Annual Report

2023

HENSOLDT
Detect and Protect.

Thomas Müller
CEO
HENSOLDT AG

Letter to the Shareholders
CEO Thomas Müller on the 2023 financial year

Dear Shareholders and Readers,

Another extraordinary and eventful year lies behind us. Russia's war against Ukraine has been raging for more than two years now, and unfortunately there is still no end in sight. As if that were not enough, global instability is growing appreciably. To name just a few examples: In the past year, we have seen ethnic conflicts flare up in the Caucasus, but also in the Balkans. China is striving to become a superpower in an increasingly multi-polar world and is attempting to expand its influence worldwide beyond the Asian region. Events in the Middle East, sparked by Hamas's aggression against Israel and the subsequent further destabilisation in the Horn of Africa, mean that the fledgling hopes for the success of peace efforts in this region have again receded far into the distance. These are all symptoms of a growing global security crisis with interlinked centres of conflict. The result is a polycrisis that will be very difficult to resolve and, if at all, only in the long term.

Long-term investment in defence and security has become a major priority for many nations and will remain so for a long time to come, as credible deterrence is the key to preventing conflicts. As a consequence, we continue to see strong growth in demand for sophisticated electronic defence and security solutions to counter the diverse and ever-changing threats.

An important insight I draw from all this is that investing in HENSOLDT not only holds out the promise of economic added value through stable and sustainable growth but is also a commitment to security and stability from a political and social perspective.

A busy and successful 2023 for HENSOLDT was accompanied by a raft of special events. Right at the beginning of the year, the German Chancellor Olaf Scholz visited our site in Ulm to gain his own impression of our company's innovative products and key technologies. The Chancellor was able to see for himself how efficient HENSOLDT is and what contribution we make to the Bundeswehr, our partners and Ukraine. This visit by the Chancellor underscores how our industry's importance has increased significantly and confirms my conviction that the Zeitenwende can only be tackled successfully with a trifecta of the right political framework, a well-equipped Bundeswehr and an efficient defence industry.

Shortly before Christmas, we were able to announce the acquisition of ESG Group. This acquisition – the ninth and largest in our company's history – is a perfect fit with our overall strategy and will accelerate HENSOLDT's development as a solution provider for defence and security. The combination of the highly complementary capabilities of HENSOLDT and the ESG Group marks a decisive step towards becoming a leading European provider of seamlessly integrated all-round solutions. Integrating ESG Group's design and systems integration capabilities will bolster HENSOLDT's positioning as a comprehensive solutions provider. In particular, ESG Group will contribute its expertise in intelligent data networks to connect HENSOLDT's sensor systems across domains and integrate them into holistic solutions that generate added value for our customers.

Our promotion to the second-highest German share index, the MDAX, in March 2023 is the result of the share's strong performance in recent months, the record order backlog and the increase in our company's sales. It means we are now one of the 90 largest listed companies in Germany in terms of free float market capitalisation.

And within barely nine months, we were able to celebrate the ground-breaking and topping-out ceremonies for the construction of our new plant in Oberkochen. With the new plant, we are also preparing to ramp up series production in Optronics.

Our business again developed excellently in 2023. We successfully completed the critical design review for the PEGASUS project in autumn, in which the customer not only attested to the compelling performance of our system design, but which also triggered important cash milestones.

We have been awarded an extension to the development contract for the Eurofighter Mk1 radar worth over 100 million euros, which will create a stable foundation for further development and the prerequisites for certification and installation in Germany's Quadriga Eurofighter starting in 2027.

All business areas contributed to the renewed strong order intake of almost 2.1 billion euros last year. The positive effects of the Zeitenwende are also evident here, with a cumulative order volume exceeding 350 million euros for more than 20 of our TRML-4D mid-range air defence radars and orders worth around 250 million euros for optronics and self-protection on the PUMA infantry combat vehicle and the LEOPARD 2 main battle tank. We are also successful internationally, for example with an order for an integrated sensor solution on mine-hunting vessels in Indonesia.

We have won a package of important national defence research and technology studies for the Future Combat Air System (FCAS). The eight projects, mainly under the direction of the HENSOLDT-led FCMS GbR with Diehl, ESG Group and Rohde & Schwarz, cover the areas of mission planning, multi-platform sensor data fusion, electronic warfare and networked armament. At the same time, an accompanying project is being launched to develop an overarching AI backbone for all these projects. This order will give HENSOLDT a significant boost in further positioning itself as a system house and mission system partner to our armed forces.

We very successfully combine our high innovative strength with a robust and crisis-proof business model and again achieved our ambitious targets in the 2023 fiscal year and even exceeded them: With our order intake of 2.087 billion euros, we now have a record order backlog of 5.5 billion euros and a book-to-bill ratio of 1.1x. Revenues increased to over 1.8 billion euros last year. A key driver here was a significant 16 percent increase in core business volume. Adjusted EBITDA increased by 37 million euros to 329 million euros. With a very pleasing adjusted free cash flow before interest and taxes of 249 million euros, we were able to further reduce our net leverage to 0.9x before the capital raise in December 2023. So you see, we keep our word and deliver what we promise!

We continued the process of generational change in our company's top management last year. Tanya Altmann has managed our Optronics Division since the second quarter of 2023 and, at the turn of the year, not only did my designated successor Oliver Dörre start work at HENSOLDT, but also Dietmar Thelen, who now heads our Spectrum Dominance and Airborne Solutions Division.

Oliver Dörre, Tanya Altmann and Dietmar Thelen will contribute a great deal of commitment and inject fresh impetus to enable us to leverage the opportunities that lie ahead and overcome the dynamic challenges we face.

One of those challenges is to ensure a reliable supply of primary products and components, particularly against the backdrop of cross-industry disruptions in supply chains. The fact that roughly 90 percent of our suppliers are based in Germany and Europe mitigates this problem significantly for us. In addition, persistently high energy prices and inflation are influencing the development of our cost base and our products' pricing. We are keeping a close eye on all of these issues and are constantly working to find solutions and measures to further strengthen our company's efficiency.

The global polycrisis I mentioned at the outset has rekindled awareness in many countries – not only in the West – that our freedom and our basic democratic order must be defended. At the same time, there has been a recognition that the abilities needed for that have been neglected in recent decades and must now be restored as quickly and comprehensively as possible. Both have a direct impact on our work. Our customers expect us to deliver larger quantities in a shorter time than we have been used to in recent decades. Finally, there is also a realisation that global partnerships are required in addition to masterful skills. A strong defence industry requires an export policy that is also understood as an effective means of foreign and security policy.

As a result, we are industrialising our development and production processes wherever possible and modularising our products and solutions even more in order to expand capacities and reduce delivery times. In order to further increase our performance, we are increasingly focusing on our core competences, while delegating work packages to partners to ensure that our highly qualified developers can unleash their technical skills to ideal effect. That also includes driving forward our development into a system provider even more intensively and expanding our presence on different platforms.

Our customers not only value our technologies, but also our commitment, reliability and innovative strength. They rely on us to do our part to keep us all safe. Our transformation programmes, in which we are tackling the industrialisation of our production, further improving our engineering excellence and also future-proofing our SAP environment across the Group, contribute to this.

Despite all the challenges and uncertainties, the new situation also offers enormous opportunities: The reassessment of national and alliance defence and the related key technologies are moving in our direction, and international demand for our products and solutions is steadily increasing. Information superiority requires interconnected sensors enhanced by artificial intelligence, control over the electromagnetic spectrum and the protection of one's own forces; we are ideally positioned with our portfolio for all of these tasks which have never been in more demand.

Dealing with sustainability in the areas of environment, society and governance remains a key strategic issue for us. After all, as a technology company in the defence industry, our goal is to enable the sustainable development of societies in peace and freedom – and that also includes our original responsibility for the environmentally friendly use of resources. For young talents, in particular, sustainability has become a key criterion for the attractiveness of an employer. However, a consistent focus on sustainability also pays off economically. That is why we are systematically pursuing our Group-wide ESG strategy in order to further strengthen our already leading position as an ESG benchmark in the defence sector.

Dear Shareholders and Readers, with this letter to you, I wish to bid farewell. I would therefore like to share with you a few thoughts on HENSOLDT's outstanding growth story and the factors behind its success.

What was once a little-noticed business unit at Airbus is now a strongly growing company that is listed on the MDAX and has more than doubled in size since the spin-off. A company that has become lean, efficient and high-performing under the leadership of KKR, a company that reliably and continuously delivers on what it promises.

Many people have asked me in recent weeks about the secret of our success. Success always has many reasons, but if there is one ingredient that makes HENSOLDT very special, it is our employees and our unique and unshakeable team spirit. We are passionate about what we do. We know that we bear a great responsibility when we develop and produce the high-end sensor systems our customers need to accomplish their dangerous missions and protect all of us. And we are fully aware of our responsibility to the capital market, to our shareholders, to you.

When I see where HENSOLDT is today, I am filled with a sense of joy and pride. As a pure-play defence electronics solutions provider, we operate in a very attractive market segment that will undoubtedly continue to grow in the future. Our product portfolio is at the cutting edge of technology and will be even more digitised and AI-enabled in the future. Our business areas complement and support each other and are therefore very resilient to market cycles. With a huge order backlog, excellent visibility and this great team, HENSOLDT is in excellent shape to keep on growing.

On 1 April 2024, I hand over the baton as CEO of HENSOLDT AG to my successor Oliver Dörre, who joined us in January. We have thus achieved a very important milestone for the generational change both in the Management Board and in our Executive Committee, which will enable HENSOLDT to continue its ascent in the future. I am firmly convinced that Oliver Dörre and the team on the Management Board and Executive Committee will lead our company to new heights on its impressive growth trajectory of recent years.

Thank you for your trust in HENSOLDT’s management team, thank you for your commitment to our company and thank you for your support over the past years. It fills me with great gratitude and pride when I say that the best is yet to come for HENSOLDT!

Thank you!

With the warmest regards,

Thomas Müller

Chief Executive Officer
HENSOLDT AG

Reiner Winkler

Chairman of the Supervisory Board

HENSOLDT AG

Letter of the Chairman of the Supervisory Board

Worsening geopolitical tensions in 2023 have been dominating global security policy more than ever. Russia's brutal war of aggression against Ukraine and the terror attacks on Israel are only the tip of the iceberg. The events are a reminder of how important it is to maintain defence capability. Technology from HENSOLDT plays an important role in this context, as both the visit by German Chancellor Olaf Scholz and the company's promotion to the MDAX have clearly demonstrated.

The past year has shown how well positioned HENSOLDT now is in the market. The targets for all the relevant indicators were met once again in fiscal year 2023 and the company continued its growth path. An important strategic step on this journey is the transition from components to solutions provider. With major projects such as PEGASUS and Eurofighter, HENSOLDT is already heading in the right direction. The aim now is to take on the operational challenges and handle the growth successfully. This includes the industrialisation of development and production processes and the modularisation of our products and solutions, which were decisively driven forward by our Chief Strategy Officer Celia Pelaz.

In addition, the reorganisation of the Management Board means that HENSOLDT is perfectly prepared for the coming decade. The process was kicked off by the new Chief Financial Officer, Christian Ladurner, who has moved up the ranks and has therefore long been familiar with the company's processes; he took charge of the finance team in June 2022. The comprehensive rollout of digital processes will pave the way into the future. In the area of human resources, another industry expert, Dr. Lars Immisch, was recruited for HENSOLDT. He will identify expert creative solutions in HR for resolving the skills shortages and introducing new worlds of working.

The selection of the new Chief Executive Officer, Oliver Dörre, is the last piece of the puzzle of a careful succession process and marks the completion of the generational change on the HENSOLDT Management Board, which had commenced in 2022. With his deep understanding of the industry and the customers as well as his experience in electronics in the military business, he contributes exactly those qualities that the company needs for the challenges to come. The changeover comes at the perfect moment for Oliver Dörre to continue HENSOLDT's success story that Thomas Müller had started.

The foundation for the future has been laid not only in the Management Board, but also in the Supervisory Board. Regular reviews, clear working structures and strategic involvement are additional measures that have been taken to ensure that the supervisory body is in an even better position to discharge its duties. The involvement of all stakeholders, open dialog and a clear focus on shared goals are the number one priority in this process.

The coming years will bring major change, not only for HENSOLDT, but for the entire European defence industry, and discussions about a joint strategic European armaments policy will increasingly take centre stage. HENSOLDT is well prepared for these discussions, not least because of its acquisition of ESG Elektroniksystem- und Logistik-GmbH.

None of this would, however, be possible without HENSOLDT's most important asset: its employees. All our employees are passionate about their jobs, the products and technologies and approach their tasks with a high degree of motivation and extreme focus. That is our company's hallmark, and every HENSOLDTian deserves special thanks for making a difference – day in, day out – for a safe tomorrow.

Reiner Winkler

Chairman of the Supervisory Board
HENSOLDT AG

Annual Report Combined Management Report and Consolidated Financial Statements 2023

HENSOLDT Key Figures

in € million	2023	2022
Order intake	**2,087**	**1,993**
Sensors	1,587	1,675
Optronics	510	333
Elimination/Transversal/Others	-9	-15
Order backlog	**5,530**	**5,366**
Sensors	4,693	4,688
Optronics	852	692
Elimination/Transversal/Others	-15	-13
Book-to-Bill	**1.1x**	**1.2x**
Revenue	**1,847**	**1,707**
Sensors	1,546	1,404
Optronics	309	310
Elimination/Transversal/Others	-8	-7
Revenue per region	**1,847**	**1,707**
Europe	1,596	1,452
thereof Germany	*1,030*	*1,016*
Middle East	116	135
APAC	74	82
North America	46	39
Africa	43	22
LATAM	10	6
Other regions/consolidation	-39	-28
Adjusted EBIT	**246**	**224**
Sensors	235	183
Optronics	11	41
Adjusted EBITDA	**329**	**292**
Sensors	306	233
Optronics	24	59
Adjusted pre-tax unlevered free cash flow	**259**	**219**

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HENSOLDT on the Capital Market

The HENSOLDT AG share price rose in the fiscal year 2023 compared to the previous year and reached a new all-time high at € 37.54 in the meantime. At the end of 2023, the share was trading at € 24.40 and thus 10.4 % above the share price at the end of the previous year.

Stock markets and price development of the HENSOLDT share

In the fiscal year 2023, the stock market environment was characterised by the central banks' restrictive monetary policy in response to inflation and ongoing geopolitical tensions. Driven by a gradual decrease in inflation rates, the German stock indices DAX and MDAX started the year 2023 with price gains. The persistently rising key interest rate and associated concerns about weaker global economic development led to a brief decrease in the two indices in March. While the DAX recovered quickly in the following months and rose to a new record high in July, the MDAX moved mainly sideways until autumn. The Hamas attack on Israel and subsequent concerns about an even greater escalation of the Middle East conflict led to sharp price losses in the DAX and MDAX in October. Driven by investors' hopes that interest rate increases in the USA and Europe would end, both indices recorded price gains again from November to the end of the year. The DAX in particular gained strongly and reached a new all-time high of 17,003 points. At the end of the year, the price increase on the DAX was 20.3 %. The MDAX's growth was more moderate at 8.0 %.

As part of the regular review of the index composition, HENSOLDT AG was included in the MDAX by Deutsche Börse with effect from 20 March 2023. The main reason was the increase in market capitalisation based on free float compared to other companies. The HENSOLDT share has also been listed in the TecDAX since 20 June 2022.

The HENSOLDT share started the year 2023 at a price of € 22.30. The first day of trading also marked the price low of the year at € 22.25. In the following months, the HENSOLDT share started a price rally with an increase of over 60 percent and rose to a new all-time high of € 37.54 by mid-April. Starting from this level, the HENSOLDT share price consolidated in the following months and hovered around the € 30 mark by mid-September. As the overall market corrected in the fall, the HENSOLDT share also fell, but after a short time stabilised again at a price level of around € 28. With the ad hoc announcement of a possible capital increase for the acquisition of shares in ESG Elektroniksystem- und Logistik-GmbH (“ESG GmbH” or “ESG-Group” together with the subsidiaries of ESG GmbH), the share price fell again slightly in November. After the capital increase was successfully carried out, the share price subsequently strengthened and closed at the end of the year at € 24.40. This corresponds to a price increase of 10,4 % compared to the closing price of the previous year.

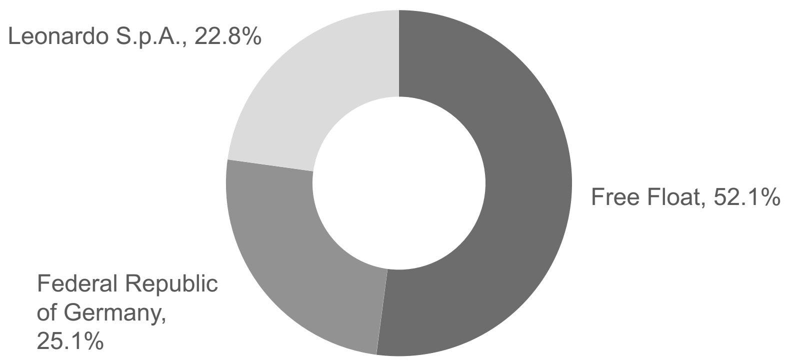
To partially finance the acquisition of the shares of ESG Elektroniksystem- und Logistik GmbH , HENSOLDT AG carried out a capital increase using the existing Authorised Capital, which was recorded in the commercial register on 8 December 2023. The share capital of HENSOLDT AG was increased by 10 % by issuing 10.5 million new bearer shares against cash contributions. The shares were allocated at a placement price of € 22.94 per share, resulting in gross proceeds of around € 241 million. The new shares are entitled to dividends for the current fiscal year beginning 1 January 2023. Trading started on 13 December 2023.

Shareholder structure

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.

Free float was around 52.1 % at the end of the year. The definition of free float refers to the guidelines for the stock indices of Deutsche Börse AG.

