF sees a need to use tools to stabilise the financial system as a whole and to strengthen the debt restructuring framework in order to be prepared for future shocks. Closer and more effective multilateral cooperation is essential to preserve the achievements of the rules-based multilateral system, to curb climate change by limiting emissions and to provide space for more environmentally friendly policies that are needed to create investments.

2 Development in the defence and security sector

Defence spending and military procurement continued to increase in 2023 on a global scale, with the biggest increases in Europe. Based on the deteriorating security situation, the global impact of the war in Ukraine and the conflict in the Middle East remains in the foreground, in addition to regional conflicts, leading to increased investment in the defence industry and capabilities. Defence budgets are rising significantly, fuelled by major investments by the US, China, India, and Russia. India in particular is trying to diversify its suppliers, while also increasing its own industrial capacities.

Military expenditure in Europe increased disproportionately as a result of the Russian war of aggression. NATO estimates that 22 EU members that are also NATO members will increase their defence spending by 19 % in 2023 compared to the previous year, where investments in equipment will increase by 43 %. Given the highest defence budget in the history of the Bundeswehr and funds from the special fund, Germany is also expected to meet NATO's 2 % target in 2024. Poland in particular has intensified its efforts to build one of the strongest conventional land forces in Europe, and resolved on making record investments of over € 27 billion (PLN 118 billion) in 2024. In view of an increase in defence spending to around 4.2 % of its GDP in 2024, taking into account all eligible expenditures, Poland is spending the highest share of all NATO countries in terms of GDP. The focus of NATO's European members, especially Germany, remains on the war against Ukraine and the country's and alliance defences that have been derived from it. Germany increased its military support for Ukraine from approximately € 5.4 billion in 2023 to approximately € 8 billion for 2024, financed from Section 60 and, once, also from the Bundeswehr special fund.

In the Indo-Pacific region, investments in defence capabilities remained high. Indonesia was one of the most active countries in the region, spending USD 8.8 billion in 2023. Based on ambitious modernisation plans, the budget is to continue to grow dynamically over the next few years reaching USD 9.7 billion by 2028. In the period 2024 to 2028, the total budget is estimated at USD 46.6 billion, of which approximately USD 13.3 billion is to be invested in the acquisition and modernisation of equipment.

Rapid purchasing decisions by national governments and increased industrial production capacity are noticeable everywhere. The EU continues to work on initiatives and tools in order to achieve efficiency gains in terms of cooperative procurement within the EU. These include the European Commission's first EU Defence Industrial Strategy, which is being prepared in close dialogue with Member States and was published in March 2024.

Capability Development Priorities were published under the leadership of the European Defence Agency (EDA) in order to promote a joint capability development in the long term. In addition, the European Defence Fund (EDF) is to be further increased in the EU's next multi-annual financial framework 2027 to 2034.

The EU implemented further measures to strengthen the European defence technological and industrial base with initiatives to support the European defence market in the year 2023, using the EU budget. On the demand side, the EU provided an incentive for joint procurement in the form of the European Defence Industry Reinforcement through Common Procurement Act (EDIRPA) in a total amount of € 300 million, to address the most urgent and critical gaps in the EU's defence capabilities and to incentivise EU Member States to jointly procure defence equipment by 2025. On the supply side of the market, the EU has introduced a € 500 million instrument under the Act in Support of Ammunition Production (ASAP) to increase ammunition and missile production by 2025.

EU Member States have also increased the budget under the European Peace Facility (EPF) from around € 5.6 billion to € 12 billion for the supply of military equipment to partner countries.

For the year 2024, the European Commission is preparing the first European Defence Industry Strategy (EDIS), which will be accompanied by the new European Defence Investment Plan (EDIP) to consolidate the strengthening of the industrial base after 2025.

Like Germany, other NATO and EU Member States have derived their future military equipment from NATO planning objectives and the existing war scenario. One of the key areas of procurement is in the field of air defence. While initial orders for the IRIS-T SLM system from Germany, Estonia, Latvia and Slovenia were placed as part of the European Sky Shield Initiative, other nations such as Austria and Switzerland have also expressed a concrete interest in procuring this system. To this end, Austria plans to almost double its defence budget by 2027 from € 2.7 billion to € 5.25 billion, which is about 1.5 % of its GDP.

In France, the military planning law for the years 2024 to 2030 was approved by parliament, resulting in a significant increase in defence spending to a total of € 413 billion for the entire period. Here, too, the conclusions drawn from the Russian war of aggression against Ukraine are at the forefront of considerations regarding future priorities alongside ammunition stocks, a focus on strengthening the defence industrial base and deterrence capabilities.

In addition to conventional elements, the war in Ukraine is demonstrating the importance of digitalised weapon systems, data-driven information superiority and electronic warfare. The high wear and tear on equipment and materials underlines the importance of building up manufacturing capacities in the defence industry. In addition to increasing defence budgets almost worldwide, HENSOLDT's portfolio meets the current and future requirements of modern armed forces. Future developments in the aforementioned segments, including space, coupled with the closing of elementary capability gaps in the area of air defence, personal equipment such as night vision goggles and the acquisition of additional units in all military dimensions – in particular ships, submarines, armoured vehicles, helicopters and combat aircraft – will result in extraordinary growth potential for HENSOLDT in line with its global strategy. The global security situation and new industrial and political co-operations create additional opportunities in the market.

3 Outlook

The outlook for the fiscal year 2024 strongly depends on the conditions mentioned in the opportunities and risks report and, besides the macroeconomic developments described above, is based on the multi-year business plan of the Group. This forecasts a US dollar exchange rate of $ 1.14/€ 1.00 and an average inflation rate of 3.0 % in Germany and of 2.5 % in France for the planning period. Furthermore, a 3.6 % increase in personnel costs is forecast for Germany, a 4.5 % increase for France and 5.0 % for Great Britain. In addition, the forecast volumes for revenue and order intake highly depend on the reliability and stability of the political conditions. The outlook is based on the assumption that geopolitical tensions, particularly from Russia's war against Ukraine, will not increase further.

For the fiscal year 2024, the management expects a strong increase in order intake due to budget increases and further orders from the special fund without taking into account the acquisition of the ESG Group. In the business planning for the Group, the management assumes a moderate organic revenue growth for the fiscal year 2024, especially due to the consistently high order backlog. Overall, the management expects a book-to-bill ratio at the previous year's level between 1.1 and 1.2. A strongly increasing adjusted EBITDA is expected for the fiscal year 2024.

However, at the time of preparing the Consolidated Financial Statements 2023, management assumes that the acquisition of the ESG Group will take place around the end of the first quarter of 2024, subject to further condition. The Group's outlook therefore takes into account the inclusion of the ESG Group from the second quarter for nine months in the fiscal year 2024. Based on these assumptions, the Management Board expects strong growth in order intake, revenue and adjusted EBITDA, with the ESG group contributing more than half of this growth in each case. Management continues to expect a book-to-bill ratio at the previous year's level between 1.1 and 1.2.

Overall, the Management Board is confident that HENSOLDT can build on the successful fiscal year 2023 and expects another positive development for 2024.

IV Opportunities and risks report

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1 Risk report

1.1 Essential principles of the risk and control management

At HENSOLDT Group, measures and systems have been implemented with the objective to enable stable business processes and allow an early identification of risks. The risk and control management system, applicable to the entire HENSOLDT Group, consists of the Internal Control System (ICS) and the Enterprise Risk Management (ERM). It considers relevant legal requirements and is based on generally accepted principles set out in external frameworks and standards (such as “COSO”[14]). This also includes sustainability aspects.

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

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

Internal Control System (ICS)

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

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

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

Enterprise Risk Management (ERM)

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

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

[14] Committee of Sponsoring Organizations of the Treadway Commission

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

- Making assumptions and setting goals,
- Annually validating and confirming the risk-bearing capacity and risk appetite
- Determining roles and responsibilities
- Identifying risks and opportunities
- Assessing the impact of these identified risks and opportunities
- Responding in the form of implementing appropriate measures
- Consolidating and aggregating individual risks by considering the interactions at corporate level
- Monitoring the effectiveness of these response measures
- Regularly preparing risk management reports

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

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

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

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

For the risk reporting, the heads of the central departments of the HENSOLDT Group and the ERM Point of Contact in each legal entity are responsible for providing their risk portfolio to the ERM Officer at the group level in time for the quarterly risk reporting. Besides, the risk information related to health and safety ("HSE"[15]) must also be submitted in time for the reporting.

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

1.2 Accounting-related internal controls and risk management

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

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

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

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

HENSOLDT management has installed procedures for a monthly review of the financials based on pre-defined key performance indicators in order to ensure a reconciliation of the actuals with planning data.

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

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

1.3 Risks

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

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

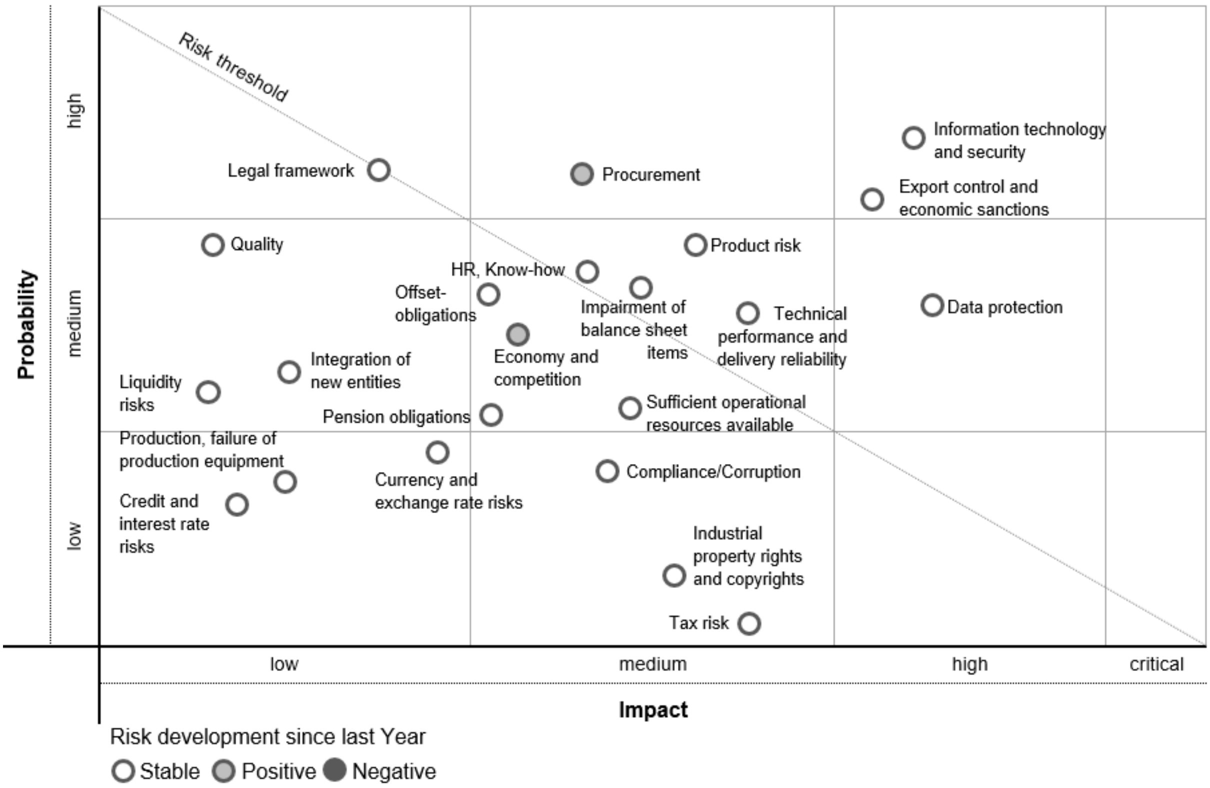
[15] Health, Safety, Environment

Operative risks result from operational activities in particular in the context of HENSOLDT's project business. HENSOLDT has defined further project specific sub-categories of operative risks. At HENSOLDT, sustainability risks are managed with their impact on the planet and society in the category "Sustainability to external". Furthermore, risks with an impact on HENSOLDT are analysed in the risk categories of strategy, compliance/corruption, health/safety/environment, construction/technology, export control, HR, legal, procurement and production/product risk in a broader manner under the concept of sustainability. In this way, potentially negative, primarily inward-looking changes also related to HENSOLDT's sustainability goals are recorded and countermeasures are taken. Further details, initiatives and programmes as part of sustainability management are explained in the HENSOLDT sustainability report 2023. This report is available on the HENSOLDT website at https://investors.hensoldt.net in the "Publications" section.

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

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

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



Functional risks

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

Risks related to strategy

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

Geopolitical conditions as well as legal and regulatory factors influence the impact from the risk export controls and economic sanctions. The geopolitical situation, particularly in 2023, also has a major impact on export control requirements and economic sanctions. This may result in financial impacts if, for example, an export license is not granted contrary to expectations or potential customers cannot be supplied due to sanctions.

In order to anticipate risks in the best possible way and to take appropriate measures, a strategy workshop is held annually. The aim is to identify growth options and to recognise the relevant influencing factors as well as resulting risks beforehand through a comprehensive PESTEL analysis[16] and to counteract them with adequate measures. Given the increased political complexity, in addition to the annual strategy workshop with the Management Board of HENSOLDT AG, several analyses of the risks of the geopolitical situation took place in the reporting year. This was mainly a result of the rapidly changing global political situation, in particular due to the war in Ukraine and the situation in the Middle East. A special task force was set up to ensure continuous monitoring of the possible influence of tensions in the Middle East.

[16] PESTEL: Analysis of political, economic, socio-cultural, technical, environmental and legal factors of influence

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

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

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

The acquisition of the shares in ESG GmbH, which is expected to take place around the end of the first quarter of 2024 is associated with various risks that may arise from both the integration the operational business. For example, forecasted synergy effects and the planned operational business of the ESG Group and thus the strategic added value could not or not in the expected amount, materialise. In addition, a loss of know-how in the ESG Group could arise if employees leave the ESG Group due to the acquisition. These risks are countered by a structured integration process as part of an Integration Management Office with various functional and operational workstreams involving both sides.

Risks related to compliance

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

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

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

Data protection risks

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

Operative risks

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

HENSOLDT Group has to manage complex and long-running projects with demanding technical requirements and high volumes. Each project has a variety of inherent operational risks. A number of risks must be taken into account due to various uncertainties regarding the calculation, unexpected technical problems or underestimated complexity that could exert compliance with the agreed delivery dates. Additionally, failure to meet compensation obligations may result in penalties and negatively impact project margins. By using experienced employees, technical know-how and professional project-, quality- and contract management, these risks can be minimised, but not completely avoided. All risk categories, such as risks regarding to human resources or economic risks, are recorded, assessed, hedged and continuously monitored in accordance with HENSOLDT's existing risk management. This approach also applies to HENSOLDT's key projects. The status of the key projects is regularly reported to the Supervisory Board. If necessary, external audits with different focal points are also commissioned.

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

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

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

The HENSOLDT Group has initiated a number of measures to be regarded as an attractive employer. For example, it offers employees a mobile working environment based on a group agreement for German sites, flexible working hours without core working hours, childcare during school holidays and, depending on the location, kindergarten places or child care subsidies, special regulations on sabbaticals and family and care times, a company-subsidised job ticket, a subsidised bicycle leasing programme or various incentive programmes. Part of the "NEXT Leadership" initiative, which was carried out in the fiscal year 2023, was the factors of diversity and equal opportunities. For HENSOLDT, as a multinational company, it is crucial to build a diverse workforce and provide equal opportunities to attract talent. Against the background of the current labour market situation, HENSOLDT expects increased challenges in the future with regard to attracting and retaining highly qualified employees. This continues to represent a risk for HENSOLDT, which, however, remains essentially unchanged compared to year-end 2022.

In the area of operational quality, the HENSOLDT Group is required to perform with the highest standards. Due to the complex and advanced nature of its products, there are technological challenges that arise in conjunction with the development and manufacturing of new products. In order to maintain high quality standards for its products, the HENSOLDT Group implemented a number of quality assurance measures such as an enhanced customer review and feedback process, single quality points of contact for Critical Items (CI) and joined problem solving with suppliers as well as clear requirements to the provision of conformity certificates. Other measures in this area are dynamic sampling as part of the incoming goods inspection or an improved first sample inspection for so-called “B-parts”. Furthermore, HENSOLDT is certified according to the EN9100 standard, which sets the highest quality requirements for companies in the aerospace and defence sectors worldwide. In order to meet the high demands and constant adjustments to our environment, our quality managers and programme quality managers (PQM) are qualified and trained through various and continuous training and further education measures.

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

For both segments, the procurement of raw materials, components and other modules is exposed to risks regarding delivery shortfalls or delays, supply bottlenecks, quality issues and price increases. A variety of different materials at low volumes characterises the supply chain. In addition, these materials are also used in other industries, which is why the HENSOLDT Group only purchases small fractions of the suppliers’ total output. The HENSOLDT Group also procures highly customised products, which are only available from a small number of suppliers or even only from a single source. To mitigate these procurement risks, a number of measures are in place: suppliers are involved in projects at an early stage, preferred suppliers are specified and, moreover, suppliers are selected on the basis of fact- and competition-oriented factors. There is also a management system in place for supplier relationships. Compliance with the Supply Chain Sourcing Obligations Act is essential for HENSOLDT (further details in the HENSOLDT sustainability report 2023). A crucial part of complying with the law is engaging our suppliers via a web-based IT platform to continuously query and identify the relevant data from suppliers to ensure compliance and manage and avoid potential risks. The measures for mitigating the procurement risk have been further strengthened and focused under the continuous monitoring and analysis of global pandemic- and crisis-related shortages of certain materials in the fiscal year 2023. A dedicated process for the efficient handling of brokerware, including the necessary technical evaluation, has been defined and introduced. Potential effects for HENSOLDT are regularly assessed in purchasing and the operational business units in order to counteract them with appropriate measures. At this point in time, there is a moderately increasing risk for the Sensors segment and a reduced risk for the Optronics segment compared to the end of the fiscal year 2022.

As a company in the security and defence industry, HENSOLDT is particularly in the focus of cyberattacks in the area of information technologies and security. The Group is especially vulnerable to the misappropriation or compromise of its intellectual property or other confidential (project-related) information, including that of its customers. In the context of the much higher global frequency of attempted attacks on IT environments that can be observed worldwide, also due to the deteriorating geopolitical situation, between Russia, China, the United States and Europe, the likeliness of successful cyber-attacks is generally estimated to be higher than in the past.

In order to minimise the resulting potential risks, the Chief Information Security Officer (CISO) and his team consistently developed the information security management system (ISMS). The company standards are based on best practices and are not primarily based exclusively on globally recognised standards such as those of the International Organisation for Standardization (ISO) and the National Institute of Standards and Technology (NIST). Accompanied by the Management Board, processes and systems were further developed and introduced to ensure secure and efficient information processing today and in the future.

Training our employees is an important part of the information security process. For this reason, HENSOLDT offers regular training on information security and data protection. The trainings cover a range of topics including social engineering awareness, cybercrime and data protection. In addition, regular phishing tests are carried out to ensure that employees are particularly aware of the risk of such attacks and can reliably detect malicious attacks.