Shareholder structure of HENSOLDT AG as of 31 December 2023



Analyst coverage

In the fiscal year 2023, the following well-known national and international banks and local research houses were monitoring and evaluating the HENSOLDT share:

- Agency Partners
- Bank of America Securities
- Citigroup
- Deutsche Bank
- J.P. Morgan
- Kepler Cheuvreux
- Morgan Stanley
- ODDO BHF
- Warburg Research

Due to the participation in the capital increase, the coverage of the following research houses ODDO BHF, Bank of America Securities, Deutsche Bank and Kepler Cheuvreux was temporarily suspended. For Deutsche Bank and Kepler Cheuvreux this applied beyond the year end 2023. Two of the remaining seven analysts issued a “buy” recommendation. Four analysts rated the share a “hold” and one of the analysts as “underweight”. The average target price was € 31.26 per share corresponding to a possible price potential of 28.1 % compared with the year-end price of € 24.40 per share. The analysts considered the further growth prospects in the medium and long term as well as the current development of the security and defence industry to be positive.

HENSOLDT AG publishes an Analyst Consensus Estimate containing the most important key figures. An overview is made available on the website of HENSOLDT at https://investors.hensoldt.net.

Investor Relations – communication with the capital market

HENSOLDT strives to maintain a transparent and continuous dialogue with capital market participants. Therefore, it is an important concern of HENSOLDT to constantly deepen the relationship with investors, analysts and financial journalists through individual meetings, telephone calls, roadshows, conferences as well as company visits (if possible) and to expand the confidence of capital market participants in the Group. In the fiscal year 2023, the Management Board held an analyst and investor call following the publication of the preliminary financial figures for the fiscal year 2022, the results for the first quarter, the first half year and the first nine months for 2023 and presented both the recent strategic developments of the Group, the current business performance and the growth prospects to the capital market participants.

The management of HENSOLDT organised a Capital Markets Day on 22 November 2023. During this event, HENSOLDT presented a comprehensive insight into the strategic orientation and medium-term planning and gave participants the opportunity to have personal discussions with HENSOLDT management.

General meeting

The third ordinary general meeting of HENSOLDT AG was held on 12 May 2023. The meeting was held in person. All questions from the shareholders present were answered by the Management Board of HENSOLDT AG . The shareholders approved all agenda items with large majorities. Marco R. Fuchs (CEO of OHB SE) was elected to the Supervisory Board. Following the general meeting, the Supervisory Board elected Reiner Winkler as the new chairman of the Supervisory board. He succeeded the previous chairman Johannes P. Huth, who resigned from his mandate at the end of the general meeting on 12 May 2023. The shareholders also followed the proposal of the Supervisory Board and Management Board to pay a dividend of € 0.30 per share. All voting results are made available on the website of HENSOLDT at https://investors.hensoldt.net.

Basic information and key data on the HENSOLDT share in 2023

ISIN:	DE000HAG0005
WKN:	HAG000
Symbol:	HAG
Stock exchange listing:	Frankfurt Stock Exchange
Stock exchange segment:	Regulated market (Prime Standard)
Index membership:	Since June 2022 member of the TecDAX share index; since March 2023 member of the MDAX share index
Designated Sponsor:	Oddo BHF
Number of shares:	115,500,000
Share type:	Bearer shares without par value (no par value share)
Highest share price in Xetra-trading in €:	37.54 (17 April 2023)
Lowest share price in Xetra-trading in €:	22.25 (2 January 2023)
Closing share price in Xetra-trading (29 December 2023) in €:	24.40
Market capitalisation (29 December 2023) in €:	2,818 billion
Free float (31 December 2023):	52.1 %

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.

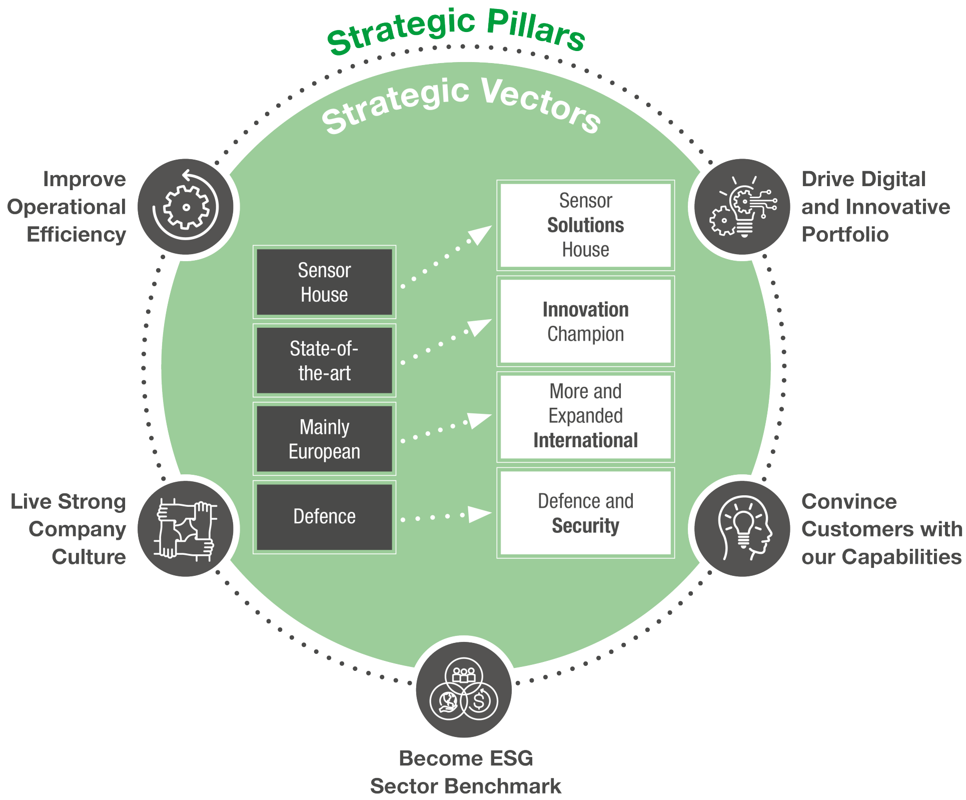
Services & Aerospace Solutions

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]

in € million	31 Dec. 2023	31 Dec. 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

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

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.

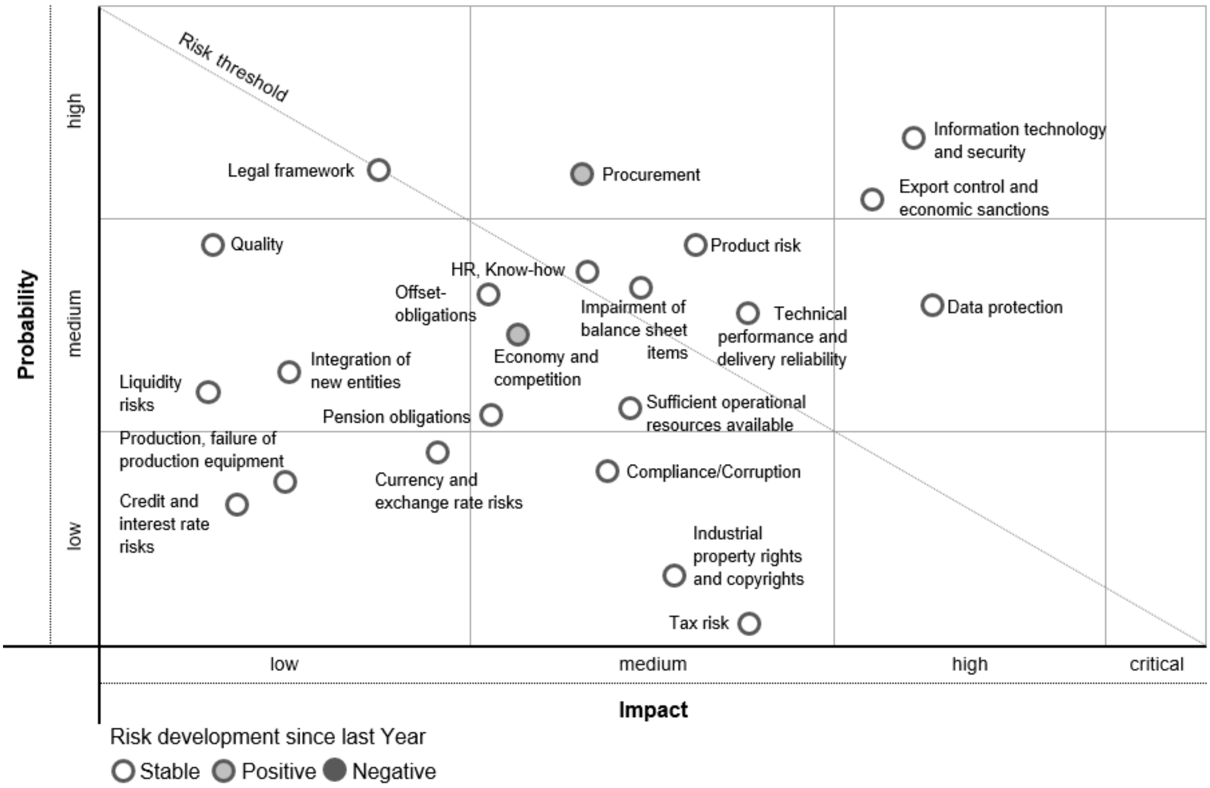
[15] Health, Safety, Environment

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	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

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.

IFRS Consolidated Financial Statements 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.

Furthermore the English report is not provided in the European Single Electronic Format (ESEF). The legally required rendering in ESEF-format is filed in German language with the operator of the German Federal Gazette and published in the German Federal Gazette.

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 “-”.

CONTENT

CONSOLIDATED INCOME STATEMENT

		Fiscal year	
in € million	Note	2023	2022
Revenue	10	1,847	1,707
Cost of sales	10	-1,431	-1,314
Gross profit		**416**	**393**
Selling and distribution expenses		-111	-107
General administrative expenses		-118	-92
Research and development costs	11	-30	-36
Other operating income	12	22	21
Other operating expenses	12	-21	-21
Other result from investments	8.2	5	8
Earnings before finance result and income taxes (EBIT)		**162**	**166**
Interest income	13	18	9
Interest expense	13	-82	-44
Other finance income / costs	13	-7	-1
Finance result		**-72**	**-37**
Earnings before income taxes (EBT)		**91**	**130**
Income taxes	14	-35	-49
Group result		**56**	**80**
thereof attributable to the owners of HENSOLDT AG		*54*	*78*
thereof attributable to non-controlling interests		*2*	*2*
Earnings per share			
Basic and diluted earnings per share (EUR)	15	0.51	0.75

The below disclosures in these Notes form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Fiscal year	
in € million	Note	2023	2022
Group result		**56**	**80**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Measurement of post-employment benefit plans / plan assets	32	-60	206
Tax on items that will not be reclassified to profit or loss	14	17	-58
Subtotal		**-44**	**147**
Items that will be reclassified to profit or loss			
Difference from currency translation of financial statements		-9	0
Subtotal		**-9**	**0**
Other comprehensive income net of tax		**-52**	**147**
Total comprehensive income in the fiscal year		**3**	**227**
thereof attributable to the owners of HENSOLDT AG		*3*	*226*
thereof attributable to non-controlling interest		*0*	*2*

The below disclosures in these Notes form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS		31 Dec.	31 Dec.
in € million	Note	2023	2022
Non-current assets		**1,405**	**1,335**
Goodwill	16	658	658
Intangible assets	16	380	384
Property, plant and equipment	17	140	121
Right-of-use assets	27	189	140
Other investments and other non-current financial assets	18	25	22
Non-current other financial assets	25	1	1
Other non-current assets	26	3	2
Deferred tax assets	14	9	6
Current assets		**2,155**	**1,644**
Other non-current financial assets, due on short-notice	18	0	0
Inventories	19	625	516
Contract assets	10	196	182
Trade receivables	20	382	323
Other current financial assets	25	19	20
Other current assets	26	116	133
Income tax receivables	14	15	10
Cash and cash equivalents	35.1	802	460
Total assets		**3,560**	**2,979**

The below disclosures in these Notes form an integral part of these Consolidated Financial Statements.

EQUITY AND LIABILITIES		31 Dec.	31 Dec.
in € million	Note	2023	2022
Share capital	33.1	116	105
Capital reserve		613	472
Other reserves		32	82
Retained earnings		48	-55
Equity held by shareholders of HENSOLDT AG		**808**	**604**
Non-controlling interests		16	13
Equity, total	**33**	**824**	**616**
Non-current liabilities		**1,266**	**1,160**
Non-current provisions	22	357	282
Non-current financing liabilities	35.2	621	619
Non-current contract liabilities	10	–	11
Non-current lease liabilities	27	191	140
Other non-current financial liabilities	25	10	3
Other non-current liabilities	26	14	11
Deferred tax liabilities	14	74	94
Current liabilities		**1,470**	**1,203**
Current provisions	22	211	181
Current financing liabilities	35.2	23	12
Current contract liabilities	10	578	488
Current lease liabilities	27	20	18
Trade payables	21	457	379
Other current financial liabilities	25	7	4
Other current liabilities	26	136	101
Tax liabilities	14	39	19
Total equity and liabilities		**3,560**	**2,979**

The below disclosures in these Notes form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

		Fiscal year	
in € million	Note	2023	2022
Group result		**56**	**80**
Depreciation, amortisation and impairments of non-current assets	16/17/27	120	103
Impairments (+) / reversals of impairments (-) of inventories, trade receivables and contract assets		17	2
Profit / loss from disposals of non-current assets		-1	0
Financial expenses (net)		41	27
Other non-cash expense / income		14	1
Change in			
Provisions		45	-22
Inventories		-128	-75
Contract balances		65	-25
Trade receivables		-66	-13
Trade payables		78	110
Other assets and liabilities		52	42
Interest paid		-44	-26
Interest received		9	1
Income tax expense (+) / income (-)		35	49
Income tax payments (-) / refunds (+)		-27	-11
Cash flows from operating activities		**267**	**244**
Acquisition / addition of intangible assets and property, plant and equipment	16/17	-115	-95
Proceeds from sale of intangible assets and property, plant and equipment	16/17	1	0
Acquisition of associates, other investments and other non-current financial assets	18	-9	-5
Proceeds from disposals of associates, other investments and non-current financial assets		1	-0
Acquisition of subsidiaries net of cash acquired		-1	-1
Other		-0	0
Cash flows from investing activities		**-122**	**-101**

		Fiscal year	
in € million	Note	2023	2022
Repayment from financing liabilities to banks	35.3	–	-150
Change in other financing liabilities	35.3	10	-19
Payment of lease liabilities	35.3	-19	-19
Dividend payments	35.3	-32	-26
Dividends on non-controlling interests	35.3	-0	-0
Issue of shares	33.1	241	–
Transaction costs paid on issue of equity	35.3	-3	–
Other		–	0
Cash flows from financing activities		**197**	**-214**
Effects of changes in exchange rates on cash and cash equivalents		0	2
Net changes in cash and cash equivalents		**342**	**-69**
Cash and cash equivalents			
Cash and cash equivalents on 1 January		**460**	**529**
Cash and cash equivalents on 31 December		**802**	**460**

The below disclosures in these Notes form an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in € million	Attributable to the owners of the HENSOLDT AG			Other reserves				
	Share capital	Capital reserve	Retained earnings	Remea-surement of pensions	Currency translation	Subtotal	Non-controlling interests	Total
As of 1 January 2022	**105**	**537**	**-171**	**-51**	**-14**	**406**	**11**	**417**
Group Result	–	–	78	–	–	**78**	2	**80**
Other comprehensive income	–	–	–	147	0	**148**	-0	**147**
Total comprehensive income	**–**	**–**	**78**	**147**	**0**	**226**	**2**	**227**
Transactions with non-controlling interests and acquisitions through business combinations	–	–	–	–	–	**–**	-0	**-0**
Employee share programme	–	3	–	–	–	**3**	–	**3**
Settlement of employee share programme	–	-3	–	–	–	**-3**	–	**-3**
Release Capital reserve	–	-65	65	–	–	**–**	–	**–**
Dividend payments	–	–	-26	–	–	**-26**	–	**-26**
Dividends on non-controlling interests	–	–	–	–	–	**–**	-0	**-0**
Other	–	0	-1	–	–	**-1**	–	**-1**
As of 31 December 2022	**105**	**472**	**-55**	**96**	**-14**	**604**	**13**	**616**
Group Result	–	–	54	–	–	**54**	2	**56**
Other comprehensive income	–	–	–	-44	-7	**-51**	-2	**-52**
Total comprehensive income	**–**	**–**	**54**	**-44**	**-7**	**3**	**0**	**3**
Capital increase	11	230	–	–	–	**241**	–	**241**
Transaction costs	–	-4	–	–	–	**-4**	–	**-4**
Release Capital reserve	–	-85	85	–	–	**–**	–	**–**
Dividend payments	–	–	-32	–	–	**-32**	–	**-32**
Dividends on non-controlling interests	–	–	–	–	–	**–**	-0	**-0**
Other	–	–	-4	–	–	**-4**	3	**-1**
As of 31 December 2023	**116**	**613**	**48**	**52**	**-21**	**808**	**16**	**824**

The below disclosures in these Notes form an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

I Basis of presentation

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1 The Company

These IFRS Consolidated Financial Statements comprise HENSOLDT AG (the "Company") with its registered office at Willy-Messerschmitt-Str. 3, 82024. Taufkirchen, Germany, registered at the Munich District Court under HRB 258711, and its subsidiaries (the "Group", "HENSOLDT" or "HENSOLDT Group").

The fiscal year coincides with the calendar year.

HENSOLDT Group is a multinational corporation active in the defence and security electronics market with its headquarters based in Germany. The range of products and services includes the development, manufacturing, operation and distribution of electro-technical systems, optronic devices and software solutions for military and non-military use.

2 Significant accounting policies

2.1 Basis of preparation

These Consolidated Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRSs) and related interpretations of the International Accounting Standards Board (IASB) as adopted by the European Union (EU) and, as a supplement, in accordance with the requirements of section 315e (1) of the German Commercial Code ("HGB").

Changes in important accounting policies are described in note 4.

These Consolidated Financial Statements were prepared by the Management Board on 13 March 2024 and passed on to the Supervisory Board for approval.

The Consolidated Financial Statements are presented in Euro ("€"), which is the Group's functional currency. 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 "-".

These Consolidated Financial Statements were prepared based on the assumption of the Group's continuation as a going concern.

Unless otherwise stated, the Consolidated Financial Statements have been prepared on a historical cost basis. The Group's significant accounting policies are set out below.