The focus of activities to continuously increase cybersecurity in 2023 was to further improve HENSOLDT's protection at the interface to the Internet. This possible attack surface is continuously monitored, identified risks are assessed and necessary measures are taken. A process for monitoring this attack vector has been implemented, further increasing resilience at the perimeter.

The aim of all initiatives is to ensure information security at the high level of international standards and to prevent or ward off any attacks.

Financial risks

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

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

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

Currency and exchange rate risks

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

Credit and interest rate risks

To secure the cash requirements of the Group’s business operation, the HENSOLDT Group uses interest-rate-sensitive financial instruments. The interest rate risks associated with these instruments have been mitigated by way of interest rate swaps. The aim of interest rate management is to limit the impact of interest rates on the financial performance as well as on assets and liabilities of the Group. For this purpose, interest rate swaps were concluded in the fiscal year 2022 to the extent of the existing long-term, variable interest loan amounting to € 620 million (nominal value) for the period from the first quarter of 2023 to the first quarter of 2027. This long-term syndicated loan as well as the newly concluded term facility worth € 450 million are tied to the compliance with a financial covenant (see note 35.1). In the event of a breach, the financing partners are authorised to terminate the syndicated loans. There are no indications that the covenant cannot be fully complied with in the foreseeable future.

Liquidity risks

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

In order to secure the Group's liquidity, HENSOLDT has the possibility of using a revolving credit facility of € 370 million as part of long-term debt financing. As of 31 December 2023, the revolving credit facility was not utilised. In order to plan the required utilisation of this facility, there is a comprehensive process in place for planning future liquidity requirements and thus to adequately cover the associated risk.

Risks related to pension plans

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

Asset impairment risks

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

Tax risks

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

Risks from current supply chain situation

HENSOLDT consistently monitors the impact of the war in Ukraine. The continuing consequences thereof particularly include delivery bottlenecks of materials, increasing prices of energy products, but also of other goods and services and, not least, inflation. These consequences represent influencing factors for the risk situation of HENSOLDT in the functional and operational areas, affect the supply chains and lead to increasing manufacturing costs. The procurement risk and possible consequences due to changing circumstances, high energy prices and material shortages on the world market still exist as in fiscal year 2022. Since the beginning of the changed situation, HENSOLDT established working groups to consistently assess the impact on manufacturing costs, supply chains and contracts with customers at HENSOLDT and reduce or avoid possible effects as early as possible by concrete and detailed measures.

The consequences of inflation have been stable for companies in the Sensors segment since the year-end of 2022. However, the possible impact from the supply chain situation increases due to the increased order intake. In the Optronics segment, the possible effects of inflation were reduced due to globally stabilising inflation values and measures implemented. In order to counteract the effects of the supply chain situation in the Optronics segment, intensive monitoring is carried out. This should enable appropriate measures to be taken at an early stage. The risk in the Optronics segment, which has been reduced since 2022, stabilised by the end of the fiscal year 2023. The conflict in the Middle East does currently not represent a significant risk to the supply chain and can currently still be compensated through extended procurement times. The situation is being extensively monitored and assessed by a working group.

1.4 Overall risk assessment

HENSOLDT is not aware of any single or aggregated risk that could endanger the continuity of its business operations. Due to the changed situation and the tense situation in particular due to price increases for energy products as well as material availability on the world market, there has been an increase in procurement risk and possible consequences. The risks related to supply chain issues are moderately increasing for the companies in the Sensors segment and the effects of inflation are stable. However, in the Optronics segment, the possible impacts concerning inflation was reduced. The effects of the supply chain situation in the Optronics segment have stabilised through increased monitoring. Still, this does not represent a significant risk for HENSOLDT according to the Management Board’s point of view. Specially established working and expert groups are continuously analysing and monitoring in detail potential further effects from the risks mentioned above. This includes also the geopolitical situation, which is currently deteriorating further, and possible other consequences for HENSOLDT. The possible impacts of the conflict in the Middle East on the security policy environment, on the overall economic situation and on the companies of the HENSOLDT Group cannot yet be estimated and are continuously analysed by HENSOLDT.

These risks are offset by opportunities arising from increasing military investments worldwide and HENSOLDT's contribution to security and sustainability. Therefore, the Management Board currently assesses the overall opportunity and risk situation of HENSOLDT as essentially unchanged to the previous year.

2 Opportunity report

2.1 Opportunities

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

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

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

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

Functional opportunities

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

Given the Russian war of aggression against Ukraine and the dynamic geopolitical security situation, the most important development on a global level is the increase in defence spending by NATO member countries and many other countries. NATO member states are stepping up and accelerating their efforts to spend at least 2.0 % of national GDP on defence – as agreed at the 2023 NATO Summit. According to calculations of the Munich Security Conference, annual defence spending of EU member states is expected to increase by 61 % or € 400 billion by 2028 assuming they keep their current spending commitments made. EU member states would then spend an average of 1.8 % of GDP (Gross Domestic Product) on defence by 2028.

In addition to increasing military budgets and investments in national armed forces, numerous states continue to support Ukraine with military equipment. HENSOLDT supplied several products as part of the German upgrade for Ukraine in the fiscal year 2023. The decision to deliver battle tanks and infantry fighting vehicles from Bundeswehr stocks to Ukraine or to replace material from other supplier states with more modern material from Bundeswehr stocks within the framework of ring exchanges promotes the need to replenish Bundeswehr stocks. That applies to all other supply countries. This results in additional opportunities for HENSOLDT just like the military support of Ukraine through new orders financed by the Federal Republic of Germany, such as further IRIS-T SLM systems in which HENSOLDT is involved with the TRML-4D radar.

From the special fund, a large number of projects are supposed to be approved in 2024 by the budget committee of the German Bundestag. The Federal Ministry of Defence (BMVg) plans to have the special fund fully contractually committed by 2024. With the publication of the new Defence Policy Guidelines (VRL) on 9 November 2023, the core mission of national and alliance defence for the German Bundeswehr was reaffirmed. An overall concept of military defence for the capability profile of the Bundeswehr was also derived from this and, for the first time, a military strategy was presented. The targeted follow-up of development projects in the area of national key technologies could further strengthen HENSOLDT's position in Germany and Europe. This reiterates the importance of strengthening the national security and defence industrial base.

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

With the agreement to acquire the shares in ESG-group, HENSOLDT will strengthens its position as a provider of comprehensive solutions and at the same time take an important step in the consolidation of the European defence industry. The integration of ESG's software development and system integration capabilities will enable HENSOLDT sensor systems to be even better integrated across different areas. It is expected that the merger will also result in cost and revenue synergies as well as a much higher innovation capacity for battlefield digitalisation and multi-domain operations. From the perspective of the members of the Management Board, HENSOLDT is thus well positioned to contribute to and be part of future defence programmes.

Operative opportunities

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

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

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

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

The HENSOLDT Group has co-operations with many renowned universities and research institutions, especially in Germany, for nearly all early-stage technological developments in the radar and optronics sectors. Through this intense collaboration between the universities and research institutions, the HENSOLDT Group lays the foundation for maximising its opportunities as an innovative organisation. Both business units benefit from this. In addition, cooperations with other market participants to exploit operational opportunities are an essential part of the strategy. An example of this is the successful collaboration in the Future Combat Mission System (FCMS) consortium for the FCAS programme.

2.2 Overall opportunity assessment

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

Increases in defence budgets and growing military investment worldwide are creating significant opportunities for HENSOLDT. The opportunity to diversify the product range, the expansion of the service business as well as HENSOLDT's ability to act as a innovation leader within its industry remain and will act as a multiplier.

V Non-financial group statement[17]

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

HENSOLDT prepares a sustainability report, that meets the requirements of capital market-oriented companies, which describes the sustainability-related activities and extensively deals with the Group’s influence on the environment and society. For this purpose, information is provided about current initiatives and relevant key performance indicators (KPIs) especially on the topics identified as particularly important, and an outlook is given for future measures and initiatives.

Corporate integrity, health and safety as well as human potential were identified as key topics for the fiscal year 2023. In addition, planet and resources, product responsibility and social commitment are further focal points. In addition, the topic of responsible procurement was also included for the fiscal year 2023.

The sustainability report for the fiscal year 2023 is published simultaneously with the annual report and can be found on the website of HENSOLDT at https://investors.hensoldt.net in the “publications” section.

This non-financial declaration is made in accordance with sections 315b and 315c of the German Commercial Code (HGB).

[17] The chapter “V Non-financial group statement” is audited separately in the sustainability report with limited assurance and thus unaudited here.

VI Takeover-relevant information and explanatory report

The takeover-relevant information and the explanatory report for the fiscal year 2023 are made in accordance with sections 289a and 315a HGB.

1 Composition of share capital

As of 31 December 2023, the share capital of HENSOLDT AG amounts to € 116 million and is divided into 115,500,000 ordinary bearer shares (no-par value shares). The shares are fully paid up. All shares carry the same rights and obligations. The rights and obligations of shareholders arise in detail from the provisions of the German Stock Corporation Act (“AktG”), especially sections 12, 53a et seq., 118 et seq. and 186 AktG.

2 Restrictions on voting rights or transfer of shares

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

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

In the context of article 19 (11) of the Regulation (EU) No. 596/2014 (Market Abuse Regulation) and in accordance with the internal guidelines for members of the Management Board and Supervisory Board of HENSOLDT AG, several specific restrictions regarding the purchase and sale of shares of HENSOLDT AG. These include, inter alia, certain trading bans in particular in the context with the publication of financials, as well as acquisition and holding obligations in connection with the remuneration of the Management Board.