2.2 Basis of consolidation

Business combinations

The Group accounts for business combinations using the acquisition method if the acquired group of activities and assets meets the definition of a business and control is transferred to the Group. The consideration transferred for the acquisition and the identifiable assets acquired are generally recognised at fair value. In determining whether a particular group of activities and assets is a business, HENSOLDT assesses whether the group of acquired assets and activities includes at a minimum, an input of resources and substantive process and whether the acquired group is capable of generating output. Any gain on a bargain purchase is recognised directly in the consolidated income statement. Transaction costs are expensed as incurred unless they are related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the consolidated income statement.

Any contingent considerations are measured at fair value on the date when control is obtained. If the contingent consideration is classified as equity, it is not remeasured and any settlement is recognised in equity. Otherwise, other contingent considerations are measured at fair value on the reporting date and subsequent changes in the fair value of the contingent considerations are recognised in the consolidated statement of comprehensive income.

Subsidiaries

Subsidiaries are companies controlled by the Group. The Group controls a company when it is exposed to or has rights to variable returns from its involvement with the company and has the ability to affect those returns through its power over the company. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases.

Non-controlling interests

Non-controlling interests are valued at the date of acquisition at the relevant share in the acquired company's identifiable net assets.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Consolidation of intra-group transactions

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains on transactions with equity-accounted investees are derecognised against the investment according to the Group's share in the investment. Unrealised losses are eliminated in the same way as unrealised gains, but only if there are no indications of impairment.

2.3 Revenue from contracts with customers

Revenue recognition

The Group recognises revenue if the control over distinct goods and services transfers to the customer, i.e. when the customer is able to determine the use of the transferred goods or services and to primarily obtain the remaining benefits therefrom. Precondition in this respect is that a contract with enforceable rights and obligations is in place and, inter alia, recovery of the consideration – taking account of the credit rating of the customer – is probable.

Revenue equals the transaction price to which the HENSOLDT Group expects to be entitled to under the relevant contract. Variable considerations such as e.g. price escalations, contractual penalties, revisions following price audits are reflected in the transaction price if it is highly probable that such variable consideration may be achieved or when the uncertainty associated with such variable consideration no longer exists. The amount of the variable consideration is determined either according to the expected value method or using the most likely amount, depending on which method better predicts the variable consideration.

If a contract comprises several distinct goods or services, the transaction price is allocated to the performance obligation based on the relative stand-alone selling price. If stand-alone selling prices are not directly observable, HENSOLDT estimates these in an appropriate amount. If no observable prices exist, particularly as the goods and services offered by HENSOLDT are highly complex and individual, the stand-alone selling price of each separate performance obligation is estimated based on the expected costs plus a margin. This procedure is also regularly utilised in the pricing process during contract negotiations.

When the Group transfers control of goods produced or services rendered to the customer over a certain period of time, revenue is recognised over time, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits provided by the Group (e.g. maintenance contracts, training services); or

- The Group’s services create or enhance an asset and the customer gains control over the asset as the asset is created or enhanced; or

- It produces an asset with no alternative use for the company and the company has an enforceable right to payment (including a reasonable margin) for the work completed to date.

For each performance obligation to be satisfied over time pursuant to IFRS 15, the HENSOLDT Group recognises revenue over such period of time by determining the progress towards complete satisfaction of that performance obligation. The HENSOLDT Group applies one single method to determine the progress for each performance obligation to be satisfied over time, with the selected method being consistently applied to similar performance obligations and similar circumstances. The measurement of progress towards complete satisfaction of a performance obligation is based either on inputs or outputs. When progress is measured by inputs, the cost-to-cost method is used as it best reflects the measure of progress towards the satisfaction of the performance obligation, according to the HENSOLDT Group. If costs are incurred that do not contribute to the progress of the service provision, such as e.g. unplanned scrapping costs, or if the costs incurred are disproportionate to the progress due to unexpected additional costs, these costs are excluded from the calculation of the degree of progress or, alternatively, the originally budgeted costs are revised.

If none of the above-mentioned criteria for recognising revenue over time are met, revenue is recognised at a point in time, i.e. the point in time when HENSOLDT has transferred control of the asset to the customer. Generally, this is the point in time of the delivery of the goods or upon acceptance of the goods or services by the customer.

Performance obligations

The following break-down sets forth the significant performance obligations from contracts with customers and elaborates on the nature and timing of the satisfaction of the performance obligations, including significant payment terms, and the related revenue recognition policies.

Standardised products and systems with limited customer-specific adjustments

When manufacturing and installing standardised products and systems or delivering spare parts, customer-specific adjustments are only made to a limited extent. Customers obtain control of standardised products when the goods have been delivered and accepted at their premises. Invoices are generated at that point in time. Invoices are generally payable within 30 and 60 days. Depending on the contractual terms and conditions, revenue is recognised either once the goods are delivered or once the goods or services are accepted by the customers at their premises.

Customised development, manufacturing and delivery of products and systems

Generally, HENSOLDT does not have an alternative use for products and systems for which the development or manufacturing is highly customised. If a contract is terminated by the customer, HENSOLDT is generally entitled to reimbursement of the costs incurred up to that point, including an appropriate margin. Invoices are issued in accordance with the contractual terms and are generally payable between 30 and 60 days. Revenue and associated costs are recognised over time. Progress is determined based on the cost-to-cost method. Amounts not invoiced are presented as contract assets, and payments received in advance are presented as contract liabilities.

Service and support

HENSOLDT Group provides maintenance and training services. The customer simultaneously receives and consumes the benefits provided by HENSOLDT's performance as HENSOLDT provides the services. Invoices are issued in accordance with the contractual terms and are generally payable between 30 and 60 days. Revenue and associated costs are mainly recognised over time. Progress is determined based on the cost-to-cost method. Amounts not invoiced are presented as contract assets, and payments received in advance are presented as contract liabilities.

Variable considerations

All of the above-mentioned performance obligations of HENSOLDT may include variable consideration components. The following variable consideration components can be in place for HENSOLDT: price adjustments from escalations, price audits and contractual penalties. For contracts with variable consideration components, revenue is recognised to the extent that it is highly probable that a significant cancellation of the amount of cumulatively recognised revenue will not be required. Accordingly, positive variable consideration components (e.g. price escalations) are recognised as an increase of the transaction price if there is an estimated probability of at least 80.0 % that they will be realised. Conversely, negative variable consideration components (e.g. contractual penalties or price audit reimbursements) are recognised as a reduction of the transaction price if they occur with an estimated probability of 20.0 % or more.

Contract assets, contract liabilities and trade receivables

If one of the contract parties has met its contractual obligations, depending on whether or not the HENSOLDT Group has performed its contractual obligations or the customer has paid the agreed consideration at the same time, a contract asset, contract liabilities or a receivable is recognised.

If HENSOLDT satisfies its contractual obligations by transferring goods and services to a customer but before the customer pays a consideration or is required to pay pursuant to the contractual terms, the Group recognises a contract asset to the amount of the satisfied performance less any amounts recognised as receivable.

A receivable is recognised for a consideration that is unconditional due from the customer (i.e., only the passage of time is required before payment of the consideration is due).

A contract liability is recognised if a payment is received or a payment is due – whichever is earlier – from a customer before HENSOLDT Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group fulfils its performance obligation under the contract (i.e., transfers control of the related goods or services to the customer).

2.4 Intangible assets and goodwill

Intangible assets

Intangible assets with limited useful lives are generally amortised on a straight-line basis over their respective expected useful lives to their estimated residual values. In general, the expected useful life for patents, licenses and similar rights is between 3 to 5 years, with the exception of intangible assets with finite useful lives acquired in business combinations. These consist in particular of order backlogs and customer relationships as well as technologies. The useful lives of these intangible assets, in certain transactions, ranged from 2 to 11 years for order backlogs and between 8 to 10 years for customer relationships, as well as from 3 to 12 years for technologies. Brands with indefinite useful lives are not amortised but tested for impairment annually. The Group intends to operate on the market under the name "HENSOLDT" for an unlimited amount of time. There is no indication of a limited useful life or the period for which a time limit of the brand could be granted. Amortisation of intangible assets is recognised as a part of cost of sales.

Goodwill

Goodwill arising from business combinations is measured at cost less accumulated impairment losses. Goodwill is tested for impairment annually or if an objective indication of impairment exists. For the purpose of impairment testing, goodwill acquired in a business combination is, starting from the acquisition date, allocated to the Group's cash generating units (CGUs) that are expected to benefit from the combination. This applies irrespective of whether other assets or liabilities of the entity acquired are assigned to these CGUs.

Research and development

Research costs are recognised in the consolidated income statement as incurred.

Development costs are capitalised if they can be reliably estimated, the product or process is technically and commercially feasible, future benefit is probable and the Group intends and has sufficient resources to be able to complete development and use or sell the asset.

Development activities are usually carried out in a phased approach. In this phased approach, the Group generally assumes that the criteria for recognition under IAS 38 are satisfied if the Preliminary Design Review (PDR: for established technologies) or Critical Design Review (CDR: for new technologies) was successfully completed.

Other development expenditure is recognised in the consolidated income statement as research and development costs as soon as it is incurred. Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses. HENSOLDT reviews capitalised development for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In addition, intangible assets not yet available for use are subject to an annual impairment test. Impairment testing of other intangible assets involves the use of estimates in determining the assets' recoverable amount which can have a material impact on the respective values and ultimately the amount of any impairment. Capitalised development expenditure is generally amortised on a straight-line-basis over the estimated useful life (between 5 and 7 years) of the internally generated intangible asset. Amortisation and impairment losses of the capitalised development expenditure is recognised under cost of sales.

2.5 Property, plant and equipment

Property, plant and equipment are measured at cost of acquisition or production (refer to note 2.6), less accumulated depreciation and impairment losses. Property, plant and equipment are depreciated on a straight-line basis. The following useful lives have been assumed:

Buildings	8 to 33 years
Fixtures	4 to 20 years
Technical equipment and machinery	2 to 21 years
Other equipment, operating and office equipment	1 to 18 years

2.6 Inventories

Inventories are measured at the lower of cost (generally the average cost) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs to sell.

Cost of production include all costs directly attributable to the manufacturing process, such as cost of materials, wage and production-related overheads (based on normal operating capacity and normal use of materials, labour and other cost of production) including write-downs. If any inventory risks exist, e.g. due to reduced usability after longer storage periods or due to lower replacement costs, appropriate write-downs are recognised. Write-downs on inventories are recognised when it is probable that projected contract costs will exceed total contract revenue.

2.7 Leases

In substance, the Group only engages in lease activities as a lessee. The Group leases various assets including property, technical equipment, IT equipment and vehicles.

At inception of a contract, the Group assesses whether a contract is or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At commencement or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its stand-alone price. This policy applies to lease contracts concerning buildings. Due to materiality, the Group has elected not to separate non-lease components for all other classes of lease contracts.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost. Such comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate. The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease. Country-specific interest rates are used in South Africa.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or an interest rate, initially measured using the index or interest rate prevailing as of the commencement date;
- Lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in the consolidated income statement if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets and lease liabilities as a separate line item in the statement of financial position.

Short-term leases and leases of low-value assets

The Group does not recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets up to € 5.000 (e.g. office equipment). The Group recognises the lease payments associated with these leases as an expense in the consolidated income statement on a straight-line basis over the lease term.

2.8 Employee benefits

Short-term employee benefits

Obligations under short-term employee benefits are recognised as an expense once the employee rendered the corresponding service. If the Group has a legal or constructive obligation to make a payment, it recognises a liability for the expected amount to be paid, when and only when a liable estimate of the obligation can be made.

Defined contribution plans

Obligations for contributions to defined contribution plans are recognised as an expense as soon as the related services are provided.

Defined benefit plans

The Group's net obligation for defined benefit plans is calculated separately for each plan by estimating the future benefits that employees have earned in the current and in previous periods. This amount is discounted and reduced by the estimated fair value of any plan assets.

The defined benefit obligations are calculated annually by a certified actuary using the projected unit credit method. If the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Remeasurements of the net defined benefit liability are recognised directly in other comprehensive income. Remeasurements comprise actuarial gains and losses from the determination of the present value of the obligation and the change in value from the fair value measurement of the plan assets. The Group determines the net interest expense (income) on the net defined benefit liability (plan asset) for the reporting year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual reporting year. This discount rate is applied to the net defined benefit liability (asset) on that date. Any changes to the net defined benefit liability (asset) due to payment of contributions or benefits during the reporting year are taken into account. Net interest and other expenses relating to defined benefit plans are recognised in the consolidated income statement.

If a plan amendment or curtailment occurs, any past service cost resulting from a plan amendment or gain or loss on curtailment is recognised directly in the consolidated income statement.

Other long-term employee benefits

The Group's net obligations for other long-term employee benefit obligations is the amount of future benefits that employees have earned in return for their services in the current and in previous periods. This benefit is discounted to determine their present value. Remeasurements are recognised in the consolidated income statement in the period in which they occur.

Share-based payment

The Company currently has a Long-Term Incentive bonus (Long-Term Incentive, “LTI bonus” or “LTI”) and an employee share programme.

The virtual long-term incentive programme is accounted for as a cash-settled share-based payment transaction according to IFRS 2. The fair value of the services received from employees is measured at the fair value of the granted cash settlement and is recognised as an expense in the consolidated income statement and as a provision. The fair value of the share-based payment is recognised as an expense on a pro-rata basis over the vesting period. The value of the provision to be accounted is remeasured on each subsequent reporting date. Any changes to its fair value are recognised in the consolidated income statement.

2.9 Other provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is presented as finance cost.

Provision for onerous contracts

The Group recognises provisions for onerous contracts if it is probable that total contract costs will exceed the total contract revenue. The costs for fulfilling a contract comprise the costs that relate directly to the contract. They comprise both

- the additional cost caused by performing the contract – such as direct wage costs and cost of materials; and
- other costs directly attributable to the performance of the contract – such as e.g. the pro-rata depreciation of property, plant or equipment used for performing the contract.

The provision is measured at the lower amount of expected costs for terminating the contract and the expected net costs from performing the contract. Before a provision for onerous contracts is recognised, the associated inventories are written down.

Onerous contracts are identified by monitoring the progress of the contract and the underlying project and by updating the estimate of contract costs, which involves significant and complex assumptions, assessments and estimates in connection with obtaining a certain performance standard and estimates relating to other costs (refer to note 3, note 10 and note 22).

Warranties

A provision for warranties is recognised as soon as the underlying products or services were sold or rendered and a contractual or constructive obligation exists to repair damage to sold products within a certain period at the Group's expense. A warranty case can only occur after the performance obligation has been satisfied. To this extent, such costs have no influence on the measurement of progress in the fulfilment of the performance obligation. The provision is based on the individual assessment of expected future costs. The provision is recognised on a pro-rata basis according to certain criteria such as the number of delivered products or project progression.

If the warranty is classified as a separate service, a separate performance obligation is identified for the warranty.

2.10 Financial instruments

Recognition and initial measurement

The Group recognises trade receivables from the date that they arise. All other financial assets and liabilities are recognised for the first time on the trading day when the entity becomes a party according to the contractual provisions of the instrument.

A financial asset (except for a trade receivable without financing component) or a financial liability is initially measured at fair value on initial recognition plus or minus, for an item not measured at fair value through profit or loss (FVtPL), transaction costs that are directly attributable to its acquisition or issue. Trade receivables without a significant financing component are initially measured at their transaction price.

Classification and subsequent measurement

Financial assets

For initial recognition, financial assets are classified and measured based on the business model (under which the assets are held) and the characteristics of their cash flows.

Financial assets are not reclassified after initial recognition unless the Group changes its business model to manage financial assets.

The Group classifies its financial assets into the following measurement categories:

- "measured at amortised cost" (AC);

- "at fair value through profit or loss" (FVtPL); and
- "at fair value through other comprehensive income" (FVtOCI).

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

- The financial asset is held within a business model whose objective is to hold the financial asset to collect the contractual cash flows ("held to collect"), and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is designated at FVtOCI if both of the following conditions are met and it was not designated at FVtPL:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("held to collect and sale"); and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Trade receivables are generally allocated to the "held to collect" business model and measured at amortised cost, i.e. in subsequent periods receivables are recognised net of principal repayments, instalments and impairment losses, plus any reversals of impairment losses. Receivables that are meant to be sold to a factoring party, are held in a business model "held to collect and sale". These receivables are measured at fair value. At initial recognition of an equity instrument that is not held for trading, the Group can irrevocably elect to present subsequent value changes of the investment in other comprehensive income. This option is generally exercised within the group. All financial assets that are not measured at amortised cost or at FVtOCI are measured at FVtPL. This includes, in particular, all derivative financial assets (refer to note 36).

At initial recognition the Group can irrevocably elect to designate financial assets, which meet the conditions for measurements at amortised cost or at FVtOCI, at FVtPL if measurement and recognition inconsistencies ("accounting mismatch") that arise are being eliminated or significantly reduced.

Financial assets at FVtPL are subsequently measured at fair value. Net gains and losses, including any interest and dividend income, are recognised in the consolidated income statement.

Financial assets at amortised cost are measured at amortised cost using the effective interest method. Amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses as well as impairment losses are recognised in the consolidated income statement, likewise. Similarly, gains or losses from derecognition are also recognised in the consolidated income statement. For detailed information on the impairment requirements applicable to financial assets refer to note 2.14.

Certain equity investments, especially immaterial other investments or interests in joint ventures or associates that are not consolidated using the at-equity method due to materiality, are measured at amortised cost.

Debt instruments at FVtOCI are subsequently measured at their fair value. Interest income, which is calculated using the effective interest method, foreign exchange gains and losses as well as impairment losses are recognised in the consolidated income statement. Other net gains or losses are recognised in other comprehensive income. For derecognition, the accumulated other comprehensive income is reclassified to consolidated income statement.

Equity investments at FVtOCI are subsequently measured at their fair value. Dividends are recognised as income in the consolidated income statement unless the dividends clearly represent cover of a part of costs of the investment. Other net gains or losses are recognised in other comprehensive income and are never reclassified to the consolidated income statement.

Financial liabilities

Financial liabilities are classified and measured at amortised cost (FLAC) or at at fair value through profit or loss (FVtPL). A financial liability is classified at FVtPL if it is classified as "held for trading", is a derivative or is designated as such on initial recognition.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expenses and foreign currency translation differences as well as gains or losses arising from derecognition are recognised in the consolidated income statement.

Derecognition

The Group derecognises a financial asset when the contractual rights to receive the cash flows of an asset expire or it transfers the rights to receive the cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Derecognition also occurs when the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group sells a part of the trade accounts receivable on a case-by-case basis, applying multiple criteria, to external factoring companies. In this process, the HENSOLDT Group determines whether any and all risks and rewards of ownership of the financial asset are fully transferred. Subsequently, the financial asset is derecognised and the Group assesses whether a continuing involvement exists and if so, a separate item must be recognised.

Financial liabilities are derecognised when the contractual obligations are discharged, cancelled or expire. The Group also derecognises a financial liability if its contractual terms are changed and the cash flows of the adjusted liability differ significantly. In this case a new financial liability based on the adjusted terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount of the settled liability and the consideration paid (including transferred non-cash assets or assumed liabilities) is recognised in the consolidated income statement.

Netting

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

Derivative financial instruments

The Group carries out some of its transactions in foreign currency, such as e.g. customer or supplier contracts. HENSOLDT enters into foreign currency forward and foreign currency swap transactions and commits to purchases and sales in corresponding foreign currencies to limit the risks to income and costs from currency fluctuations.

Derivatives are measured at fair value on initial recognition; attributable transaction costs are recognised in the consolidated income statement when incurred. Subsequent to initial recognition, derivatives are measured at fair value through profit or loss (FVtPL), and changes therein are generally recognised in the consolidated income statement.

Embedded derivatives, if subject to separation, are separated from the host contract and accounted for separately if the host contract is not a financial asset and certain criteria are met.

2.11 Income taxes

Income taxes comprise current income taxes and deferred taxes.

Current income tax asset/liability

The current tax asset or liability comprises the expected tax receivable or payable on the taxable income or loss for the year and any adjustment to the tax receivable or payable in respect of previous years. The amount of current tax receivable or payable is the best estimate of the tax amount expected to be received or paid that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted on the balance sheet date. Current tax also includes any tax arising from the assessment of dividends.

Current tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities and the current taxes relate to the same taxable entity and the same tax authority.

Deferred taxes

Applying the liability method of IAS 12 Income taxes, deferred taxes are calculated on the basis of temporary differences between the tax and financial reporting valuation approaches including differences from consolidation, loss and interest carryforwards as well as tax credits. The calculation uses the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The amount is calculated on the basis of the tax rates and tax laws applicable as of the reporting date or will be applicable in the near future.

Deferred tax liabilities are recognised for all taxable temporary differences, with the exception of

- deferred tax liabilities from the initial recognition of goodwill; or
- deferred tax liabilities of an asset or liability from a transaction which is not a business combination and at the date of the transaction affects neither the income (loss) for the period nor taxable profit (taxable loss); or
- deferred tax liabilities from all taxable temporary differences associated with investments in subsidiaries, associates, interests in joint ventures, where HENSOLDT is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer likely that sufficient taxable earnings will be available against which the deferred tax asset could be offset. Deferred tax assets that are not recognised are reviewed at each reporting date and recognised to the extent to which it has become likely that future taxable earnings will permit the realisation of the deferred tax asset. Each uncertain tax treatment is considered individually or together as a group, depending on which approach better predicted the resolution of the uncertainty. The Group uses either the most likely amount or the expected value method to measure such uncertainty. The decision is based on which method better predicts the resolution of the uncertainty.

Deferred taxes relating to items recognised directly in equity are also posted directly in equity. Deferred taxes are recognised either in other comprehensive income or directly in equity, depending on the underlying business transaction involved.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current taxes assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The global minimum taxation under BEPS Pillar 2 (Base Erosion and Profit Shifting - Pillar 2) aims to address tax challenges as the global economy digitises. Germany and other countries in which HENSOLDT operates have implemented these regulations into national legislation in 2023. It is unclear whether these regulations create additional temporary differences, whether a revaluation of deferred taxes is required under these regulations, and which tax rate should be used for the valuation of deferred taxes. Given these uncertainties, IAS 12 introduced a mandatory temporary exemption from the requirements of IAS 12. Under this mandatory exemption, no deferred tax assets or liabilities relating to global minimum taxes are required to be recognised or disclosed under BEPS Pillar 2. The Group applied this temporary exception as of 31 December 2023.

2.12 Foreign currency

Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate on the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rates at the date of the transaction. Foreign currency differences are generally recognised in the consolidated income statement of the period.

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

- An investment in equity securities designated at FVtOCI (except on impairment, in which case foreign currency differences that have been recognised in OCI are reclassified to the consolidated income statement);
- A financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; and
- Qualifying cash flow-hedges to the extent that the hedges are effective.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition are translated into € at the exchange rates prevailing on the reporting date. Income and expenses of foreign operations are translated at yearly average exchange rates. Foreign currency differences are recognised in OCI and presented in the translation reserve, except to the extent that the translation difference is allocated to non-controlling interests.

2.13 Statement of cash flows

Under the indirect determination of the cash flows from operating activities, the changes in items in the statement of financial position related to operating activities are adjusted by currency translation effects and by changes in the scope of consolidation. For this reason, they cannot be directly reconciled with the relevant changes on the basis of the published consolidated statement of financial position.

2.14 Impairment

Non-derivative financial assets

The Group recognises allowances for expected credit losses (ECL) for:

- financial assets measured at amortised cost;
- contract assets.

HENSOLDT measures its impairment allowances on trade receivables and contract assets using the simplified approach. In accordance with the simplified approach, HENSOLDT measures the loss allowance at an amount equal to lifetime expected credit losses. Consequently, no review is required as to whether a significant increase in credit risk occurred requiring a transfer from Level 1 to Level 2.

For all other financial assets within the scope of IFRS 9 impairment requirements, no allowance for impairment losses is recognised for reasons of materiality. This assumption is reviewed on a regular basis.

To assess whether the credit risk of a financial asset since initial recognition has significantly increased and for the assessment of expected credit losses, the Group considers reasonable and supportable information which is relevant and available without undue cost or effort. This covers both quantitative and qualitative information and analysis, which is based on past experience of the Group and in-depth assessments, inclusive of forward-looking information. If there are objective indications of impairment, interest income must also be recognised on the basis of the net carrying amount (carrying amount less allowance for losses on loans and advances) (Level 3).

Presentation of impairment for expected credit losses in the statement of financial position

Impairment losses on financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Financial assets with impaired creditworthiness

At each reporting date, the Group assesses whether financial assets measured at amortised cost are credit-impaired. A financial asset is credit-impaired if one or more events occur which have adverse effects on the expected future cash flows of the financial asset.

Indicators that a financial asset is credit-impaired include the following observable data:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past-due situation of more than 90 days; or
- it is probable that the borrower will become insolvent or enter into other bankruptcy proceedings.

Impairment

The gross carrying amount of a financial asset is impaired when according to an appropriate assessment the Group has no reasonable expectations that the financial asset can be realised in full or in part. The Group does not necessarily assume that there is a significant increase in credit risk even if the overdue amount is more than 30 days due to the (end) customer structure.

Non-financial assets

At the end of each reporting year, the Group assesses whether there is an indication of impairment of a non-financial asset or a CGU to which the asset belongs (e.g. changes in the legal framework, introduction of new technology, etc.). In addition, intangible assets with indefinite useful lives, intangible assets not yet available for use as well as goodwill are tested for impairment in the fourth quarter of each fiscal year, regardless of whether there are any indications of impairment. For impairment testing, goodwill is allocated to a CGU or group of CGUs in order to reflect the manner in which goodwill is monitored for internal management purposes.

To determine if an impairment has occurred, assets are combined into the smallest group of assets that generate cash inflows from continuing use and are largely independent from the cash inflows of other assets or CGUs. Goodwill acquired from a business combination is allocated to the CGUs or group of CGUs which are expected to benefit from the synergies of the combination. This applies irrespective of whether other assets or liabilities of the entity acquired are assigned to these CGUs.

Impairment exists when the carrying amount of an asset or CGU exceeds its recoverable amount. The recoverable amount of an asset or CGU is the higher of its value in use and its fair value less costs of disposal.

To assess the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the present market assessment of the time value of money and the specific risks relating to an asset or a CGU.

The calculation of fair value less costs of disposal is based on available data from binding sale transactions for similar assets or observable market prices less directly attributable costs of disposal the asset. If insufficient information is available to determine the fair value less costs of disposal of an asset or CGU, the value in use of the asset or CGU is used instead.

Impairment losses are recognised in the consolidated income statement. Impairment losses recognised on CGUs are initially allocated to any goodwill allocated to the CGU, and subsequently to the carrying amounts of the other assets of the CGU or group of CGUs on a pro rata basis.

An impairment loss on goodwill cannot be reversed. Impairment losses on other assets can only be reversed to the extent that the carrying amount of the asset does not exceed the carrying amount that, less depreciation or amortisation, would have been determined if no impairment had been recognised.

2.15 Fair value measurement

A number of the Group's accounting policies and disclosures require the measurement of fair values for both financial and non-financial assets and liabilities.

The fair value is the price at which an asset would be sold or a liability transferred under current market conditions on the measurement date in an orderly transaction on the primary market. If such a market is not available, the most advantageous market to which the Group has access at this point in time is used. The fair value of a liability reflects the non-performance risk.

The Group uses the following hierarchy to determine and present fair value of the financial instruments for each valuation method:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: methods by which input parameters that substantially impact the fair value determination are not based on observable market data

If an asset or liability measured at fair value has a bid or ask price, then the Group measures assets or long positions at the bid price and liabilities and short positions at the ask price.

The best indication of the fair value at initial recognition of a financial instrument is generally the transaction price, i.e. the fair value of the consideration paid or received. If the Group determines that at initial recognition the fair value is different to the transaction price and the fair value is evidenced neither (i) by a quoted price in an active market for an identical asset or liability nor (ii) based on a measurement technique for which all unobservable inputs can be considered insignificant in relation to the measurement, then this financial instrument is initially measured at fair value. This amount is adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, this difference is recognised in the consolidated income statement on an appropriate basis over the life of the instrument, however no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The significant, non-observable input factors and the measurement adjustments are regularly reviewed at the balance sheet date. If information from third parties, such as price quotations from brokers or price information services, is used to determine the fair values, the evidence obtained from third parties is examined to determine whether such measurements fulfil the requirements of IFRS, including the classification in the fair value hierarchy.

The Group uses the following methods to determine the fair value:

Equity instruments

The fair value of unlisted equity instruments cannot be reliably determined without considerable additional efforts, as the area of reasonable approximation of the fair value is decisive and the probabilities of the various estimates within the area cannot be appropriately assessed. With due consideration of materiality, these instruments are measured at cost and their carrying amounts are used in the place of fair value.

Assets from customer financing and other loans

The carrying amounts shown in the financial statements are used as rough estimates of the fair value.

Trade receivables, contract assets and other receivables

The carrying amounts shown in the financial statements are used as reasonable approximation of the fair value due to the relatively short period between the receivable arising and it falling due or the Group expects to realise them during its normal business cycle.

Cash and cash equivalents

These comprise cash on hand and cash including short-term deposits at banks. The carrying amounts shown in the financial statements are used as reasonable approximation of the fair value due to the relatively short period between the instrument arising and its term or maturity.

Plan assets

Other assets include shares in limited partnerships (HENSOLDT Real Estate GmbH & Co. KG, Taufkirchen, and HENSOLDT Real Estate Oberkochen GmbH & Co. KG, Taufkirchen) that are considered plan assets according to IAS 19. The limited partnerships essentially hold real estate assets, which are evaluated based on current market parameters. The fair value of the real estate assets represents a material part of the net assets of the limited partnerships.

Pooled investment instruments include shares of investment funds, for which market prices are available.

Derivatives

The fair values of derivative instruments are, where available, based on quoted market prices but in most cases are determined using accepted measurement methods such as option pricing models and discounted cash flow models. Measurement is based on observable market data such as exchange rates, rates for foreign currency forward transactions, interest rates and yield curves.

The fair values of derivatives are measured on the basis of input parameters from level 2.

The fair value for interest rate swaps is determined by using the quoted forward rate as of the reporting date and net present value calculations based on yield curves with high credit ratings in the relevant currencies.

The fair value of interest rate swaps is calculated as the present value of estimated future cash flows. Estimates of future cash flows from variable interest payments are based on quoted rates for interest rate futures, future prices and interbank interest rates. The estimated cash flows are discounted using a yield curve that was constructed from similar sources and reflects the relevant comparable interbank interest rate used by market participants for pricing the interest rate futures. The fair value estimate is adjusted for the credit risk which reflects the credit risk of the Group and the contracting party. This is calculated using credit spreads derived from credit default swap and bond prices.

Financing liabilities

The fair values recognised for financing liabilities, which are not issued bond or debt securities, are determined on the basis of input parameters from level 2 in which planned or expected cash flows are discounted with corresponding market interest rates. The fair value of the written put option granted to minority shareholders is based on a discounted cash flow model using a 3-year business plan.

Trade accounts payables, contract liabilities and other current financial liabilities

The carrying amounts of trade accounts payable, contract liabilities and other current financial liabilities are seen as reasonable approximations of the fair value due to the relatively short period between the instrument arising and its maturity or since it is expected that such will be settled within the normal business cycle.

3 Key estimates and judgements

The preparation of the Group's Consolidated Financial Statements requires the management to make judgements, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities, as well as the related disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Estimates, judgements and underlying assumptions are reviewed on an ongoing basis. Changes of estimates are recognised prospectively.

3.1 Revenue recognition over time

Revenue from the rendering of performance obligations over a certain period of time is usually recognised using the percentage-of-completion method (cost-to-cost method). Under this method, exact estimates of contract results at the stage of completion and level of progress are necessary. To determine the progress of the contract the key estimates include total contract costs, the remaining costs until completion, the overall contract revenue and the contract risks.

Management regularly reviews all estimates used for these contracts and adjusts them as required (for more information please refer to note 2.3).

3.2 Capitalisation of development cost

When capitalising development cost, the Group makes estimates regarding the development cost as well as estimates as to whether the product or the process is technically and commercially viable.

3.3 Assets acquired and liabilities assumed as well as goodwill

Measurement of the fair value of assets acquired and liabilities assumed in the course of business combinations, which form the basis of the measurement of goodwill, requires significant estimates. Land, buildings and machinery are usually measured independently while marketable securities are measured at market prices. If intangible assets are identified, based on the type of intangible asset and the complexity of determining its fair value, the Group consults either an independent external valuation expert or develops the fair value internally using suitable valuation techniques that are based in general on the forecast of total expected future net cash flows.

These measurements are closely related to management's assumptions regarding the future development of related assets and the discount rate to be applied.

3.4 Impairment testing

Please refer to note 2.14 and note 16.2 for further information on the significant estimates and judgments in regard to impairment testing.

3.5 Provisions

The measurement of provisions, e.g. for onerous contracts, warranties and arbitration or court proceedings, is based on best available estimates. Onerous contracts are determined by monitoring the progress of projects and updating estimates of contract costs or contract income, which also requires judgment in relation to reaching certain performance standards and estimates e.g. of warranties. The extent of the assumptions, assessments and estimates in these monitoring processes depends on the size and type of the Group's contracts and the associated projects.

3.6 Employee benefits

The Group recognises pension and other retirement benefits in accordance with actuarial valuations. These valuations are based on statistical and other factors for anticipating future events. The assumptions can deviate significantly from actual developments due to changing market and economic conditions, such as, in particular due to the current interest rate and inflation developments, and thus lead to a significant change in employee benefits obligations and the related future costs (refer to note 32).

In addition to uncertainties arising from the assumptions of employees' future behaviour when exercising the pay-out option, the Group is exposed to other actuarial uncertainties relating to defined benefits obligations, including the following:

Market price risk

The market values of plan assets are subject to fluctuations which can impact the net defined benefit obligation.

Interest rate risk

The value of the defined benefit obligation and the plan assets is significantly affected by the discount rate used. In general, the defined benefit obligation is sensitive to movements in interest rates which leads to volatile results of the valuation.

Inflation risk

Defined benefit obligations can be sensitive to movements in the inflation rate, whereby a higher inflation rate could lead to an increase in the obligation. As some pension plans are directly tied to salary, salary growth can lead to an increase in pension obligations.

Longevity risk

Pension obligations are sensitive to the life expectancy of their beneficiaries. Increased life expectancy leads to an increase in the valuation of the pension obligation.

The weighted average assumptions for the most important pension plans in Germany used to calculate the actuarial value of the obligation as of December 31 are as follows:

	Pension plans in Germany	
	31 Dec.	31 Dec.
Assumptions in %	2023	2022
Discount rate	3.6 %	4.2 %
Wage increase rate (until age 35)	3.0 %	3.0 %
Wage increase rate (from age 36)	2.0 %	2.0 %
Pension increase rate	2.0 %	2.0 %

For Germany, the Group derives the discount rate used to determine defined benefits obligations from the yields for high quality corporate bonds. The discount rate for the estimated term of the respective pension plan is then extrapolated along the yield curve.

The salary growth rates are based on long-term expectations of the respective employer that are derived from the inflation rate assumed. For the years 2024, 2025 and 2026, a wage increase rate for employees aged 36 and over was applied on a staggered basis of 3.0 %, 3.0 % and 2.0 %. From 2027 onwards, a linear wage increase rate of 2.0 % has been included in the calculation. Payments for pension growth rates are derived from the respective inflation rate for the plan. An adjustment guarantee of 2.0 % p.a. is assured for the most important pension plans in Germany for the pension increase rate. In addition, higher pension increase rates were used as a basis for the valuation for the next three years as follows: 2024: 4.0 %, 2025: 3.0 %, 2026: 2.0 %.

Moreover, an assumption is made as to what extent the employees choose a one-off payment, instalment payment or pension when the benefit falls due.

The calculation of pension obligations is based on the current 2018 G biometric reference tables provided by Heubeck.