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

3 Shareholdings exceeding 10 % of the voting rights

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

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

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

As part of the capital increase against cash contributions recorded in the commercial register on 8 December 2023, which included the issue of 10,500,000 new shares, the Federal Republic of Germany, acting indirectly through the KfW, participated by purchasing new shares in proportion to their shareholding of 25.1 %.

With voting rights notification dated 13 December 2023 (date of threshold contact: 8 December 2023), Leonardo SpA reported that 26,355,000 voting rights were still attributed to them. Based on the share capital of HENSOLDT AG which is divided into 115,500,000 shares following the capital increase carried out in December, this represents a shareholding of 22.8 %.

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

4 Shares with special rights of control

Shares with special rights of control do not exist.

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

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

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

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

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

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

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

7 Authority of the Management Board to issue or repurchase shares

7.1 Conditional Capital

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

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

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

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

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

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

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

In order to grant shares to the holders or creditors of the aforementioned instruments, the share capital of HENSOLDT AG is conditionally increased by up to € 16.0 million, divided into up to 16,000,000 new bearer shares with no par value (Conditional Capital 2020/1). Further details of the Conditional Capital 2020/I can be found in section 4 (4) of the articles of association.

7.2 Authorised Capital

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

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

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

- for the purpose of issuing shares to employees of the Company and employees and members of the management of subordinated group companies, with regard to employees also in compliance with the requirements of section 204 (3) AktG;

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

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

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

To finance the acquisition of the shares in ESG, 10,500,000 new shares were placed on 7 December 2023 as part of an accelerated placement process with institutional investors, excluding subscription rights in accordance with Section 186 (3) sentence 4 AktG. This corresponds to an increase of 10 % of the Authorised Capital. The capital increase was recorded in the commercial register on 8 December 2023. After the capital increase in 2023, the Authorised Capital 2020/I amounts to € 25.5 million as of 31 December 2023.

7.3 Share buyback

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

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

- If treasury shares are purchased on the stock exchange, the purchase price paid by the Company (excluding incidental costs) may not be more than 10.0 % higher or lower than the price of the Company’s shares determined by the opening auction on the trading day in the Xetra trading system (or a comparable successor system) on the Frankfurt Stock Exchange.

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

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

- The Management Board is authorised, subject to the approval of the Supervisory Board, to sell the treasury shares acquired on the basis of the authorisation granted at the shareholders' meeting on 18 August 2020, also in a way other than via the stock exchange or by means of an offer to all shareholders, provided that the sale is for cash and at a price which is not significantly lower than the stock market price of shares in the Company at the time of the sale (simplified exclusion of subscription rights pursuant to section 186 (3) sentence 4 AktG). The shares sold on the basis of this authorisation may not exceed a total of 10.0 % of the share capital, either at the time the resolution is adopted by the shareholders' meeting or at the time this authorisation is exercised. The maximum limit of 10.0 % of the share capital shall be reduced by the pro rata amount of the share capital attributable to those shares issued during the term of this authorisation with exclusion of subscription rights in direct or analogous application of section 186 (3) sentence 4 AktG. Furthermore, this limit shall be reduced by shares issued or issuable to service option or conversion rights, provided that the bonds were issued during the term of this authorisation under exclusion of subscription rights in accordance with section 186 (3) sentence 4 AktG.

- The Management Board is authorised, subject to the approval of the Supervisory Board, to transfer the treasury shares acquired on the basis of the authorisation granted by the annual general meeting on 18 August 2020 to third parties in return for contributions in kind, in particular in connection with the acquisition of companies, parts of companies, or equity interests in companies, or in connection with business combinations, as well as in connection with the acquisition of other assets, including rights and receivables.

- The Management Board is authorised, subject to the approval of the Supervisory Board, to use the treasury shares acquired on the basis of the authorisation granted by the annual general meeting on 18 August 2020 to fulfil obligations arising from conversion or option rights or conversion obligations from convertible bonds or bonds with warrants or profit participation rights or income bonds (or combinations of these instruments) issued by the Company or its subordinated group companies which grant a conversion or option right or stipulate a conversion or option obligation.

- The Management Board is authorised, subject to the approval of the Supervisory Board, to use the treasury shares acquired on the basis of the authorisation granted by the annual general meeting on 18 August 2020 to grant holders of convertible bonds or bonds with warrants or profit participation rights or participating bonds (or combinations of these instruments) issued by the Company or its subordinated group companies, which grant a conversion or option right or stipulate a conversion or option obligation, treasury shares to the extent that they would be entitled to a subscription right to shares of the Company after exercising the conversion or option right or after fulfilment of the conversion or option obligation.

- The Management Board is authorised to offer for purchase the treasury shares acquired on the basis of the authorisation granted by the annual general meeting on 18 August 2020 to persons who are or were employed by the Company or one of its affiliated companies (employee shares).

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

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

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

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

On 7 September 2020, HENSOLDT AG, as borrower, entered into a Senior Facilities Agreement (SFA) with a number of lenders in the amount of € 950 million. In the agreement dated 2 November 2021 the SFA was increased by € 40 million to a total of € 990 million, € 620 million of which relate to a term loan and € 370 million to a revolving credit facility. On 12 April 2022 the SFA of HENSOLDT AG was again adjusted in respect of various points by means of an “Amendment and Restatement Agreement”. The term was extended from September 2025 to April 2027. The margin grid was changed to the borrower’s benefit and for drawings in USD and GBP, the LIBOR was replaced by so-called risk free rate rules. This credit agreement contains a so-called “change of control” clause, which is triggered if a person other that the person specified in the agreement acquires, directly or indirectly, more than 50.0 % of the voting rights in HENSOLDT AG. In the event of a change of control, the loan may be called in for repayment immediately.

On 6 December 2023, HENSOLDT AG, as borrower, entered into a further Senior Bridge and Term Facilities Agreement (SBTFA) with a number of lenders in the amount of € 700 million. The SBTFA originally consisted of a € 450 million term facility and a € 250 million bridge loan. The bridge loan has already been repaid following the capital increase, which was recorded in the commercial register on 8 December 2023. The Term Facilities Agreement also contains a “change of control” clause, which is triggered if a person other than the person specified in the agreement acquires, directly or indirectly, more than 50.0 % of the voting rights in HENSOLDT AG . In the event of a change of control, the loan may be called in for repayment immediately.

9 Compensation agreements concluded by the Company with members of the Management Board or employees in the event of a takeover bid

For the event of a change of control, HENSOLDT AG has not concluded any compensation agreements with its employees or with members of the Management Board or with managing directors or with employees of any direct or indirect subsidiaries.

VII Corporate governance statement

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

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

1 Fundamentals

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

2 Declaration of conformity pursuant to section 161 AktG

The Management Board and Supervisory Board of HENSOLDT AG were subject to the obligation under section 161 AktG to issue a declaration of conformity with the Code throughout the entire fiscal year. The Management Board and Supervisory Board issued the following declaration on the Code in resolutions dated on 28 November / 5 December 2023:

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

Taufkirchen, 28 November / 5 December 2023

HENSOLDT AG

Management Board Supervisory Board"

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

3 Remuneration of Management Board and Supervisory Board

The remuneration report for the fiscal year 2023 was prepared jointly by the Management Board and the Supervisory Board and will be published together with the auditor’s certificate in accordance with Section 162 AktG and the current remuneration systems for the members of the Management Board and the Supervisory Board on the website of HENSOLDT at https://investors.hensoldt.net in the “Corporate Governance” section.

The remuneration report and the note for the remuneration report will be kept publicly available in accordance with the statutory regulations. For more information on the remuneration refer to the notes to the Consolidated Financial Statements of HENSOLDT Group 2023 and the notes to the Financial Statements 2023 of HENSOLDT AG.

The applicable remuneration system for the members of the Management Board pursuant to section 87a AktG was approved by the annual general meeting on 18 May 2021 with a majority of 97.98 % of the valid votes cast. The resolution on the remuneration and the remuneration system of the Supervisory Board pursuant to section 113 AktG was also adopted at the annual general meeting of 18 May 2021 with a majority of 99.99 % of the valid votes cast.

The remuneration system for the members of the Management Board adopted by the Supervisory Board with effect from 1 January 2023 contains the following significant adjustments compared to the system previously in force:

- The pension contribution can also be made as a periodic payment to the board member, which the board member can use to build up a private pension scheme at their own discretion (instead of participating in the company pension system).

- The Supervisory Board is authorised to also consider multi-year special projects as LTI bonus components in addition to total shareholder return (TSR), order intake and ESG targets with a weighting of up to 15 %.

The resolution to adjust the compensation system for the Management Board was approved at the annual general meeting on 12 May 2023 with a majority of 76.62 % of the valid votes cast.

Further information on the currently applicable remuneration system of the Management Board as well as the Supervisory Board, including the respective resolutions of the annual general meeting, can be found on the website of HENSOLDT at https://investors.hensoldt.net in the “Corporate Governance” section.

4 Disclosures on corporate governance practices

4.1 Principles

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

4.2 Suggestions of the Code

In the reporting period, HENSOLDT voluntarily complied with the suggestions of the Code.

4.3 Standards of Business Conduct

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

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

4.4 Compliance

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

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

Furthermore, HENSOLDT has established a whistleblower system, which allows employees and external parties, also along the supply chain, to report violations in person or anonymously via an "OpenLine" (anonymous telephone and e-mail hotline). The compliance organisation reports directly to the general counsel who reports to the CEO. The Head of Compliance also reports regularly to the Compliance Committee of HENSOLDT's Supervisory Board. There are compliance contacts in subordinate companies who report to the central compliance organisation. Training courses are held both virtually and in person. In addition, regular Q&A sessions are offered, where various compliance topics are discussed and employees can ask questions about all compliance topics. The Compliance Organisation and Management Board of HENSOLDT regularly communicate on the compliance organisation via internal communication media.