3.7 Contingent legal liabilities

Group companies can be parties to legal disputes in a variety of ways (refer to note 23). The outcome of these issues can have a material impact on the Group’s financial position, operating profit and cash flows. Management regularly analyses current information on these issues and recognises provisions in the amount of likely cash outflows, including estimated legal costs. In deciding on the need for provisions, management takes into account the degree of probability of an unfavourable outcome and the possibility of reliably estimating the amount of damage. Filing an action or formally exercising damage claims against group companies or the announcement of such an action or exercising of damage claims does not automatically mean that a provision is appropriate.

3.8 Income tax

In terms of income taxes, material estimates and assessments arise in respect of deferred tax assets. The assessment of whether deferred tax assets are recoverable depends on the management’s estimate of the utilisation of the deferred tax assets. This is dependent on the availability of future taxable profits in the periods when the tax measurement differences are reversed and the tax loss carryforwards can be utilised. On the basis of individual company planning and taking into account tax adjustment effects, the Group assumes that the benefits of deferred tax assets can be realised within the next four years on the basis of sufficient, future taxable income. The factors for the origination of loss carry-forwards were mainly one-off transformation-related effects, as well as IPO-related legal restructuring and refinancing costs.

3.9 Lease term

Determining the lease term of a contract with renewal and termination options – Group as lessee

HENSOLDT Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

HENSOLDT Group has several lease contracts that include extension and termination options and applies discretionary decisions in evaluating whether it is reasonably certain whether or not to exercise the option to extend or terminate the lease. HENSOLDT considers all relevant factors that create economic incentives to exercise either the renewal or termination. After the commencement date, HENSOLDT Group reassesses the lease if there is a significant event or change in circumstances that are within its control and affect its ability to exercise or not to exercise the option to renew or to terminate.

HENSOLDT includes the extension period as part of the lease term for certain property leases when HENSOLDT is reasonably certain it will exercise the option. Furthermore, the periods covered by termination options are included as part of the lease term only when they are reasonably certain not to be exercised.

Please refer to note 27 for information on potential future lease payments relating to periods following the commencement date of an extension and termination option that are not included in the lease term.

3.10 Determination of fair values

Several accounting policies (inter alia IFRS 3) and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. When measuring the fair value of an asset or a liability, HENSOLDT Group uses observable market data as far as possible. Using unobservable market parameters, key estimates and assessments need to be determined. HENSOLDT Group regularly reviews significant unobservable inputs and valuation adjustments. Please refer to note 2.15.

4 Changes in significant accounting policies

Standard and changes	Date of effectiveness from IASB for the annual reporting period beginning on or after	EU Endorsement status	Material impact on the consolidated financial statements
IFRS 17 Insurance Contracts including Amendments to IFRS 17	1 January 2023	Confirmed	No
Amendments to IAS 1 and IFRS Practice Statement: Disclosure of accounting policies	1 January 2023	Confirmed	No
Amendments to IAS 8: Definition of accounting estimates	1 January 2023	Confirmed	No
Amendments to IAS 12: Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023	Confirmed	No
Amendments to IAS 12: International Tax Reform - Pillar Two Model Rules	1 January 2023	Confirmed	No
Amendments to IFRS 17: Initial Application of IFRS 17 and IFRS 9 - Comparative Information	1 January 2023	Confirmed	No

5 Standards issued but not yet effective

A range of new or revised standards, changes and improvements to standards and interpretations are not yet applicable to the fiscal year ending 31 December 2023, and were not applied when preparing these Consolidated Financial Statements. Premature application is not intended. Amendments to standards not separately listed are not expected to have an impact on the Group.

Standard and changes	Date of effectiveness from IASB for the annual reporting period beginning on or after	EU Endorsement status	Expected material impact on the consolidated financial statements
Amendments to IAS 1: Classification of Liabilities as current or non-current; Non-current Liabilities with Covenants	1 January 2024	Confirmed	No
Amendments to IAS 7 and IFRS 7: Supplier Finance Arrangements	1 January 2024	Not yet confirmed	No
Amendments to IFRS 16: Lease liability in a Sale and Leaseback	1 January 2024	Confirmed	No
Amendments to IAS 21: Lack of Exchangeability	1 January 2025	Not yet confirmed	No

II Group structure

6 Consolidated group

The shareholdings as of 31 December 2023, are listed in the following table:

Company	Registered Office	Share of capital	Consolidation method
HENSOLDT AG	Taufkirchen / Germany	–	PC
HENSOLDT Holding GmbH	Taufkirchen / Germany	<100.0 %[1]	FC
HENSOLDT Holding Germany GmbH	Taufkirchen / Germany	<100.0 %[1]	FC
HENSOLDT Sensors GmbH	Taufkirchen / Germany	<100.0 %[1]	FC
HENSOLDT Optronics GmbH	Oberkochen / Germany	<100.0 %[1]	FC
GEW Integrated Systems (Pty) Ltd.	Brummeria / South Africa	100.0 %	FC
GEW Technologies (Pty) Ltd.	Brummeria / South Africa	93.3 %	FC
HENSOLDT South Africa (Pty) Ltd.	Irene / South Africa	70.0 %	FC
HENSOLDT Australia Pty Ltd.	Fyshwick / Australia	100.0 %	FC
HENSOLDT Cyber GmbH	Taufkirchen / Germany	90.6 %	FC
HENSOLDT Avionics Holding GmbH	Pforzheim / Germany	100.0 %	FC
HENSOLDT Avionics GmbH	Pforzheim / Germany	100.0 %	FC
EuroAvionics UK Ltd.	Slinfold / United Kingdom	100.0 %	FC
EuroAvionics Schweiz AG [2]	Sissach / Switzerland	100.0 %	FC
HENSOLDT Avionics US HoldCo. Inc.	Sarasota / USA	100.0 %	FC
HENSOLDT Avionics USA LLC	Sarasota / USA	100.0 %	FC
HENSOLDT UK Limited	Enfield / United Kingdom	100.0 %	FC
KH Finance No. 2 Limited	Enfield / United Kingdom	100.0 %	FC
KH Finance Limited	Enfield / United Kingdom	100.0 %	FC
Kelvin Hughes Limited	Enfield / United Kingdom	100.0 %	FC
Kelvin Hughes BV	Rotterdam / The Netherlands	100.0 %	FC
A/S Kelvin Hughes	Ballerup / Denmark	100.0 %	FC
HENSOLDT Singapore Pte. Ltd.	Singapore / Singapore	100.0 %	FC
HENSOLDT Holding France S.A.S.	Paris / France	100.0 %	FC
HENSOLDT France S.A.S.	Paris / France	100.0 %	FC
Kite Holding France S.A.S.	Paris / France	100.0 %	FC
HENSOLDT Nexeya France S.A.S.	Toulouse / France	100.0 %	FC
HENSOLDT Space Consulting S.A.S.	Toulouse / France	100.0 %	FC
Midi Ingénierie S.A.S.	Toulouse / France	85.0 %	FC
Nexeya Canada Inc.	Markham / Canada	100.0 %	FC

PC = parent company; FC = fully consolidated affiliated company
[1] Participation by the Federal Republic of Germany with one share with a nominal value of € 1
[2] in liquidation

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. The group companies prepare their financial statements as of the same reporting date for which the Group prepares its Consolidated Financial Statements. 30 entities, including the parent company (previous year: 30) were fully consolidated.

The 21 (previous year: 21) companies listed below were not consolidated due to materiality.

Company	Registered Office	Equity in € million	Profit/ loss in € million	Share of capital	Consoli-dation method
Atlas Optronics LLC	Abu Dhabi / UAE	n/a	n/a	49.0 %	AC
EURO-ART Advanced Radar Technology GmbH [3]	Munich / Germany	0.2	-0.0	25.0 %	AC
EURO-ART International EWIV [4]	Munich / Germany	9.1	–	50.0 %	AC
EUROMIDS S.A.S. [4]	Paris / France	4.1	0.5	25.0 %	AC
LnZ Optronics Co. Ltd. [4]	Seoul / South Korea	1.4	-0.0	50.0 %	AC
PMTL-Peinture Composite S.A.S. [2]	L'Isle-Jourdain / France	0.1	0.0	49.8 %	AC
J.A.M.E.S. GmbH [4]	Taufkirchen / Germany	1.7	-1.1	50.0 %	JV
Société Commune Algérienne de Fabrication de Systèmes Electroniques SPA [4]	Sidi Bel Abbès / Algeria	29.8	3.4	49.0 %	JV
Deutsche Elektronik Gesellschaft für Algerien mbH [4]	Ulm / Deutschland	10.5	-0.7	66.7 %	JV
Antycip Iberia SL [1]	Barcelona / Spain	0.0	0.0	100.0 %	NC
HENSOLDT Analytics GmbH [1]	Vienna / Austria	-2.4	-1.0	100.0 %	NC
HENSOLDT do Brasil Segurança e Defesa Electrónica e Optica Ltda [4]	São Paulo/ Brazil	-0.2	-0.1	99.9 %	NC
HENSOLDT Private Ltd. [5]	Bangalore / India	0.6	0.2	100.0 %	NC
MaHyTec S.A.S. [4]	Dole / France	0.5	-0.0	100.0 %	NC
Nexeya USA Inc. [2]	Beaufort / USA	0.0	–	100.0 %	NC
HENSOLDT Nexeya Belgium SRL	Mouscron / Belgium	n/a	n/a	100.0 %	NC
Kelvin Hughes LLC [4]	Bethesda / USA	-0.1	-0.1	100.0 %	NC
HENSOLDT Middle East Limited Company	Riad / KSA	n/a	n/a	100.0 %	NC
HENSOLDT Theon NightVision GmbH	Wetzlar / Germany	n/a	n/a	100.0 %	NC
HENSOLDT Switzerland GmbH	Bern / Switzerland	n/a	n/a	100.0 %	NC
21strategies GmbH [4]	Hallbergmoos / Germany	-0.0	-0.2	11.4 %	OP

NC: Non-consolidated affiliated company valued at cost
AC: Associated company valued at cost
JV: Joint venture pursuant to IFRS 11 valued at cost
OP: Other participation valued at cost
n/a: No financial data available
[1] Equity and result 31/12/2021
[2] Equity and result 30/06/2022
[3] Equity and result 30/09/2022
[4] Equity and result 31/12/2022
[5] Equity and result 31/03/2023

7 Acquisitions

7.1 Company acquisitions and other changes during the fiscal year

ESG Elektroniksystem- und Logistik GmbH

On 5 December 2023, HENSOLDT entered into a definitive binding agreement to acquire 100 % of the shares in the ESG Elektroniksystem- und Logistik GmbH ("ESG GmbH" or "ESG Group" together with the subsidiaries of ESG GmbH).

ESG Group is a manufacturer-independent systems integrator and technology and innovation partner for defence and public safety. HENSOLDT expects annual cost and revenue synergies arising from cross-selling and joint positioning in the market based on this acquisition.

The acquisition is expected to close around the end of the first quarter of 2024, subject to certain conditions.

8 Transactions with related parties

8.1 Related persons and entities

In accordance with IAS 24, transactions with individuals or entities that control or are controlled by the HENSOLDT Group must be disclosed unless they have already been included as consolidated entities in the Consolidated Financial Statements. In addition, there is an obligation to disclose transactions with associates and persons who have significant influence over the operating and financial policies of the HENSOLDT Group as well as with entities that are controlled by them. Significant influence in this context can be based on a shareholding in HENSOLDT AG of 20.0 % or more or a key management position.

Key management personnel

The key management personnel of the HENSOLDT Group are the Management Board and the Supervisory Board of HENSOLDT AG, who are therefore considered as related persons of HENSOLDT AG.

Members of the Management Board

- Thomas Müller, CEO
- Oliver Dörre, member of the Management Board (since 1 January 2024)
- Christian Ladurner, CFO
- Dr. Lars Immisch, CHRO
- Celia Pelaz Perez, CStO

Members of the Supervisory Board

- Johannes P. Huth, Chairman of the Supervisory Board (until 12 May 2023), Partner at KKR Square Aggregator L.P., Canada (KKR) and Head of KKR in EMEA
- Reiner Winkler, Chairman of the Supervisory Board (since 12 May 2023, before ordinary member), CEO of MTU Aero Engines AG (until December 2022), Independent Consultant
- Armin Maier-Junker, Vice Chairman of the Supervisory Board, Chairman of the Works Council of HENSOLDT Sensors GmbH and Chairman of the Group Works Council
- Dr. Jürgen Bestle, Head of Engineering Governance of HENSOLDT AG and Head of Design Organisation of HENSOLDT Sensors GmbH
- Jürgen Bühl, Head of Sector Policy Coordination in the Executive Board of IG Metall

- Letizia Colucci, General Manager at the Med-Or Leonardo-Foundation
- Marco R. Fuchs (since 12 May 2023), Chairman of the Management Board of OHB SE
- Achim Gruber, Chairman of the Works Council of HENSOLDT Optronics GmbH in Oberkochen
- Ingrid Jägering, Member of the Management Board, CFO of Stihl AG
- Marion Koch, 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), Senior Vice President M&A & Corporate Development of Leonardo S.p.A.
- Giovanni Soccodato (until 31 October 2023), Executive Group Director Sales & Business Development MBDA and Managing Director at MBDA Italia
- Julia Wahl, Press Officer at IG Metall Baden-Württemberg
- Hiltrud D. Werner, Management Consultant

Related entities

The share purchase agreement concluded in fiscal year 2021 to purchase 25.1 % of the shares in HENSOLDT AG by the Italian aerospace and defence group Leonardo S.p.a., Italy, (“Leonardo”) was executed on 3 January 2022 after the fulfilment of the conditions precedent. After carrying out the capital increase which was entered in the commercial register on 8 December 2023 and in which Leonardo did not participate, the shareholding is 22.8 %. That makes Leonardo and the companies controlled by Leonardo related parties of HENSOLDT AG with significant influence. HENSOLDT and Leonardo as well as the companies controlled by Leonardo have various business relationships and collaborate in a series of programmes. Leonardo and the companies controlled by Leonardo are, on the one hand, customers of HENSOLDT who purchase or use products and services of HENSOLDT. HENSOLDT is, on the other hand, in a business relationship with Leonardo and the companies controlled by Leonardo.

On 26 May 2021, the Federal Republic of Germany (“Bund”) indirectly acquired shares in HENSOLDT AG for the first time via the Kreditanstalt für Wiederaufbau (KfW), a public law institution controlled by the Federal Republic. As part of the capital increase on 8 December 2023, the federal government acquired further shares in HENSOLDT AG in order to continue to correspond to 25.1 % of the shares in HENSOLDT AG. Therefore, the Federal Government is considered one of HENSOLDT AG’s related parties with significant influence. HENSOLDT Group maintains diverse relationships with the Federal Government and with other companies controlled by the latter. The Federal Government, related government agencies and offices as well as other companies controlled by the Federal Government are, each independent from each other, customers of HENSOLDT and purchase and use many of HENSOLDT’s products and services.

A member of the Supervisory Board, Marco R. Fuchs, indirectly holds the majority of shares in OHB SE (including its subsidiaries ("OHB Group”)). The companies of the OHB Group are therefore related companies to HENSOLDT AG. The OHB Group purchases or uses products and services from HENSOLDT.

Additional related parties are HENSOLDT Pension Trust e.V. (including its subsidiaries) as pension fund of HENSOLDT Sensors GmbH and HENSOLDT Optronics GmbH as well as the non-consolidated subsidiaries, associated and joint venture companies of the Group.

HENSOLDT AG prepares the Consolidated Financial Statements for the smallest and largest group of companies.

8.2 Related party transactions with entities

In the course of its operating activities, the HENSOLDT Group exchanges goods and services with numerous related entities.

	Fiscal year	
in € million	2023	2022
Revenue		
Entities with significant influence	608	688
Joint ventures	22	15
Associated companies	17	24
Non-consolidated companies	50	31
Other income and cost reimbursements		
Entities with significant influence	0	1
Joint ventures	0	0
Associated companies	4	8
Non-consolidated companies	1	0
Other related parties	13	14

	Fiscal year	
in € million	2023	2022
Purchases of goods and services and other expenses		
Entities with significant influence	67	61
Joint ventures	0	0
Associated companies	3	3
Non-consolidated companies	3	3
Other related parties	17	16

	31 Dec.	31 Dec.
in € million	2023	2022
Receivables		
Entities with significant influence	59	87
Joint ventures	64	54
Associated companies	12	10
Non-consolidated companies	12	13
Other related parties	0	0
Liabilities		
Entities with significant influence	11	6
Joint ventures	5	4
Associated companies	8	6
Non-consolidated companies	26	5
Other related parties	2	3

In the reporting year, the Group received a share of profits amounting to € 4 million from an associated company (previous year: € 8 million), which was recognised in other income from investments.

Goods and services received from other related parties include expenses related to rents for buildings of € 17 million (previous year: € 16 million).

The receivables from and liabilities to related parties in the fiscal year 2023 essentially relate to trade receivables and trade payables.

As shown in note 8.1, the federal government acquired further shares in HENSOLDT AG indirectly via KfW as part of the capital increase carried out on 8 December 2023.

For further information regarding the financing of pension plans of the Group which are considered related parties, refer to note 33.

8.3 Related party transactions with persons

Remuneration of the Management Board

The members of the Management Board received salaries and other short-term benefits (including bonuses) totalling € 3.2 million for the fiscal year (previous year: € 4.0 million). Expenses associated with share-based remunerations recognised in the consolidated income statement during the reporting year amounted to € 1.3 million (previous year: € 1.4 million). Past-service cost of € 0.1 million (previous year: € 0.2 million) arose as benefits after the employment for pension obligations of active members of the Management Board. Former Management Board members received total compensations of € 0.1 million from short-term remuneration for the fiscal year 2022, in the previous year this totalled € 4.9 million in connection with the termination of the employment relationship. The total expenses recognised for the members of the Management Board in the reporting year (according to IAS 24.17) were thus a total of € 4.8 million (previous year: € 10.6 million).

The committed present value of the pension commitments to former members of the Management Board and their surviving dependants amounted to € 2.8 million (previous year: € 2.6 million).