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

4.5 Risk and control management

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

The Management Board has no indications or information that the internal control system or the risk management system were inadequate in any material respect in the fiscal year. Any findings made during audits of the internal control system or the risk management system were promptly remedied by the affected group companies. Various analyses and checks were carried out in the fiscal year without calling into question this assessment by the Management Board. Nevertheless, further measures to optimise documentation will also be initiated in the future.

4.6 Sustainability

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

4.7 Shareholders and general meeting

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

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

The fourth ordinary general meeting of HENSOLDT AG will take place on 17 May 2024. The Management Board and the Supervisory Board decided in 2023 to conduct it in presence.

4.8 Management Board and Supervisory Board shareholdings

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

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

4.9 Corporate Communication and transparency

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

The articles of association, the rules of procedure of the Supervisory Board, the report of the Supervisory Board from the fiscal year 2020, the Declaration of Conformity from the fiscal year 2020, and the Corporate Governance Report, from the 2020 fiscal year, are available on the website of HENSOLDT at https://inventors.hensoldt.net in the “Corporate Governance” section.

5 Working methods of Management Board and Supervisory Board

The actions of the Management Board and Supervisory Board of HENSOLDT AG are based on the principle of responsible corporate management and control (corporate governance). The cooperation between the two committees is characterised by mutual trust.

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

5.1 Management Board of HENSOLDT AG

Working methods of the Management Board

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

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

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

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

Composition of the Management Board

Pursuant to section 6 (1) of the articles of association, the Management Board of HENSOLDT AG consists of at least two persons. In the reporting period, the Management Board comprised four members: Thomas Müller as Chairman (CEO), Christian Ladurner as CFO, Dr. Lars Immisch as CHRO and Celia Pelaz Perez as CStO.

By resolution of the Supervisory Board on 21 March 2023, Mr. Oliver Dörre was appointed as a member of the Management Board for a term of three years. He started is duties on 1 January 2024.

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

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

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

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

5.2 Supervisory Board of HENSOLDT AG

Working methods of the Supervisory Board

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

At least two Supervisory Board meetings are held each calendar half-year. Extraordinary meetings are held as required. The committees also hold regular meetings. The resolutions of the Supervisory Board require a majority of the votes cast, unless otherwise stipulated by law. If a vote results in a tie, each member of the Supervisory Board has the right to demand a new vote on the same matter. If this also results in a tie, the Chairman has two votes.

In the previous fiscal year, during the meeting of the Supervisory Board on 21 March 2023, various Management Board matters were discussed that required a meeting of the Supervisory Board without the presence of the Management Board, including the update of the remuneration system, the resolution on the 2022 bonus payments and the targets for the variable remuneration in 2023 for the Management Board. On 5 April 2023, the Supervisory Board met to mutually terminate Mr. Müller's employment contract without the presence of the Management Board. Furthermore, on 12 May 2023, the Supervisory Board met without the Management Board to vote for the election of the Chairman of the Supervisory Board, to change the rules of procedure for the Supervisory Board (change the number of members of the Presidium to a total of six members) and to appoint permanent committees (Executive Committee, Nomination Committee, Conciliation Committee) including the election of the chairman of these committees. On 28 July 2023, the Supervisory Board met to pass a resolution on the remuneration of the Management Board without the presence of the Management Board members Mr. Ladurner and Ms. Pelaz Perez as well as to extend the appointment of Ms. Pelaz Perez to the Management Board without the presence of the Management Board member Dr. Immisch. The Supervisory Board has adopted rules of procedure, which are published on the HENSOLDT website at https://investors.hensoldt.net.

HENSOLDT considers the regularly review of the effectiveness of the Supervisory Board’s work in accordance with recommendation D.12 of the Code as an important component of good corporate governance. In July, September and November 2023, the members of the Audit Committee, the Compliance Committee and the Executive Committee assessed the effectiveness of the committees’ work. The assessment was made using an anonymised questionnaire. The competence profile was expanded to include the areas of “Operations/Operational Excellence/Project Management” and “Public Relations”.

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

Details of the Supervisory Board’s activities, including the number of meetings and information on the attendance of Supervisory Board members at meetings in the fiscal year 2023, are provided within the “Report of the Supervisory Board”.

Composition of the Supervisory Board

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

In the fiscal year 2023, the Supervisory Board comprised the following members:

Name	Born	Member since	Appointed until	Profession
Johannes P. Huth (Chairman until 12 May 2023 and retired from the Supervisory Board)	1960	2017	2025	Partner at KKR Square Aggregator L.P., Kanada (KKR) and Head of KKR in EMEA
Reiner Winkler (Chairman since 12 May 2023, before ordinary member)	1961	2022	2025	CEO at MTU Aero Engines AG (until December 2022), Independent Consultant
Armin Maier-Junker[1] (Vice Chairman)	1962	2017	2026	Chairman of the Works Council of HENSOLDT Sensors GmbH, Ulm; Chairman of the General Works Council of HENSOLDT Sensors GmbH and Chairman of the Group Works Council
Dr. Jürgen Bestle[1]	1966	2021	2026	Head of Engineering Governance of HENSOLDT AG and Head of Design Organisation of HENSOLDT Sensors GmbH
Jürgen Bühl[1]	1969	2017	2026	Head of Sector Policy Coordination in the Executive Board of IG Metall
Letizia Colucci	1962	2022	2025	General Manager at the Med-Or Leonardo-Foundation
Marco R. Fuchs (since 12 May 2023)	1962	2023	2025	Chairman of the Management Board of OHB SE
Achim Gruber[1]	1963	2021	2026	Chairman of the Works Council of HENSOLDT Optronics GmbH, Oberkochen
Ingrid Jägering	1966	2017	2025	Member of the Management Board, CFO of Stihl AG
Marion Koch[1]	1978	2020	2026	Member of the Works Council of HENSOLDT Sensors GmbH, Immenstaad, and member of the Group Works Council; Project Manager in the Airborne, Space & ISR Radars business unit of HENSOLDT Sensors GmbH
Giuseppe Panizzardi (since 1 December 2023)	1963	2023	2024	Senior Vice President M&A & Corporate Development of Leonardo S.p.A.
Giovanni Soccodato (until 31 October 2023)	1961	2022	2025	Chief Strategic Equity Officer at Leonardo S.p.A. (until May 2023) Executive Group Director Sales & Business Development MBDA and Managing Director of MBDA Italia (since June 2023)
Julia Wahl[1]	1987	2019	2026	Press Officer at IG Metall Baden-Württemberg
Hiltrud Werner	1966	2022	2025	Management Consultant

[1] Representative of the employees

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

Name	Position
Dr. Jürgen Bestle	• Member of the Supervisory Board of HENSOLDT Sensors GmbH*
Jürgen Bühl	• Member of the Supervisory Board of HENSOLDT Sensors GmbH* • Member of the Supervisory Board of Airbus Defence & Space GmbH
Letizia Colucci	• Member of the Board of Directors of Avio S.p.A. • Chairwoman of the Board of Directors of MBDA Italia S.p.A. • Member of the Board of Directors of e-GEOS S.p.A.
Achim Gruber	• Member of the Supervisory Board of HENSOLDT Optronics GmbH*
Johannes P. Huth	• Member of the Supervisory Board of Axel Springer SE • Member of the Board of Coty Inc.
Ingrid Jägering	• Member of the Advisory Board of Wegmann Group
Giuseppe Panizzardi	• Member of the Board of Leonardo International S.p.A.
Giovanni Soccodato	• Chairman of the Supervisory Board of Thales Alenia Space • Deputy Chairman of the Board of Directors of Telespazio S.p.A. • Deputy Chairman of the Management Board of MBDA B.V. • Member of the Board of Directors of GEM Elettronica S.r.l. • Member of the Board of AIAD • Member of the Management Board of AMSH B.V. • Member of the Board of G.I.E. Avions de Transport Regional (ATR)
Julia Wahl	• Member of the Supervisory Board of HENSOLDT Sensors GmbH*
Hiltrud Werner	• Chairwoman of the Supervisory Board of Mitteldeutsche Flughafen AG

The time of initial appointment mentioned above is disclosed on the basis of the first appointment to the Supervisory Board of the HENSOLDT Holding GmbH respectively HENSOLDT GmbH, which means before the change of the legal form of the company into a public limited company (“AG”) as of 17 August 2020. The following changes occurred in the composition of the Supervisory Board during the fiscal year: With effect from the end of the Annual General Meeting on 12 May 2023, Johannes P. Huth resigned as shareholder representative on the Supervisory Board. In his place, Marco R. Fuchs was elected to the Supervisory Board as shareholder representative by election of the Annual General Meeting on 12 May 2023. Furthermore, Giovanni Socoddato resigned from the Supervisory Board with effect from 31 October 2023. In his place, Giuseppe Panizzardi was elected to the Supervisory Board with effect from 1 December 2023.

According to the competence profile drawn up by the Supervisory Board, in view of the areas of activity of HENSOLDT Group, the essential competences of the Supervisory Board members include knowledge, experience or skills in the following areas: Industry, markets and regions in which HENSOLDT AG operates, accounting and auditing, corporate governance, compliance and regulatory requirements, capital market and risk management. In 2023, the Supervisory Board expanded the existing competence profile to include operations/operational excellence/project management and public relations. At least one member of the Supervisory Board should have in-depth experience and knowledge in the management of an international company, in the area of digitalisation and information technology, in the area of human resources management and recruitment, in accounting and financial reporting, in controlling/risk management as well as in the area of corporate governance and compliance, including the regulatory requirements relevant to HENSOLDT. In addition, the Supervisory Board shall have knowledge and experience in the area of international security policy as well as in the sustainability issues that are important to the company. Besides the appropriate representation of all gender identities and age groups, proposals for elections to the Supervisory Board will also take into account different educational and professional backgrounds and the most diverse possible cultural and regional origins of the members of the Supervisory Board.

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

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

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

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

	Reiner Winkler	Armin Maier-Junker	Dr. Jürgen Bestle	Jürgen Bühl	Letizia Colucci	Marco R. Fuchs
Representative of the employees		●	●	●		
Independence[1]	●				●	●
Industry Expertise	●	●	●	●	●	●
Accounting	●			●	●	●
Audit	●	●		●	●	●
Corporate Governance, Compliance	●	●	●	●	●	●
Capital Markets	●			●	●	●
Risk Management	●	●	●	●	●	●
International Security Policy			●	●	●	●
Antitrust law					●	
International Experience	●		●	●	●	●
Leadership international company	●		●		●	●
Digitalisation / IT	●	●	●	●	●	●
Human Resource Management	●		●	●	●	●
Sustainability	●	●	●	●	●	●
Operations / Operational Excellence / Project Management	●		●	●	●	●
Public Relations	●			●	●	●

	Achim Gruber	Ingrid Jägering	Marion Koch	Giuseppe Panizzardi	Julia Wahl	Hiltrud D. Werner
Representative of the employees	●		●		●	
Independence[1]		●		●		●
Industry Expertise	●	●	●	●	●	●
Accounting	●	●	●	●	●	●
Audit	●	●	●	●	●	●
Corporate Governance, Compliance	●	●	●	●	●	●
Capital Markets		●	●	●	●	●
Risk Management	●	●	●	●	●	●
International Security Policy		●	●	●		
Antitrust law		●	●			●
International Experience	●	●	●	●	●	●
Leadership international company		●	●	●		●
Digitalisation / IT	●	●	●	●	●	●
Human Resource Management	●	●	●	●	●	●
Sustainability	●	●	●	●	●	●
Operations / Operational Excellence / Project Management		●		●		●
Public Relations		●		●		

[1] In the opinion of the Supervisory Board, the member of the Supervisory Board is independent of the company and its Management Board.
● Criterion met, based on self-assessment of the Supervisory Board. One point means a self-assessment of the qualification of at least "50 %".

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

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

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

Prevention of conflicts of interest and independence

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

The Supervisory Board assessed by taking into account the ownership structure of HENSOLDT AG, that an appropriate number of shareholder representatives are independent by definition of the Code. On the shareholder representative’s side, the Supervisory Board considers Letizia Colucci, Marco R. Fuchs, Ingrid Jägering, Giovanni Soccodato (Member of the Supervisory Board until 31 October 2023), Giuseppe Panizzardi (Member of the Supervisory Board since 1 December 2023), Hiltrud Werner and Reiner Winkler to be independent of the Company, its Management Board, thus all six shareholder representatives. Consequently recommendation C.9 (1) of the Code is complied with.

With regard to recommendation C.9 of the Code, the Supervisory Board classifies Giovanni Soccodato (Member of the Supervisory Board until 31 October 2023), Giuseppe Panizzardi (Member of the Supervisory Board since 1 December 2023), and Letizia Colucci as employee of Leonardo (“Leonardo”) or companies affiliated with Leonardo and as independent. With a 22.8 % shareholding in HENSOLDT, Leonardo does not constitute a controlling shareholder, as neither a control agreement has been concluded nor does Leonardo hold an absolute majority of votes or any other sustainable majority at the general meeting. The Supervisory Board thus assumes that the aforementioned Supervisory Board members are independent of the Management Board and the Company within the meaning of recommendation C.7 of the Code. The Supervisory Board assumes that the existing business relationships between the HENSOLDT Group on the one hand and companies affiliated with Leonardo on the other hand were not material for either of the business partners in the previous year. In addition, the Supervisory Board assumes that Giovanni Soccodato and Giuseppe Panizzardi did not exercise or do not exercise any board function or advisory duties at Leonardo within the meaning of recommendation C.12 of the Code. There are also no personal relations of Giovanni Soccodato and Guiseppe Panizzardi to Leonardo in terms of recommendation C.12 of the Code. Of the other companies in which Giovanni Soccodato or Guiseppe Panizzardi were a member of a governing body in the reporting year 2023, there was no function in a body of a significant competitor within the meaning of recommendation C.12 of the Code.

5.3 Committees of the Supervisory Board

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

In the current fiscal year, the Supervisory Board formed six permanent committees and a temporary committee to carry out the capital increase. More details on the work of the committees in the reporting period, including the number of respective meetings and information on the attendance of committee members at meetings, can be found in the “Report of the Supervisory Board”.

Presidial Committee

The number of members of the Presidial Committee was increased from four to six in the current fiscal year. Thus, the Presidial Committee is composed of the Chairman of the Supervisory Board, their deputy and two members from both the employee and shareholder sides. In the reporting period, Johannes P. Huth (chairman until the end of the general meeting on 12 May 2023), Reiner Winkler (chairman from the end of the general meeting 12 May 2023, before ordinary member), Armin Maier-Junker[18], Jürgen Bühl[18], Giovanni Soccodato (until 31 October 2023), Giuseppe Panizzardi (appointment on 5 December 2023), Hiltrud Werner as well as Dr. Jürgen Bestle[18] were members of the committee. The Presidial Committee prepares proposals to the Supervisory Board for the appointment and dismissal of Management Board members and the extension of their mandates, the handling of service contracts with Management Board members, Management Board succession planning, and corporate governance issues. The Presidial Committee is responsible for concluding, amending, extending and terminating service contracts with the members of the Management Board within the framework of the remuneration system determined by the Supervisory Board in a plenary session and the general meeting and within the targets set by the Supervisory Board in a plenary session for the variable remuneration of the individual Management Board members. In addition, the Presidial Committee makes proposals to the Supervisory Board for resolutions on existing or anticipated conflicts of interest of members of the Management Board. Furthermore, the Presidial Committee makes proposals for the approval of other contracts and transactions between the Company or a subsidiary of the Company on the one hand and a member of the Management Board or persons or companies related to a member of the Management Board on the other hand, unless the Committee for Related Party Transactions is responsible.

Audit Committee

The Audit Committee is composed of two shareholder representatives and two employee representatives. In the reporting period, Ingrid Jägering (chairwoman), Marion Koch[18], Giovanni Soccodato (until 31 October 2023), Giuseppe Panizzardi (appointed on 5 December 2023) as well as Julia Wahl[18] were members of the committee. The Chairwoman of the Audit Committee, Ingrid Jägering, is independent in the assessment of the Supervisory Board. She has not been a member of the Management Board of HENSOLDT AG in the past, nor does she have any other personal or business relationship with HENSOLDT AG or its institutions, which could constitute a material and not only temporary conflict of interest. She is not simultaneously Chairwoman of the Supervisory Board and has expertise in the fields of accounting and auditing due to her long years of work as CFO in different companies. Giovanni Soccodato has managed projects and programmes with responsibility for accounting, controlling and profitability. His role in M&A projects not only included this responsibility, but also the evaluation of targets or companies to be acquired or sold by Leonardo. This included the assessment and analysis of business plans and business activities. In his various functions, he has acquired skills in balance sheet and P&L analysis as well as in various accounting standards and is familiar with the different positions. He has a clear understanding of all positions of the asset, financial situation and result of operations of any company. Giuseppe Panizzardi has many years of professional experience in the areas of M&A and capital market transactions, inter alia at the Leonardo Group (M&A transactions and corporate development), as well as at a major international bank and an Italian credit institution. Giuseppe Panizzardi and Giovanni Soccodato are familiar with financial matters in the broadest sense and, due to their many years of experience with mergers and acquisitions, are also able to interpret audit reports, expert opinions and similar reports. HENSOLDT AG thus meets the requirements of section 100 (5) AktG in conjunction with section 107 (4) sentence 3 AktG in the audit committee.

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

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

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

[18] Employee representative

Conciliation Committee

The Conciliation Committee consists of the chairman of the Supervisory Board as chairman of the committee, their deputy elected in accordance with the German Codetermination Act, and one additional representative for each shareholders and employees. In the reporting period, Johannes P. Huth (until the end of the general meeting on 12 May 2023), Reiner Winkler (from the end of the general meeting on 12 May 2023, before ordinary member), Jürgen Bühl[18], Armin Maier-Junker[18] and Marco R. Fuchs were members of the committee. In the cases set out in section 31 (3) and (5) MitbestG, the Conciliation Committee shall submit proposals to the Supervisory Board for the appointment or withdrawal of the appointment of members of the Management Board.

Compliance Committee

The Compliance Committee is composed of two shareholder representatives and two employee representatives. In the reporting period, Hiltrud Werner (chairwoman), Letizia Colucci, Dr. Jürgen Bestle[18] and Achim Gruber[18] were members of this committee. The Compliance Committee's task is to monitor the Company's compliance with legal provisions, official regulations and internal Company policies relating to anti-corruption, antitrust (competition law), data protection and export control.

Related Party Transactions Committee

The Related Party Transactions Committee shall be composed of two shareholder representatives and two employee representatives, taking into account that the majority of the Committee shall be composed of members for which no concern of a conflict of interest exists due to their relationship with a related party. In the reporting period, Reiner Winkler chairman), Jürgen Bühl[18], Hiltrud Werner as well as Armin Maier-Junker[18] were members of this committee. Task of the Related Party Transactions Committee is to monitor the Company's internal procedure for the ordinary course of business and the arm's length nature of related party transactions within the meaning of section 111a (1) AktG. Furthermore, the Committee is responsible for the approval of related party transactions in accordance with section 111b AktG. For such transactions, the decision-making authority of the committee takes precedence over the decision-making authority of other committees.