The total remuneration of the Management Board pursuant to Section 314 (1) No. 6a, sentence 1 to 3 HGB amounted to € 4.6 million in the fiscal year 2023 (previous year: € 6.6 million). This figure includes the fair value at grant for share-based compensation of € 1.4 million (previous year: € 2.6 million) 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 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 pursuant to Section 314 (1) No. 6b HGB amounting to € 0.1 million (previous year: € 4.9 million). HENSOLDT AG has made pension provisions of € 3.4 million (previous year: € 3.3 million) for pension commitments to former members of the Management Board and their surviving dependents according to HGB.

Remuneration of the Supervisory Board

The compensation of the members of the Supervisory Board comprised a general compensation and an additional remuneration for committee activities amounting in total to € 0.7 million (previous year: € 0.7 million).

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

III Group performance

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9 Operating segments

9.1 Segmentation

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.

9.2 Segment information

The operating segments of the HENSOLDT Group are internally steered and controlled by the means of its most important financial KPIs, revenue, order intake, book-to-bill ratio and adjusted EBITDA. In addition, with the order backlog HENSOLDT uses another key operating figure as performance indicator and with the adjusted EBIT as well as with the adjusted pre-tax free cash flow two further non-GAAP performance indicators as alternative performance indicators.

The following table shows the KPIs that the Management Board uses to evaluate the performance of each operating segment as well as additional information.

The Elimination/Transversal/Others items comprises predominantly special items[1] of non-operational group entities as well as consolidation measures. Transactions between the Sensors and Optronics segments are only of minor importance.

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

in € million	Sensors	Optronics	Elimination/ Transversal/ Others	Fiscal year 2023 Group
Order intake	1,587	510	-9	**2,087**
Order backlog	4,693	852	-15	**5,530**
Book-to-bill-ratio	1.0x	1.7x		**1.1x**
Segment revenue	1,546	309	-8	**1,847**
Revenue from external customers	1,543	304	–	**1,847**
Intersegment revenue	3	5	-8	**–**

in € million	Sensors	Optronics	Elimination/ Transversal/ Others	Fiscal year 2023 Group
Material non-cash items other than depreciation and amortisation:				
Impairments	-6	–	–	**-6**
Additions to other provisions	-120	-43	-0	**-163**
Reversals of other provisions	10	5	–	**15**

in € million	Sensors	Optronics	Elimination/ Transversal/ Others	Fiscal year 2023 Group
EBITDA	**274**	**18**	**-15**	**276**
Effects on earnings from purchase price allocations	6	–	–	**6**
Transaction cost	–	–	10	**10**
OneSAPnow-related special items[1]	9	3	-0	**12**
Other special items[2]	16	3	5	**25**
Adjusted EBITDA	**306**	**24**	**–**	**329**
Adjusted EBITDA margin[3]	*19.8 %*	*7.6 %*		***17.8 %***
EBITDA	**274**	**18**	**-15**	**276**
Depreciation and amortisation	-99	-15	0	**-114**
EBIT	**175**	**2**	**-15**	**162**
Effect on earnings from purchase price allocations	34	3	–	**37**
Transaction cost	–	–	10	**10**
OneSAPnow-related special items[1]	9	3	-0	**12**
Other special items[2]	16	3	5	**25**
Adjusted EBIT	**235**	**11**	**–**	**246**
Adjusted EBIT margin[3]	*15.2 %*	*3.6 %*		***13.3 %***

[1] OneSAPnow-related special items comprise expenses in connection with the business-transformation for SAP S/4HANA.
[2] Special items in the fiscal year 2023 include mainly expenses in the context with the efficiency programmes HENSOLDT GO!.
[3] Based on segment revenues.

in € million	Sensors	Optronics	Elimination/ Transversal/ Others	Fiscal year 2023 Group
EBIT	**175**	**2**	**-15**	**162**
Finance result				**-72**
EBT				**91**

in € million	Sensors	Optronics	Elimination/ Transversal/ Others	Fiscal year 2022 Group
Order intake	1,675	333	-15	**1,993**
Order backlog	4,688	692	-13	**5,366**
Book-to-bill-ratio	1.2x	1.1x		**1.2x**
Segment revenue	1,404	310	-7	**1,707**
Revenue from external customers	1,400	308	–	**1,707**
Intersegment revenue	4	2	-7	**–**

in € million	Sensors	Optronics	Elimination/ Transversal/ Others	Fiscal year 2022 Group
Material non-cash items other than depreciation and amortisation:				
Additions to other provisions	-84	-37	–	**-121**
Reversals of other provisions	11	7	0	**18**

in € million	Sensors	Optronics	Elimination/ Transversal/ Others	Fiscal year 2022 Group
EBITDA	**230**	**58**	**-18**	**270**
Transaction cost	0	–	–	**0**
OneSAPnow-related special items[1]	–	–	1	**1**
Other special items[2]	3	1	18	**21**
Adjusted EBITDA	**233**	**59**	**–**	**292**
Adjusted EBITDA margin[3]	*16.6 %*	*18.9 %*		***17.1 %***
EBITDA	**230**	**58**	**-18**	**270**
Depreciation and amortisation	-82	-21	0	**-103**
EBIT	**148**	**36**	**-18**	**166**
Effect on earnings from purchase price allocations	32	4	–	**36**
Transaction cost	0	–	–	**0**
OneSAPnow-related special items[1]	–	–	1	**1**
Other special items[2]	3	1	18	**21**
Adjusted EBIT	**183**	**41**	**–**	**224**
Adjusted EBIT margin[3]	*13.0 %*	*13.4 %*		***13.1 %***

[1] OneSAPnow-related special items comprise expenses in connection with the business-transformation for SAP S/4HANA.
[2] Special items in the fiscal year 2022 include mainly expenses in the context with the efficiency programmes (“HENSOLDT GO!”), expenses in the context of long-term succession planning for the Management Board and expenses for counteracting the cyber-attack on the French subsidiary Nexeya.
[3] Based on segment revenues.

in € million	Sensors	Optronics	Elimination/ Transversal/ Others	Fiscal year 2022 Group
EBIT	**148**	**36**	**-18**	**166**
Finance result				**-37**
EBT				**130**

9.3 Geographical information

	Fiscal year	
in € million	2023	2022
Revenue		
Europe	1,596	1,452
thereof Germany	*1,030*	*1,016*
Middle East	116	135
APAC	74	82
North America	46	39
Africa	43	22
LATAM	10	6
Other regions / consolidation	-39	-28
Total	**1,847**	**1,707**

	31 Dec.	31 Dec.
in € million	2023	2022
Non-current assets[1]		
Germany	1,225	1,172
Other regions	141	131
Total	**1,366**	**1,304**

[1] Non-current assets other than financial instruments, deferred tax assets, post-employment benefits and rights arising under insurance contracts

9.4 Major customers

Within its two segments, the HENSOLDT Group has two (previous year: two) customers that each generate more than 10.0 % of its total revenue. The first customer generated a revenue of € 453 million (previous year: € 544 million), the revenue with the second customer amounted to € 314 million (previous year: € 306 million).

10 Revenue and cost of sales

10.1 Revenue

For reporting purposes, HENSOLDT Group distinguishes between two categories for revenue recognition: Sales and aftersales. The aftersales category includes mainly revenue related to the sale of goods and/or the provision of services in connection with a previous sale of goods (e.g. sale of spare parts, maintenance). Revenue from the sale of goods and the provision of services that does not fall into the aftersales category is reported as sales.

The following table provides a breakdown of revenue from contracts with customers by revenue recognition category (sales and aftersales) and the point of time of revenue recognition (at a point in time and over time).

			Fiscal year
in € million	Sensors	Optronics	2023
Revenue from contracts with customers			
Sales	1,212	271	**1,482**
Aftersales	335	34	**369**
Exchange rate differences	-4	-0	**-5**
Total	**1,543**	**304**	**1,847**

			Fiscal year
in € million	Sensors	Optronics	2023
Timing of revenue recognition			
Revenue recognition at a point in time	572	264	**835**
Revenue recognition over time	975	41	**1,016**
Exchange rate differences	-4	-0	**-5**
Total	**1,543**	**304**	**1,847**

			Fiscal year
in € million	Sensors	Optronics	2022
Revenue from contracts with customers			
Sales	1,111	280	**1,391**
Aftersales	305	28	**334**
Exchange rate differences	-17	-0	**-17**
Total	**1,399**	**308**	**1,707**

			Fiscal year
in € million	Sensors	Optronics	2022
Timing of revenue recognition			
Revenue recognition at a point in time	580	267	**847**
Revenue recognition over time	836	42	**878**
Exchange rate differences	-17	-0	**-17**
Total	**1,399**	**308**	**1,707**

10.2 Contract assets and contract liabilities

in € million	Contract assets	Contract liabilities
As of 1 January 2022	**170**	**512**
Revenue recognised in the reporting period included in the contract liability balance at the beginning of the period	–	-185
Increases due to cash received, except amounts recognised as revenue during the reporting period	–	172
Reclassifications from contract assets, recognised at the beginning of the period, to receivables	-61	–
Increases due to changes in the determination of stage of completion	69	–
Changes in the estimate of the transaction price or contract modification	–	1
Other	5	-0
As of 31 December 2022	**182**	**500**
Revenue recognised in the reporting period included in the contract liability balance at the beginning of the period	–	-151
Increases due to cash received, except amounts recognised as revenue during the reporting period	–	230
Reclassifications from contract assets, recognised at the beginning of the period, to receivables	-83	–
Increases due to changes in the determination of stage of completion	97	–
Changes in the estimate of the transaction price or contract modification	–	1
Other	-1	-1
As of 31 December 2023	**196**	**578**

An allowance for impairment of € 0.1 million (previous year: € 0.3 million) is included in the carrying amount of the contract assets.

Proceeds from performance obligations which had been (partly) fulfilled in previous periods of € 2 million (previous year: € 1 million) were recognised in the fiscal year.

10.3 Transaction price for remaining performance obligations

As of 31 December 2023, the total amount of the transaction price allocated to remaining performance obligations amounted to € 5,530 million (previous year: € 5,366 million). Management expects that 28.4 % (previous year: 26.3 %) of this transaction price will be recognised as revenue in the next fiscal year and a further 33.8 % (previous year: 33.7 %) in the period between 2025 and 2026. The remaining 37.8 % (previous year: 40.0 %) will be recognised in fiscal year 2027 and subsequent years.

10.4 Cost of sales

Cost of sales include amortisation from adjustments to the fair values of assets as part of the purchase price allocations of € 37 million (previous year: € 36 million). This includes impairments on acquired intangible assets from the purchase price allocation of HENSOLDT Cyber GmbH in the amount of € 6 million (previous year: € 0 million).

Inventories recognised as an expense in the reporting period amount to € 1,245 million (previous year: € 1,163 million).

11 Research and development costs

Research and development costs amount to € 30 million (previous year: € 36 million). Regarding the capitalisation of development costs, refer to note 16.

12 Other operating income and expenses

12.1 Other operating income

	Fiscal year	
in € million	2023	2022
Recharged services	17	20
Other	5	1
Other operating income	**22**	**21**

Other operating income mainly relates to recharged investment- and maintenance costs to buildings as well as facility- and administrative services. Another component is the income from the settlement reached in April 2023 from an arbitration proceeding which was terminated in June 2022. In 2022, the energy price flat rate was also included.

12.2 Other operating expenses

	Fiscal year	
in € million	2023	2022
Recharged costs	16	18
Other	5	2
Other operating expenses	**21**	**21**

Other operating expenses mainly relate to recharged investment- and maintenance costs to buildings as well as facility- and administrative services. In addition, expenses for counteracting the cyber-attack on the French subsidiary Nexeya are included.

13 Finance result

	Fiscal year	
in € million	2023	2022
Interest income from plan assets	9	3
Interest income from cash and cash equivalents[1]	7	1
Interest income from interest rate swaps	1	5
Other[1]	0	0
Interest income	**18**	**9**
Loan (Term Loan)	-31	-12
Revolving Credit Facility	-2	-2
Interest expense from interest rate swaps	-15	-1
Interest expense on provisions for pension benefits	-19	-11
Interest expense on lease liabilities	-11	-9
Other	-5	-9
Interest expense	**-82**	**-44**
Bank fees	-3	-2
Foreign currency translation of monetary items[2]	-3	-4
Change in fair value measurement of financial instruments[2]	-3	3
Other	1	2
Other finance income / costs	**-7**	**-1**
Finance result	**-72**	**-37**

[1] Split of the item "Other" and "Other Interest Income" reported in the previous year into the positions "Interest income from cash and cash equivalents" and "Other" with corresponding split of the previous year's figures
[2] Split of the item “Foreign currency translation of monetary items” reported in the previous year into the positions “Change in fair value measurement of financial instruments” and “Foreign currency translation of monetary items” with corresponding split of the previous year's figures

14 Income taxes

Income taxes are broken down as follows:

	Fiscal year	
in € million	2023	2022
Current tax expense	-42	-13
thereof income tax attributable to the previous year	*-7*	*1*
Deferred taxes	7	-36
thereof changes in temporary differences	*9*	*-26*
Recognised tax	**-35**	**-49**
Deferred tax recognised directly in equity	17	-58

For German companies, a corporation tax rate of 15.0 % was used for the calculation of deferred taxes. In addition, a solidarity surcharge of 5.5 % on the corporation tax and a trade tax rate of 12.5 % were taken into account. This resulted in an overall tax rate of 28.3 % for German companies. For international group companies, the respective country-specific tax rates were used for the calculation of current and deferred taxes.

The following table presents the reconciliation of expected tax expense and reported tax expense. Expected tax expense is determined by multiplying consolidated profit before tax by the total tax rate of 28.3 % applicable in 2023:

	Fiscal year	
in € million	2023	2022
Earnings before income tax	91	130
Income tax rate	*28.3 %*	*28.3 %*
Expected income taxes	-26	-37
Effects deriving from differences to the expected tax rate	2	1
Change in the tax rate and tax laws	-0	-0
Taxes for previous years	1	0
Non-deductible interest expenses	-1	-1
Other non-deductible expenses and taxes as well as effects from changes from permanent balance sheet differences	-4	-1
Tax-exempt income	1	2
Changes in the realisation of deferred tax assets	-7	-14
Other	-1	0
Income tax according to the consolidated income statement	**-35**	**-49**
Effective tax rate in %	*38.9 %*	*38.2 %*

Deferred tax assets and deferred tax liabilities are recognised in accordance with IAS 12 “Income Taxes” if future tax effects, either due to temporary differences between the carrying amounts of existing assets and liabilities and their tax bases or due to loss carryforwards, are expected. Deferred tax assets and deferred tax liabilities resulting from valuation differences in the balance sheet items are composed as follows:

	31 Dec.	31 Dec.
in € million	2023	2022
Deferred tax assets		
Assets		
Intangible assets	–	0
Property, plant and equipment	3	1
Financial assets	1	1
Inventories and contract assets	6	5
Receivables and other assets	1	2
Liabilities		
Provisions	42	24
Liabilities	220	167
Loss carryforwards	**16**	**11**
Tax credits and interest carry-forwards	**6**	**13**
Deferred tax assets (gross)	**293**	**224**
Netting	-284	-217
Deferred tax assets (net)	**9**	**6**

in € million	31 Dec. 2023	31 Dec. 2022
Deferred tax liabilities		
Assets		
Intangible Assets	155	143
Property, plant and equipment	3	3
Financial assets	0	2
Inventories and contract assets	75	60
Receivables and other assets	5	3
Liabilities		
Provisions	46	39
Liabilities	74	61
Deferred tax liabilities (gross)	**358**	**312**
Netting	-284	-217
Deferred tax liabilities (net)	**74**	**94**
Excess of deferred tax liabilities	**-65**	**-88**

The assessment of impairment of deferred tax assets depends on the management's estimate of the utilisation of the deferred tax assets. This is dependent on taxable profits in the periods when the tax measurement differences are reversed and the tax loss carryforwards can be utilised.

As of 31 December 2023 the Company did not recognise any deferred tax liabilities for profits of subsidiaries that were not distributed to the parent company. The Group assumes that, for the time being, the profits of its subsidiaries will not be distributed in the foreseeable future. Temporary differences in connection with investments in subsidiaries for which no deferred tax liabilities were recognised amounted to € 3 million (previous year: € 3 million).

As of 31 December 2023, the following loss and interest carryforwards were recognised (gross):

in € million	31 Dec. 2023	31 Dec. 2022
Corporation tax loss carry-forwards	215	127
Trade tax loss carry-forwards	136	109
Interest carry-forwards	120	198
Tax credits	1	1

No deferred tax assets were recognised for the following loss and interest carryforwards, as the Group deems it unlikely that there will be taxable profits available which the Group can use to recover the tax losses (gross amounts):

in € million	31 Dec. 2023	31 Dec. 2022
Corporation tax loss carry-forwards	154	93
Trade tax loss carry-forwards	129	85
Interest carry-forwards	96	145

The tax loss carryforwards for which no deferred tax assets were recognised are indefinitely usable.

As of 31 December 2023, the BEPS Pillar 2 regulations (MinBestRL-UmsG) had already been incorporated into German law (MinStG), but are not yet in force. HENSOLDT falls within the scope of these regulations. HENSOLDT conducted an initial indicative analysis as of 31 December 2023 to determine the fundamental impact and the jurisdictions from which HENSOLDT is exposed to possible impacts in relating to a Pillar 2 top-up tax. The first step was to check whether a CbCR Safe Harbor was met. If a country was not excluded from the Pillar 2 calculation after checking the Safe Harbor regulations, the effective tax rate was taken into account. From this first indicative analysis, no possible effects from paying a Pillar 2 top-up tax were identified in any jurisdiction. If the minimum tax had already applied as of 31 December 2023, the profits from the Group's activities in the relevant countries would not be subject to the minimum tax. The Company closely monitors the progress of the legislative process in each country in which the Company operates.

15 Earnings per share

Earnings per share are calculated by dividing the earnings attributable to the holders of the parent company’s ordinary shares by the weighted average number of ordinary shares outstanding during the year. There were no conversion or option rights outstanding during the current and previous reporting period. Therefore, diluted earnings per share are identical with basic earnings per share.

	Fiscal year	
in € million	2023	2022
Group result attributable to the owners of HENSOLDT AG	54	78
Weighted average number of ordinary shares (in million)	106	105
Basic and diluted earnings per share (in €)	**0.51**	**0.75**

The change in the weighted average number of ordinary shares results from the capital increase recorded in the commercial register on 8 December 2023.