Nomination Committee

The Nomination Committee consists of up to four Supervisory Board members from the shareholder's side. In the reporting period, Johannes P. Huth (chairman until the end of the general meeting on 12 May 2023), Reiner Winkler (Chairman from the end of the general meeting on 12 May 2023, before ordinary member), Ingrid Jägering, Marco R. Fuchs, Giovanni Soccodato (until 31 October 2023) as well as Giuseppe Panizzardi (appointed on 5 December 2023) were members of the committee. When appointing members to this committee, the Supervisory Board ensures an appropriate representation of women and men. The Nomination Committee proposes suitable candidates to the Supervisory Board for its election proposal to the general meeting. The Nomination Committee is also responsible for preparing a proposal for the competence profile, reviewing the existing competence profile, and recommending any adjustments.

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

Representation of women in the Supervisory Board

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

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

Representation of women in the Management Board of HENSOLDT AG

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

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

Determination for the two management levels below the Management Board

In accordance with section 76 (4) AktG, the Management Board also sets targets for the proportion of women in the two management levels below the Management Board. As of 31 December 2020, HENSOLDT AG, as an individual entity, did not have any management levels below the Management Board. After this changed during fiscal year 2021, the Management Board has set the following quotas for women’s participation to be achieved by 8 December 2026 in the fiscal year 2022:

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

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

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

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

VIII HENSOLDT AG

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

As of 31 December 2023, HENSOLDT AG was the parent company of the HENSOLDT Group.

1 Result of operations of HENSOLDT AG

For the fiscal year 2023, the income statement for HENSOLDT AG was as follows.

	Fiscal year		
in million €	2023	2022	% Delta
Revenue	56.8	41.5	36.6 %
Cost of sales	-57.0	-41.8	-36.4 %
Gross profit	**-0.2**	**-0.2**	**7.3 %**
Selling expenses	-0.5	-2.0	73.7 %
General administrative expenses	-28.2	-28.3	0.3 %
Other operating income	1.4	5.4	-73.4 %
Other operating expenses	-15.8	-5.2	<-200 %
Operating result	**-43.3**	**-30.4**	**-42.4 %**
Finance result	**-45.5**	**-22.0**	**-106.9 %**
Income taxes	-0.9	-0.0	<-200 %
Result after taxes	**-89.8**	**-52.5**	**-71.1 %**
Other taxes	-0.0	-0.0	-82.1 %
Net loss for the fiscal year	**-89.8**	**-52.5**	**-71.1 %**
Profit carry-forward	7.0	6.0	16.6 %
Withdrawal from the capital reserve	140.0	85.0	64.7 %
Balance sheet profit	**57.2**	**38.5**	**48.5 %**

Revenue consisted exclusively of internal recharges and was slightly overcompensated by cost of sales which is reflected accordingly in the gross profit. The increase in revenue compared to the previous year mainly resulted from the charging of costs for the business transformation for SAP S/4HANA to HENSOLDT Sensors GmbH and HENSOLDT Optronics GmbH. The general administrative expenses included the expenses for the further strategic development of the HENSOLDT Group as well as central administrative expenses of HENSOLDT AG, which were not passed on to the operating companies of the HENSOLDT Group. These mainly resulted from expenses for consulting fees, amongst others, within the scope of efficiency improvement and IT-related projects. The increase in other operating expenses mainly resulted from losses from the valuation of interest rate swap transactions as of the reporting date and the transaction costs for the capital increase. The finance result consisted predominantly of interest expenses for the Term Loan, interest expenses and income of affiliated companies from cash pooling, interest income from investments, transaction costs for the syndicated loan agreement (“Term Facility”) concluded in the current fiscal year, interest expenses from the revaluation of the pension provisions as well as bank commissions and charges. The increase in the negative finance result resulted primarily from increased interest expenses for the existing Term Loan and cash pooling.

The balance sheet profit mainly resulted from the withdrawal from the capital reserve made in the context of the preparation of the annual financial statements. As of 31 December 2023, HENSOLDT AG had 132 employees (previous year: 118).

Overall assessment

In the forecast for the fiscal year 2023, the Management Board assumed for the most important financial key performance indicators of HENSOLDT AG a moderate increase in revenue and a moderate increase in the net loss for the fiscal year. Due to the first-time allocation of costs for the business-transformation for S/4HANA and the resulting increase in internal recharges, the revenue forecast was exceeded with a strong increase in revenue. The net loss for the fiscal year increased stronger than forecasted, which was mainly the result of losses from the valuation of interest rate swap transactions as of the reporting date and higher interest expenses.

2 Net assets and financial position of HENSOLDT AG

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

	31 Dec.	31 Dec.	
in million €	2023	2022	% Delta
Intangible assets and property, plant and equipment	5.3	0.4	>200%
Financial assets	2,685.0	2,670.0	0.6 %
Fixed assets	**2,690.3**	**2,670.4**	**0.7 %**
Accounts receivable, other assets and advance payments made	173.3	88.8	95.2 %
Cash and cash equivalents	375.7	168.1	123.5 %
Current assets	**549.0**	**256.9**	**113.7 %**
Prepaid expenses and deferred charges	7.2	7.2	0.3 %
Surplus of offsetting	0.1	–	– %
Total assets	**3,246.6**	**2,934.5**	**10.6 %**
Share capital	115.5	105.0	10.0 %
Capital reserve	1,725.4	1,635.0	5.5 %
Balance sheet profit	57.2	38.5	48.5 %
Equity	**1,898.1**	**1,778.5**	**6.7 %**
Provisions	42.9	27.2	57.7 %
Liabilities	1,305.6	1,128.7	15.7 %
Total equity and liabilities	**3,246.6**	**2,934.5**	**10.6 %**

The financial assets primarily included the investment in HENSOLDT Holding GmbH. Accounts receivable and other assets mainly included accounts receivable from affiliated companies. The increase compared to the previous year was mainly due to higher accounts receivable from cash pooling and due to increased receivables from advance VAT returns from the companies belonging to the tax group. Cash at banks consisted of a short-term time deposits of € 367 million (previous year: € 100 million) which resulted from the investment of net issue proceeds of the capital increase. Cash amounted to € 9 million (previous year: € 68 million). Prepaid expenses mainly included directly attributable transaction costs in connection with the first-time raising of the long-term syndicated loans in 2022 and 2023 (“Term Loan” and “Term Facility”) and a revolving credit facility (“RCF”) of € 6 million (previous year: € 7 million).

After the capital increase, which was recorded in the commercial register on 8 December 2023, the share capital of HENSOLDT AG amounted to € 116 million, divided into 116 million ordinary bearer shares with no nominal value (no-par value shares) (previous year: € 105 million resp. 105 million no-par value shares) as of 31 December 2023. Net loss as of 31 December 2023 amounted to € 90 million (previous year: € 52 million. As part of the preparation of the annual financial statements, an amount of € 140 million (previous year: € 85 million) was withdrawn from the capital reserve and allocated to balance sheet profit. The provisions mainly comprised provisions for pension obligations, provisions for variable remuneration components and a provision for onerous contracts. The increase compared to the previous year resulted mainly from the increase of the provision for non-current variable remuneration components relating to the issue of further tranches (Long-Term Incentive Bonus) as well as due to the provision for anticipated losses from the valuation of the interest rate swaps as of reporting date. Liabilities mainly included liabilities to banks and liabilities from cash pooling. The significant increase compared to the previous year was mainly due to higher liabilities from cash pooling. The long-term loan amounts to € 620 million nominal on the reporting date.

3 Opportunities and risks

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

4 Forecast

Within the Company's operational planning, the Management Board assumes a slight decrease in revenue and a strong increase of the net loss for the fiscal year 2024. The slight decrease in revenue will be driven by lower charges of group services to the subsidiaries mainly associated with the business transformation for SAP S/4HANA. The strong increase of the net loss for the fiscal year 2024 is expected, particularly as a result of increasing financing expenses for the new Term Facility.

This assumes that geopolitical tensions, particularly from Russia's war against Ukraine, will not increase further.

Responsibility statement for the financial statements and the management report of HENSOLDT AG

To the best of our knowledge, and in accordance with the applicable reporting principles, the financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Company, and the management report, which is combined with the Group management report, includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal opportunities and risks associated with the expected development of the Company.

Taufkirchen, 13 March 2024

HENSOLDT AG

Management Board

Thomas Müller	Oliver Dörre	Christian Ladurner	Dr. Lars Immisch	Celia Pelaz Perez

Note: This is a translation of the German original. Solely the original text in German language is authoritative.

Independent Auditor’s Report

To HENSOLDT AG, Taufkirchen, District of Munich

Report on the Audit of the Annual Financial Statements and of the Combined Management Report

Opinions

We have audited the annual financial statements of HENSOLDT AG, Taufkirchen, District of Munich, which comprise the balance sheet as at December 31, 2023, and the statement of profit and loss for the financial year from January 1 to December 31, 2023, and notes to the financial statements, including the recognition and measurement policies presented therein. In addition, we have audited the combined management report of HENSOLDT AG for the financial year from January 1 to December 31, 2023.

In accordance with German legal requirements, we have not audited the content of those components of the combined management report specified in the “Other Information” section of our auditor’s report.

The combined management report includes cross-references that are not provided for by law and are marked as unaudited. We have not audited these cross-references in terms of content or the information to which the cross-references refer in accordance with German statutory provisions.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying annual financial statements comply, in all material respects, with the requirements of German commercial law applicable to business corporations and give a true and fair view of the assets, liabilities and financial position of the Company as at December 31, 2023 and of its financial performance for the financial year from January 1 to December 31, 2023 in compliance with German Legally Required Accounting Principles, and
- the accompanying combined management report as a whole provides an appropriate view of the Company’s position. In all material respects, this combined management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of those components of the combined management report specified in the “Other Information” section of the auditor's report.

Pursuant to Section 322 (3) sentence 1 HGB [Handelsgesetzbuch: German Commercial Code], we declare that our audit has not led to any reservations relating to the legal compliance of the annual financial statements and of the combined management report.

Basis for the Opinions

We conducted our audit of the annual financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as “EU Audit Regulation”) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Annual Financial Statements and of the Combined Management Report” section of our auditor’s report. We are independent of the Company in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the annual financial statements and on the combined management report.

Key Audit Matters in the Audit of the Annual Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual financial statements for the financial year from January 1 to December 31, 2023. These matters were addressed in the context of our audit of the annual financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

The recoverability of investments in affiliated companies

Please refer to section „I. Bases and Methods of the Annual Financial Statements” (subsection on accounting and valuation methods) in the notes to the financial statements for further information on the recognition and measurement principles applied.

Further information is provided in section “II. Explanations on the statement of financial position” (subsection “3. Financial assets”) in the notes to the financial statements.

THE FINANCIAL STATEMENT RISK

At December 31, 2023, HENSOLDT AG reports investments in affiliated companies with a carrying amount of EUR 2,670 million within financial assets. This amount relates to the 100 % shareholding in HENSOLDT Holding GmbH, which, in turn, indirectly holds all of the shares of the operating companies of the HENSOLDT Group. The investment accounts for 82.2 % of total assets and therefore has a significant influence on the financial position of the company.

Financial assets are measured at acquisition cost or, in the event of impairment, at their lower fair value.

The Company's assessment of possible impairment, based on a valuation using a discounted cash flow (DCF) methodology is complex and, with regards to the assumptions made, depends materially on estimates and assessments by the company. This applies in particular to estimating future cash flows and growth rates, as well as determining the discount rate.

The cash flows used as part of the DCF method are based on the company's plans for the next three years, which are extrapolated using assumptions about growth rates. The discount rate is derived from the yield of a risk-adequate alternative investment.

The Company did not recognize any impairment losses on the investment in HENSOLDT Hold-ing GmbH in the financial year 2023. There is a risk for the annual financial statements that the investment in HENSOLDT Holding GmbH may not be recoverable at the amount recorded.

OUR AUDIT APPROACH

We assessed the appropriateness of the key assumptions and the valuation method used with the assistance of our own valuation specialists. In this context, we discussed the levels of expected cash flows and assumed growth rates with the persons responsible for forecasting and tested the design of selected controls built into the forecasting process. In addition, we performed reconciliations with the annual budget of HENSOLDT Group, as prepared by the management board and approved by the supervisory board. We also assessed whether the assumptions used were consistent with external market projections.

We also assured ourselves of the quality of the company's forecasting process to date by comparing the financial performance of previous years with actual outcomes and by analyzing variances arising.

We considered the appropriateness of the assumptions and data used to determine the discount rate, in particular the risk-free rate, the market risk premium and the beta factor, by comparing them with our own assumptions and with publicly available data. In order to take account of the prevailing forecasting uncertainties, we also examined the effects of possible changes in future cash flows and the discount rate on the fair value by calculating alternative scenarios and com-paring them with the company's conclusions (sensitivity analysis).

Furthermore, we compared the fair value with a reference value derived from the market capitalization of HENSOLDT AG, taking into account an appropriate control premium.

OUR OBSERVATIONS

The procedures used to assess the possible impairment of the investment in affiliated companies are appropriate and in line with the stated valuation principles. The assumptions and data applied are appropriate.

Other Information

Management and the Supervisory Board are responsible for the other information. The other information comprises the following components of the combined management report, whose content was not audited:

- The separate non-financial group report to which reference is made in the combined management report,
- the combined corporate governance statement of the company and the group included in section VII. of the combined management report, and
- the information extraneous to management reports and marked as unaudited.

Our opinions on the annual financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the above-mentioned other information and, in so doing, to consider whether the other information

- is materially inconsistent with the annual financial statements, with the combined management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Supervisory Board fort he Annual Financial Statements and the Combined Management Report

Management is responsible for the preparation of the annual financial statements that comply, in all material respects, with the requirements of German commercial law applicable to business corporations, and that the annual financial statements give a true and fair view of the as-sets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles. In addition, management is responsible for such internal control as they, in accordance with German Legally Required Accounting Principles, have determined necessary to enable the preparation of annual financial statements that are free from material misstatement, whether due to fraud (i.e., fraudulent financial reporting and misappropriation of assets) or error.

In preparing the annual financial statements, management is responsible for assessing the Company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

Furthermore, management is responsible for the preparation of the combined management re-port that as a whole provides an appropriate view of the Company's position and is, in all mate-rial respects, consistent with the annual financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined 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 combined management report.

The supervisory board is responsible for overseeing the Company's financial reporting process for the preparation of the annual financial statements and of the combined management report.

Auditor's Responsibilities for the Audit of the Annual Financial Statements and of the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the annual financial state-ments as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Company's position and, in all material respects, is consistent with the annual financial state-ments and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the annual financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit con-ducted in accordance with Section 317 HGB and the EU Audit Regulation 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 annual financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the annual financial statements and of arrangements and measures (systems) relevant to the audit of the combined management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems of the Company.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the annual financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in a manner that the annual financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Company in compliance with German Legally Required Accounting Principles.
- Evaluate the consistency of the combined management report with the annual financial statements, its conformity with German law, and the view of the Company's position it provides.
- Perform audit procedures on the prospective information presented by management in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the

assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and oth-er matters that may reasonably be thought to bear on our independence, and where applicable, the actions taken or safeguards applied to eliminate independence threats.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the annual financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Report on the Assurance on the Electronic Rendering of the Annual Financial Statements and the Combined Management Report Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB

We have performed assurance work in accordance with Section 317 (3a) HGB to obtain reason-able assurance about whether the rendering of the annual financial statements and the combined management report (hereinafter the "ESEF documents") contained in the electronic file „HENSOLDT JA-2023-12-31-DE.xhtml“ (SHA256 hash value: 9d7e5fd68d05fd652b97243160ecba3d363ebf018898a873076a656ccd95f2c8) made and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format ("ESEF format"). In accordance with German legal requirements, this assurance work extends only to the conversion of the information contained in the annual financial statements and the combined management report into the ESEF format and therefore relates neither to the information contained within these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the annual financial statements and the combined management report contained in the electronic file made available identified above and prepared for publication purposes complies in all material respects with the requirements of Section 328 (1) HGB for the electronic reporting format. Beyond this assurance opinion and our audit opinion on the accompanying annual financial statements and the accompanying combined management report for the financial year from January 1 to December 31, 2023 contained in the "Report on the Audit of the Annual Financial Statements and of the Combined Management Report" above, we do not express any assurance opinion on the information contained within these renderings or on the other information contained in the file identified above.

We conducted our assurance work on the rendering of the annual financial statements and the combined management report, contained in the file made available and identified above in accordance with Section 317 (3a) HGB and the IDW Assurance Standard: Assurance Work on the Electronic Rendering of Financial Statements and Management Reports Prepared for Publication Purposes in Accordance with Section 317 (3a) HGB (IDW AsS 410 (06.2022)) and the International Standard on Assurance Engagements 3000 (Revised). Our responsibility in accordance therewith is further described below. Our audit firm applies the IDW Standard on Quality Management 1: Requirements for Quality Management in Audit Firms (IDW QMS 1 (09.2022)).

The Company's management is responsible for the preparation of the ESEF documents including the electronic renderings of the annual financial statements and the combined management report in accordance with Section 328 (1) sentence 4 item 1 HGB.

In addition, the Company's management is responsible for such internal control as they have considered necessary to enable the preparation of ESEF documents that are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB for the electronic reporting format.

The supervisory board is responsible for overseeing the process of preparing the ESEF documents as part of the financial reporting process.

Our objective is to obtain reasonable assurance about whether the ESEF documents are free from material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB. We exercise professional judgement and maintain professional scepticism throughout the assurance work. We also:

- Identify and assess the risks of material intentional or unintentional non-compliance with the requirements of Section 328 (1) HGB, design and perform assurance procedures responsive to those risks, and obtain assurance evidence that is sufficient and appropriate to provide a basis for our assurance opinion.
- Obtain an understanding of internal control relevant to the assurance on the ESEF documents in order to design assurance procedures that are appropriate in the circumstances, but not for the purpose of expressing an assurance opinion on the effectiveness of these controls.
- Evaluate the technical validity of the ESEF documents, i.e. whether the file made available, containing the ESEF documents meets the requirements of Commission Delegated Regulation (EU) 2019/815, as amended as at the reporting date, on the technical specification for this electronic file.
- Evaluate whether the ESEF documents provide an XHTML rendering with content equivalent to the audited annual financial statements and the audited combined management report.

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as auditor by the annual general meeting on May 12, 2023. We were engaged by the supervisory board on October 16, 2023. We have been the auditor of the HENSOLDT AG without interruption since the financial year 2019, thereof 4 financial years in which the company continuously met the definition of a public interest entity in accordance with Section 316a sentence 2 HGB.

We declare that the opinions expressed in this auditor’s report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

Other matter – Use of the Auditor’s Report

Our auditor´s report must always be read together with the audited annual financial statements and the audited combined management report as well as the examined ESEF documents. The annual financial statements and the combined management report converted into ESEF format – including the versions to be entered in the company register – are merely electronic renderings of the audited annual financial statements and the audited combined management report and do not take their place. In particular, the ESEF report and our assurance opinion contained therein are to be used solely together with the examined ESEF documents provided in electronic form.

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Felix Schieler.

Munich, March 19, 2024
KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Koeplin	Schieler
Wirtschaftsprüfer	Wirtschaftsprüfer
German Public Auditor	German Public Auditor