IV Operating assets and liabilities

16 Intangible assets

Intangible assets (excluding goodwill) consist of the following:

in € million	Licences, patents and other rights	Other intangible assets	Capitalised development cost	Customer relationship, technology, order backlog, brand	Advance payments	Total
Acquisition Cost						
As of 1 January 2022	**15**	**1**	**232**	**550**	**5**	**803**
Additions	3	0	55	–	1	**60**
Disposals	-1	–	–	–	-0	**-1**
Reclassifications	3	–	–	–	-3	**-0**
Currency translation	0	–	-1	-0	–	**-1**
As of 31 December 2022	**21**	**1**	**286**	**550**	**3**	**861**
Additions	2	0	62	–	5	**69**
Disposals	-0	–	–	–	-0	**-0**
Reclassifications	1	–	–	–	-1	**-0**
Currency translation	-0	–	-1	-0	–	**-2**
As of 31 December 2023	**24**	**1**	**347**	**550**	**7**	**928**
Accumulated amortisation						
As of 1 January 2022	**-12**	**-1**	**-37**	**-369**	**–**	**-418**
Additions	-2	-0	-21	-36	–	**-59**
Disposals	1	–	–	–	–	**1**
Reclassifications	–	0	–	-0	–	**–**
Currency translation	–	–	0	0	–	**0**
As of 31 December 2022	**-14**	**-1**	**-57**	**-405**	**–**	**-477**
Additions	-3	-0	-31	-30	–	**-64**
Disposals	0	–	–	–	–	**0**
Impairment	–	–	-2	-6	–	**-8**
Currency translation	0	–	1	0	–	**1**
As of 31 December 2023	**-17**	**-1**	**-90**	**-441**	**–**	**-548**
Carrying amount						
As of 31 December 2022	**7**	**0**	**229**	**145**	**3**	**384**
As of 31 December 2023	**7**	**0**	**257**	**109**	**7**	**380**

The category “customer relationship, technology, order backlog, brand” includes the HENSOLDT brand with an indefinite useful life. The carrying amount of the HENSOLDT brand amounted to € 55 million as of 31 December 2023 (previous year: € 55 million). In the fiscal year 2023 intangible assets from the purchase price allocation of HENSOLDT Cyber GmbH were impaired in the amount of € 6 million, as cash flows are no longer expected from these assets.

16.1 Development costs

In 2023, the Group capitalised development costs of € 62 million (previous year: € 55 million) as internally generated intangible assets, primarily in the areas of naval and ground radar programmes as well as on the Identification Friend or Foe area in the Sensors segment and in the areas of land and air programmes in the Optronics segment.

In the fiscal year 2023, two (previous year: one) development projects worth € 2 million (previous year: € 1 million) were fully impaired. Both projects related to the Sensors segment. There was no impairment in the fiscal year 2023 in the Optronics segment. The impairment loss was recognised in the cost of sales.

16.2 Goodwill

For impairment testing, goodwill of € 658 million (previous year: € 658 million) is allocated to the CGUs Sensors in the amount of € 574 million (previous year: € 574 million) and Optronics in the amount of € 84 million (previous year: € 84 million), which are also operating and reportable segments.

The recoverable amount of both CGUs is based on their value in use, determined by discounting the future cash flows to be generated from continuing use of the CGU. The carrying amount of both CGUs was determined to be lower than their value in use. As the carrying amount of the CGUs did not exceed the value in use of the CGUs, no impairment on goodwill was required.

The calculation of the value in use, which is performed in the fourth quarter of each year is based on a DCF model as of 30 September. The cash flows are derived from the budget for the next three years and do not include restructuring activities, which HENSOLDT Group is not yet obligated to do, nor significant future investments that would improve the performance of the assets of the CGU tested. The recoverable amount depends on the discount rate used for the DCF model, the expected future cash flows and the growth rate used for extrapolation purposes. These estimates are mainly relevant for goodwill and other intangible assets with indefinite useful lives recognised by HENSOLDT Group.

The following essential assumptions were made when estimating the useful lives:

	31 Dec. 2023		31 Dec. 2022	
Assumptions in %	Sensors	Optronics	Sensors	Optronics
Discount rate (post-tax)	6.5 %	6.5 %	6.0 %	6.1 %
Sustainable growth rate	1.0 %	1.0 %	1.0 %	1.0 %
Projected sustainable EBIT margin	12.2 %	12.2 %	12.2 %	12.2 %

Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The calculation of the discount rate is based on the specific circumstances of HENSOLDT Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity as well as an industry-specific debt ratio. The cost of equity is derived from the market based return on investment expected by the Group's equity investors depending on their risk expectation. The cost of debt is the market based interest rate on borrowings that is applicable on the Group. The industry-specific risk is accounted for by applying a beta factor that is evaluated annually based on publicly available market data. The corresponding pre-tax discount rate amounts to 8.9 % (previous year: 8.3 %) for the CGU Sensors and 9.3 % (previous year: 8.3 %) for the CGU Optronics.

The forecasted cash flows used by HENSOLDT Group in its DCF model are based on the operational business plan. This business plan includes a detailed planning horizon for three years and is, taking into account the long-term nature of the Company's projects, converged into a steady-state on which a terminal value is calculated. The terminal value underlies a sustainable growth rate of 1.0 %.

Based on the market position, HENSOLDT assumes a further significant revenue growth in both operating segments for the detailed planning horizon.

When performing the impairment test for both CGUs, HENSOLDT conducted sensitivity analyses for the sustainable EBIT margin, the discount rate and the sustainable EBIT margin, the discount rate and the sustainable growth rate. These analyses which included varying the essential valuation parameters within an appropriate range did not reveal any risk of impairment to goodwill.

17 Property, plant and equipment

Property, plant and equipment are comprised as follows:

in € million	Land, fixtures and buildings	Technical equipment and machinery	Other equipment, operating and office equipment	Construction in progress	Total
Acquistion cost					
As of 1 January 2022	**16**	**122**	**52**	**18**	**208**
Additions	0	9	9	17	**36**
Disposals	–	-1	-1	-0	**-2**
Reclassifications	1	4	2	-6	**0**
Currency translation	-0	-0	-0	0	**-1**
As of 31 December 2022	**17**	**134**	**61**	**29**	**241**
Additions	1	10	13	22	**46**
Disposals	-0	-1	-2	-0	**-3**
Reclassifications	1	8	4	-13	**0**
Currency translation	-0	-2	-0	-0	**-3**
As of 31 December 2023	**19**	**149**	**77**	**38**	**282**
Accumulated depreciation					
As of 1 January 2022	**-2**	**-67**	**-31**	**–**	**-100**
Additions	-1	-14	-7	–	**-22**
Disposals	–	1	1	–	**2**
Currency translation	0	0	0	–	**0**
As of 31 December 2022	**-3**	**-80**	**-37**	**–**	**-120**
Additions	-1	-15	-9	–	**-25**
Disposals	0	1	1	–	**2**
Currency translation	-0	1	0	–	**1**
As of 31 December 2023	**-4**	**-93**	**-45**	**–**	**-142**
Carrying amount					
As of 31 December 2022	**14**	**54**	**24**	**29**	**121**
As of 31 December 2023	**14**	**56**	**32**	**38**	**140**

In the fiscal years 2023 and 2022, no impairment losses were recognised.

18 Other investments and other non-current financial assets

	31 Dec.	31 Dec.
in € million	2023	2022
Other investments	25	22
Other non-current financial assets	0	0
Other investments and other non-current financial assets	**25**	**22**
Other non-current financial assets, due at short-notice	**0**	**0**
Total	**25**	**22**

Other investments relate mainly to the investment in Deutsche Elektronik Gesellschaft für Algerien mbH of € 9 million (previous year: € 9 million) and in HENSOLDT Analytics GmbH of € 6 million (previous year: € 6 million).

19 Inventories

	Gross amount	Impair-ment	Net carrying amount	Net carrying amount
			31 Dec.	31 Dec.
in € million			2023	2022
Raw materials and supplies	367	-57	310	237
Work in progress	304	-26	278	247
Finished goods and parts for resale	51	-14	37	32
Total	**721**	**-96**	**625**	**516**

Expenses associated with impairments recognised in the consolidated income statement during the fiscal year 2023 amount to € 19 million (previous year: € 12 million). A reversal of impairment losses was recognised as reduction of material cost in the fiscal year in the amount of € 3 million (previous year: € 0 million).

20 Trade receivables

	31 Dec.	31 Dec.
in € million	2023	2022
Receivables from sales of goods and services	393	332
Impairment	-11	-9
Total	**382**	**323**

Trade receivables totalling € 106 million (previous year: € 59 million) were transferred to a factor on the reporting date and were derecognised (so-called "non-recourse factoring"). Other trade receivables of € 11 million (previous year: € 8 million) do not quality for derecognition since the credit risk is not transferred (so-called "recourse factoring"). For the cash received from the factoring party, a corresponding other financial liability is recognised.

The impairment for doubtful accounts related to trade receivables developed as follows:

in € million	2023	2022
As of 1 January	**9**	**10**
Addition	3	2
Utilisation	-0	-1
Reversal	-0	-2
Currency translation	-0	-0
As of 31 December	**11**	**9**

For information on the credit and market risks as well as impairment losses refer to note 36.

Contract assets and liabilities are presented in note 10.2.

21 Trade payables

As of 31 December 2023, all trade payables are due within one year, like in the year before.

22 Provisions

The measurement of provisions, e.g. for contract losses and warranties, is based on best available estimates.

in € million	31 Dec. 2023	31 Dec. 2022
Provisions for post-employment benefits (note 32)	304	241
Other provisions	263	222
Total	**567**	**463**
thereof non-current	*357*	*282*
thereof current	*211*	*181*

Other provisions developed as follows:

in € million	Warranties	Personnel -related provisions	Contract losses	Outstan- ding costs	Other risks and costs	Total
As of 1 January 2023	**68**	**60**	**1**	**27**	**65**	**222**
Utilisation	-10	-38	-0	-14	-25	**-88**
Reversal	-7	-3	-0	-0	-5	**-15**
Additions	29	58	1	17	43	**148**
Exchange rate differences	-1	-0	–	-1	-0	**-2**
Unwinding of discount	-1	–	–	–	0	**-1**
Reclassifications	–	-0	–	–	–	**-0**
As of 31 December 2023	**78**	**76**	**2**	**29**	**79**	**263**
thereof current	*44*	*48*	*2*	*29*	*65*	***187***
thereof non-current	*34*	*28*	–	–	*14*	***77***

Provisions for warranties cover contractual or factual obligations to repair or reimburse for damages or functional defects in products sold within a certain period at the Group's own expense.

Provisions related to staff comprise mainly bonus provisions for the management and employees, provisions for anniversary allowances and provisions for part-time retirement obligations (see note 31).

Provisions for outstanding costs relate mainly to accruals for supplies not yet invoiced and outstanding costs for fully completed orders.

The provisions for other risks and costs relate, among other things, to contract-related provisions for subsequent work on performance obligations already fulfilled.

For the non-current other provisions of the Group, it is generally assumed that they will lead to a cash outflow in the next two to five years.

The reclassification relates to part-time retirement obligations which are disclosed under the current other liabilities item on the reporting date.

23 Legal disputes and claims

Legal disputes and damage claims include various proceedings, official investigations and proceedings as well as damage claims that are pending or will be initiated or claimed against the Group in the future. These proceedings are subject to much uncertainty, the result of individual issues cannot be reliably predicted. The Group believes that it has recognised adequate provisions to cover current or potential litigation risks. It is quite possible that the final ruling in some proceedings could lead to expenses beyond those accounted for in the recognised provisions. The term “quite possible” used here means that the future occurrence of an event is more than unlikely, however less than likely.

HENSOLDT Group is involved, from time to time, in different court and arbitration proceedings in the course of its normal business operation. The arbitration proceeding mentioned in previous publications was terminated in June 2022 by a confidential arbitration award without further significant impact. The parties settled on the last open points in April 2023. This finally ends the proceeding.

HENSOLDT Group is not aware of any official, judicial or arbitration proceedings (including pending and threatened proceedings) during the previous twelve months or longer that could significantly impact or significantly impacted on the Group’s assets, liabilities, financial position and financial performance. As of the reporting date, provisions for legal disputes and damage claims of a negligible amount were recognised under other provisions for other risks and costs.

24 Contingent assets and contingent liabilities

Due to the type of its transactions, the Group is exposed to the risk of contingent liabilities. The following table shows the undiscounted maximum amounts for which HENSOLDT Group is liable as of the reporting date due to major types of guarantees (including sureties):

in € million	31 Dec. 2023	31 Dec. 2022
Loan guarantees / sureties	29	33
Contractual guarantees / sureties	587	530
Other guarantees and sureties[1]	113	87
Total	**729**	**650**

[1] In comparison to the 2022 reporting, the previous year's values were supplemented by a guarantee issued by HENSOLDT Optronics GmbH to HENSOLDT Real Estate Oberkochen GmbH & Co. KG.

The line item loan guarantees/sureties shows to what extent the HENSOLDT Group is liable for financial obligations to third parties. For loan guarantees/sureties, the Group generally guarantees that if the principal debtor does not pay the debt or is not able to pay the debt then the Group will fulfil such financial obligations. The maximum liability coverage corresponds to the utilisation of the outstanding liability of the credit or – in the event of credit facilities that can be utilised in variable amounts – the maximum amount that can be claimed. The table includes the maximum liability coverage. The term of these credit guarantees/sureties is usually up to one year. In some cases, there are unlimited credit guarantees/sureties.

In addition, the HENSOLDT Group guarantees the fulfilment of its own contractual obligations, mainly due to advance payments and performance guarantees/sureties. If the HENSOLDT Group does not meet its contractual obligations, the HENSOLDT Group or one of its subsidiaries can be held liable up to an agreed maximum amount. Generally, the terms of these contingent liabilities run up to ten years. In some cases, they run up to 20 years or there are indefinite contractual guarantees/securities.

The other guarantees and sureties relate to bid bonds and performance, custom and rental guarantees.

25 Other financial assets and other financial liabilities

25.1 Other financial assets

in € million	31 Dec. 2023	31 Dec. 2022
Positive fair values of derivative financial instruments[1]	0	0
Miscellaneous other non-current financial assets	1	1
Total other non-current financial assets	**1**	**1**
Positive fair values of derivative financial instruments[1]	2	8
Receivables from employees	1	1
Loans to non-consolidated companies	15	8
Miscellaneous other current financial assets	1	2
Total other current financial assets	**19**	**20**
Total	**20**	**21**

[1] See note 36

25.2 Other financial liabilities

in € million	31 Dec. 2023	31 Dec. 2022
Liabilities for derivative financial instruments[1]	10	3
Miscellaneous other non-current financial liabilities	0	0
Total other non-current financial liabilities	**10**	**3**
Liabilities for derivative financial instruments[1]	4	3
Liabilities from factoring contracts[2]	2	0
Total other current financial liabilities	**7**	**4**
Total	**16**	**6**

[1] See note 36
[2] Liabilities from factoring contracts resulted from the fact that the collection of payments by the factoring party was not yet due as of the balance sheet date.

26 Other assets and other liabilities

26.1 Other assets

in € million	31 Dec. 2023	31 Dec. 2022
Miscellaneous other non-current assets	3	2
Total other non-current assets	**3**	**2**
Advance payments	88	109
Tax receivables (without income tax)	22	20
Miscellaneous other current assets	5	5
Total other current assets	**116**	**133**
Total	**119**	**135**

26.2 Other liabilities

in € million	31 Dec. 2023	31 Dec. 2022
Liabilities to employees	14	11
Miscellaneous other non-current liabilities	0	0
Total other non-current liabilities	**14**	**11**
Tax liabilities (without income tax)	75	48
Liabilities to employees	38	33
Liabilities relating to social security	7	9
Miscellaneous other current liabilities	16	11
Total other current liabilities	**136**	**101**
Total	**150**	**112**

27 Leases

27.1 Amounts recognised in the consolidated statement of financial position

The following table discloses the carrying amounts of the lease contracts accounted for as rights-of-use assets:

in € million	31 Dec. 2023	31 Dec. 2022
Land and buildings	184	135
Technical equipment and machinery	1	1
Other equipment, operating and office equipment	4	4
Total	**189**	**140**

Additions to right-of-use assets in the fiscal year 2023 were € 73 million (previous year: € 22 million).

The following table discloses the carrying amounts of lease liabilities:

	31 Dec.	31 Dec.
in € million	2023	2022
Current	20	18
Non-current	191	140
Total	**211**	**158**

For information on the maturity analysis of the lease liabilities refer to note 36.1.

27.2 Amounts recognised in the consolidated income statement

Depreciation charge for right-of-use assets:

	Fiscal year	
in € million	2023	2022
Land and buildings	19	19
Technical equipment and machinery	1	1
Other equipment, operating and office equipment	3	2
Total depreciation charge	**23**	**22**

Other amounts recognised in the consolidated income statement:

	Fiscal year	
in € million	2023	2022
Interest on lease liabilities	11	9
Income from sub-leasing right-of-use assets presented in other revenue	-0	-0
Expenses related to short-term leases[1]	1	1
Expenses for leases of an asset of low-value that are not short-term leases[1]	3	3
Total other amounts recognised in the consolidated income statement	**14**	**12**

[1] The figures for 2022 have been adjusted compared to the 2022 reporting

The total cash outflows for lease payments in the fiscal year 2023 amounted to € 30 million (previous year: € 28 million).

HENSOLDT has several lease contracts that include extension options and termination options. The exercise of such options is decided by the management to provide flexibility in managing the leased-asset portfolio and align with HENSOLDT’s business needs. The management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (see note 3.9).

In the second quarter of 2023, a declaration of intent to exercise an extension option on significant parts of the real estate contracts at HENSOLDT locations in Germany was submitted. It resulted in the accounting of additional rights of use and corresponding leasing liabilities as it constitute a change of the former estimate of the leasing term.

V Expenses and benefits for employees

28 Number of employees

	Fiscal year	
	2023	2022
Production, research and development, service	4,582	4,409
Sales and distribution	223	219
Administration and general services	1,237	1,169
Apprentices, trainees, etc.	647	608
Total[1,2]	**6,689**	**6,406**

[1] Average figures on a per capita basis
[2] Adjusted allocation of previous year's figures

29 Personnel expenses

	Fiscal year	
in € million	2023	2022
Wages, salaries	532	513
Social security contributions	86	80
Net periodic pension expenses	11	17
Total	**629**	**610**

30 Share-based payment

Long-Term Incentive Plan (LTIP)

In 2021, a virtual share programme for a long-term performance-based remuneration (“Long-Term Incentive Plan, “LTIP“) was established for Board members and selected executives. Objective of the LTIP is for beneficiaries to participate in the performance of the HENSOLDT Group and to promote the commitment, willingness to perform and loyalty of employees.

The group of beneficiaries is granted a number of virtual shares depending on the employee’s basic remuneration. These virtual shares allow employees to receive the counter-value of the final number of virtual shares as cash settlement at the end of the four-year assessment period.

The LTI bonus components and the target values are determined at the beginning of the four-year assessment period of a tranche. The value determined based of the weighting and the target achievement of the individual components is multiplied by the number of virtual shares initially granted in order to determine the payout amount after the end of the assessment period. The LTI bonus to be paid out as a cash settlement is determined by the number of virtual shares calculated on the basis of the target achievement multiplied with the average closing price of the shares of HENSOLDT AG. The amount to be paid out as LTI bonus is capped at a limit of 200 % of the original target amount.

The grant of the virtual shares under the LTIP was classified and measured as a cash-settled, share-based payment transaction in accordance with IFRS 2.30. The fair value of the virtual shares is remeasured at each balance sheet date by applying a Monte-Carlo simulation and taking into account the conditions under which such virtual shares were granted. Further information on the objectives underlying the remuneration of the Executive Board can be found in the remuneration report, which is available on the HENSOLDT website at https://investors.hensoldt.net in the “Corporate Governance” section.

The virtual shares of LTIP underwent the following changes in the current fiscal year:

Number of virtual shares	Tranche 2021-2024	Tranche 2022-2025	Tranche 2023-2026	Total
Virtual shares outstanding at the beginning of the reporting period 2023 (1/1/2023)	301,039	264,290	0	**565,329**
Virtual shares granted in the reporting period	0	0	160,062	**160,062**
Virtual shares forfeited in the reporting period	-4,304	-5,474	0	**-9,778**
Virtual shares settled in the reporting period	-8,573	-1,612	0	**-10,185**
Virtual shares outstanding at the end of the reporting period (31/12/2023)	288,162	257,204	160,062	**705,428**

The following parameters were used as basis of the fair value measurement on 31 December 2023:

	Tranche 2021-2024	Tranche 2022-2025	Tranche 2023-2026
Remaining term (in years)	1	2	3
Volatility	24.7 %	32.1 %	29.4 %
Risk-free interest rate	3.4 %	3.2 %	3.0 %
HENSOLDT share price at valuation date (€)	24.40	24.40	24.40
Average HENSOLDT share price at grant date (€)	13.94	16.44	28.42

The period from the measurement date to the end of the relevant contract was used as term. The share price was determined via Bloomberg using the closing price of XETRA trading platform on 31 December 2023. The volatility was determined on the basis of the historic volatility of comparable companies over the same residual term. The expected volatility taken into account is based on the assumption that conclusions can be drawn from historic volatility to determine future trends, however the actual volatility might deviate from these assumptions.

A debt of € 9 million (thereof € 9 million non-current) was recognised under other provisions as of 31 December 2023 in the context of the LTIPs (previous year: € 4 million; thereof € 4 million non-current). The expense for the period from 1 January to 31 December 2023 is € 5 million (previous year: € 3 million).

31 Personnel-related provisions

Several German group entities offer models for lifetime working accounts, which represent defined benefit plans due to a guaranteed interest on contributions or nominal contributions and are to be classified as post-employment benefits in accordance with IAS 19. Obligations totalling € 23 million (previous year: € 20 million) are fully offset against the corresponding assets. The regular contributions of employees to their lifetime working accounts lead to corresponding expenses in the fiscal year which will be recognised under personnel expenses.

Personnel-related provisions changed as follows:

in € million	Long service awards/bonuses	Partial retirement	Total
As of 1 January 2023	**56**	**4**	**60**
Utilisation	-35	-4	**-38**
Reversal	-1	-2	**-3**
Additions	52	6	**58**
Currency translation	-0	–	**-0**
Reclassifications	–	-0	**-0**
As of 31 December 2023	**72**	**4**	**76**

32 Post-employment benefits

in € million	31 Dec. 2023	31 Dec. 2022
Provisions for pension obligations	164	120
Provisions for deferred compensation	140	121
Total	**304**	**241**

32.1 Provisions for pension obligations

Provisions for German pension obligations (defined benefit obligations, DBO) are recognised based on defined benefit plans retirement, invalidity and survivor’s pension benefits. The benefits are based on the employee’s length of service and remuneration.

Most domestic employees are under the “P3 Plan”, which allows a choice between immediate payments of their accumulated benefits, payment in instalments or an annuity.

Contractual trust arrangements (CTA) exist to finance domestic pension obligations. The structure of the CTAs is based on mutual trust agreements. Assets transferred to the CTAs are considered plan assets under IAS 19.

In terms of the significant accounting policies and significant estimates and assessments, e.g. actuarial assumptions, please refer to the note 2.8 and note 3.6.

Development of the defined benefit obligations and plan assets

	DBO		Plan assets		Total	
in € million	2023	2022	2023	2022	2023	2022
As of 1 January	**355**	**481**	**235**	**223**	**120**	**258**
Expenses for pension benefit entitlements	10	17	–	–	**10**	**17**
Interest expenses / income	15	7	10	3	**5**	**4**
Payments	-7	-6	–	-3	**-7**	**-3**
Contributions to plan assets	–	–	9	19	**-9**	**-19**
Actuarial gains / losses deriving from:						
Changes in demographic assumptions	0	9	–	–	**0**	**9**
Changes in financial assumptions	39	-157	–	–	**39**	**-157**
Experience-based adjustments	5	7	–	–	**5**	**7**
Plan assets	–	–	-4	-6	**4**	**6**
Other changes in consolidation, transfers	-4	-2	–	–	**-4**	**-2**
As of 31 December	**414**	**355**	**250**	**235**	**164**	**120**

The weighted average term of the DBO for pensions and defined benefit obligations under the pension plan ("P3") is 16 years.

As of 31 December reported as:

	Pension plans	
	31 Dec.	31 Dec.
in € million	2023	2022
Defined benefit obligation	414	355
Plan assets	-250	-235
Total	**164**	**120**

The breakdown of the defined benefit obligation for pension plans between obligations for active, former and retired members for the most important plans is as follows:

	31 Dec.	31 Dec.
in %	2023	2022
Active employees	66.4 %	70.0 %
Former employees with vested benefits	7.4 %	6.4 %
Pensioners	26.1 %	23.5 %
Total	**100.0 %**	**100.0 %**

The employer's contribution to state and private pension funds which is mainly made in Germany, is considered as a defined contribution obligation. The contributions made in the fiscal year 2023 amount to € 38 million (previous year: € 32 million).

The expected employer's contribution to defined benefit plans for the fiscal year 2024 amounts to € 18 million (previous year: € 17 million).

32.2 Provisions for deferred compensation

This amount represents obligations that arise when employees convert a part of their remuneration or bonus into an equivalent entitlement to deferred compensation, which is treated as a defined benefit plan upon termination of employment.

Development of the defined benefit obligations and plan assets

	DBO		Plan assets		Total	
in € million	2023	2022	2023	2022	2023	2022
As of 1 January	**134**	**201**	**13**	**15**	**121**	**186**
Expenses for pension benefit entitlements	–	1	–	–	**–**	**1**
Interest expenses / income	6	3	1	0	**5**	**3**
Payments	-2	-2	–	—	**-2**	**-2**
Actuarial gains / losses deriving from						
Changes in demographic assumptions	0	-0	–	–	**0**	**-0**
Changes in financial assumptions	14	-78	–	–	**14**	**-78**
Experience-based adjustments	-2	5	–	–	**-2**	**5**
Plan assets	–	–	-0	-2	**0**	**2**
Other changes in consolidation, transfers	-2	-3	–	–	**-2**	**-3**
Contributions of participants	5	6	–	–	**5**	**6**
As of 31 December	**154**	**134**	**14**	**13**	**140**	**121**

As of 31 December reported as:

	31 Dec.	31 Dec.
in € million	2023	2022
Defined benefit obligation	154	134
Plan assets	-14	-13
Total	**140**	**121**

The weighted average term of the DBOs for defined benefit obligations under the deferred compensation is 16 years.

The breakdown of the defined benefit obligation for pension plans between obligations for active, former and retired members for the most important plans is as follows:

	31 Dec.	31 Dec.
in %	2023	2022
Active employees	69.2 %	72.7 %
Former employees with vested benefits	9.4 %	8.2 %
Pensioners	21.3 %	19.1 %
Total	**100.0 %**	**100.0 %**

32.3 Sensitivity analyses

The following table shows how the present value of defined benefit obligations of pension plans and deferred compensation would have been affected by changes in actuarial assumptions used as of 31 December 2023:

		31 December 2023		31 December 2022	
in € million	Change	Increase	Decrease	Increase	Decrease
Discount rate	by 0.5 percentage points	-43	48	-35	40
Wage increase rate	by 0.25 percentage points	0	-0	0	-0
Pension increase rate	by 0.25 percentage points	8	-7	8	-6
Life expectancy	by 1 year	12	-13	10	-10
Exercising the pension option	by 10 percentage points	15	-15	11	-11

Sensitivities are calculated using the same method (present value of the defined benefit obligation calculated using the projected unit credit method) as used for the calculation of post-employment benefits. The sensitivity analysis is based on a change of one assumption while maintaining all other assumptions unchanged. This is unlikely to occur in practice. Changes to more than one assumption can correlate, which can have differing effects on the DBOs than the effects as described above. If the assumptions change in different levels, the effects on the defined benefit obligation are not necessarily linear.

Asset-liability matching strategy (investment of plan assets)

The HENSOLDT Group identified the deterioration of the financing status due to an unfavourable development of the fair value of plan assets and/or the defined benefits obligations as a result of changing parameters as a risk.

For this reason, the HENSOLDT treasury department implements a security-oriented investment concept specified by HENSOLDT Strategic Investment Committee, which is focused on the DBOs and the steering and optimisation of the plan assets.

The fair value of the plan assets for pensions and deferred compensation can be allocated to the following classes:

	Quoted prices		Unquoted prices		Total	
	31 Dec.		31 Dec.		31 Dec.	
in € million	2023	2022	2023	2022	2023	2022
Other investments	–	–	244	208	**244**	**208**
Pooled investment instruments	19	41	–	–	**19**	**41**
Total	**19**	**41**	**244**	**208**	**263**	**249**

Other investments relate to limited partnership interests in HENSOLDT Real Estate GmbH & Co. KG., Taufkirchen, and in HENSOLDT Real Estate Oberkochen GmbH & Co. KG, Taufkirchen.

VI Capital structure and financial instruments

33 Equity

33.1 Equity attributable to owners of the parent company

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

As of 31 December 2023, the share capital of HENSOLDT AG amounts to € 116 million (previous year: 105 million) and is divided into 115,500,000 (previous year: 105,000,000) ordinary bearer shares (no-par value shares).

At the beginning of December 2023, a capital increase excluding subscription rights in the amount of 10.0 % of the share capital was carried out. The capital increase was recorded in the commercial register on 8 December 2023. 10,500,000 new shares were placed. This resulted in proceeds before transaction costs of € 241 million. The amount in excess of the nominal value from the issue of the new shares amounting to € 230 million, less € 4 million of transaction costs and fees from the banks accompanying the capital increase, was allocated to capital reserves.

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 cash and/or non-cash contributions on one or more occasions by up to a total of € 36 million (Authorised Capital 2020/I). The Authorised Capital 2020/I after the capital increase in 2023 amounts to € 25.5 million on 31 December 2023.

In addition, by resolution of the annual general meeting on August 18, 2020, 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 amounts to € 16 million on 31 December 2023.

Other reserves include cumulative other comprehensive income.

Retained earnings contain earnings of the companies included in the Consolidated Financial Statements including earnings in the current fiscal year, provided these have not been distributed.

33.2 Non-controlling interests

The non-controlling interests reflect the share of other shareholders in the net asset value of consolidated subsidiaries.

in € million	HEN-SOLDT South Africa (Pty) Ltd.	GEW Tech-nologies (Pty) Ltd.	Midi Ingén-ierie S.A.S.	HEN-SOLDT Cyber GmbH	**Total**	Intra-group elimina-tions/ adjust-ments	**31 Dec. 2023**
Percentage of non-controlling interests	**30.0 %**	**6.7 %**	**15.0 %**	**9.4 %**			
Non-current assets	33	8	0	1	**42**	–	**42**
Current assets	65	43	4	4	**115**	–	**115**
Non-current liabilities	-8	-16	-0	-0	**-24**	–	**-24**
Current liabilities	-45	-12	-1	-3	**-61**	–	**-61**
Net assets	**45**	**23**	**2**	**2**	**71**	**–**	**71**
Net assets of non-controlling interests	**13**	**2**	**0**	**0**	**15**	**0**	**16**
Revenue	77	32	4	5	**116**	–	**116**
Profit / loss	6	-4	0	0	**3**	–	**3**
Other comprehensive income / loss	-5	-3	-0	–	**-8**	–	**-8**
Total comprehensive income / loss	**1**	**-7**	**0**	**0**	**-5**	**–**	**-5**
Profit attributable to non-controlling interests	**2**	**-0**	**0**	**0**	**2**	**–**	**2**
Other comprehensive income / loss attributable to non-controlling interests	**-1**	**-0**	**-0**	**–**	**-2**	**–**	**-2**
Cash flows from operating activities	7	-14	1	1	**-6**	–	**-6**
Cash flows from investing activities	-13	-2	-0	-0	**-15**	–	**-15**
Cash flows from financing activities	10	13	-0	-0	**22**	–	**22**
thereof dividends of non-controlling interests	–	–	*-0*	–	***-0***	–	***-0***
Effects of movements in exchange rates on cash and cash equivalents	-1	-0	–	–	**-1**	–	**-1**
Net increase (decrease) in cash and cash equivalents	**2**	**-3**	**0**	**0**	**0**	**–**	**0**

in € million	HEN-SOLDT South Africa (Pty) Ltd.	GEW Tech-nologies (Pty) Ltd.	Midi Ingén-ierie S.A.S.	HEN-SOLDT Cyber GmbH	**Total**	Intra-group elimina-tions/ adjust-ments	**31 Dec. 2022**
Percentage of non-controlling interests	**30.0 %**	**6.7 %**	**15.0 %**	**9.4 %**			
Non-current assets	18	8	0	1	**27**	–	**27**
Current assets	77	48	3	1	**129**	–	**129**
Non-current liabilities	-3	-1	-0	-0	**-4**	–	**-4**
Current liabilities	-48	-26	-1	-1	**-76**	–	**-76**
Net assets	**44**	**29**	**2**	**1**	**76**	**–**	**76**
Net assets of non-controlling interests	**13**	**2**	**0**	**0**	**15**	**-3**	**13**
Revenue	88	33	3	1	**125**	–	**125**
Profit / loss	8	-0	0	-2	**6**	–	**6**
Other comprehensive income / loss	-0	-1	–	0	**-2**	–	**-2**
Total comprehensive income / loss	**7**	**-1**	**0**	**-2**	**4**	**–**	**4**
Profit attributable to non-controlling interests	**2**	**-0**	**0**	**-0**	**2**	**–**	**2**
attributable to non-controlling interests	**-0**	**-0**	**–**	**0**	**-0**	**–**	**-0**
Cash flows from operating activities	20	-12	-0	-11	**-3**	–	**-3**
Cash flows from investing activities	-7	-2	-0	-0	**-9**	–	**-9**
Cash flows from financing activities	-12	-0	-1	11	**-2**	–	**-2**
thereof dividends of non-controlling interests	*–*	*–*	*-0*	*–*	***-0***	*–*	***-0***
Effects of movements in exchange rates on cash and cash equivalents	-0	1	–	–	**1**	–	**1**
Net increase (decrease) in cash and cash equivalents	**1**	**-14**	**-1**	**0**	**-13**	**–**	**-13**

[1] HENSOLDT Cyber GmbH 9.4 % from 2 December 2022, 12.2 % from 1 September 2022, previously 30.0 %

34 Capital management

The capital structure of the HENSOLDT Group is made up of equity capital attributable to the shareholders of the parent company and of debt capital. A capital structure which optimises capital costs of equity and debt is being targeted. The Group is not subject to any statutory capital requirements.

The non-current syndicated loan agreements (“Term Loan” and “Term Facility”) are tied to compliance with a financial covenant that refers to the ratio of net liabilities to adjusted earnings before interest, taxes, depreciation and amortisation (consolidated EBITDA) as defined in the Senior Facility Agreements. In the fiscal year 2023, the financing conditions were fulfilled at all times. The availability and conditions of the loans are tied to this financial covenant. In the event of a non-compliance with the financial covenant, the financing partners are entitled to terminate the syndicated loans. There are currently no indications that the covenant cannot be fully complied with in the foreseeable future (see note 36).

In order to hedge against changes in exchange rates, the Group concludes derivative hedging contracts for loans in foreign currency.

As of the reporting date, the Group has entered into interest rate swap transactions hedge the variable-rate term loan.

35 Net assets / debt

in € million	31 Dec. 2023	31 Dec. 2022
Cash and cash equivalents	802	460
Non-current financing liabilities	-621	-619
Current financing liabilities	-23	-12
Total	**158**	**-171**

35.1 Cash and cash equivalents

Cash and cash equivalents consist of the following items:

in € million	31 Dec. 2023	31 Dec. 2022
Cash and cash equivalents	802	460
Total	**802**	**460**

As at 31 December 2023, there were short-term time deposits in the amount of € 238 million, which were invested over the period from December 13, 2023 to January 25, 2024. Of this amount, € 138 million were invested at an interest rate of 4.0 %, € 50 million at an interest rate of 3.9 % and a further € 50 million at an interest rate of 3.9 %.

35.2 Financing liabilities

Financing liabilities consist mainly of current and non-current loans. In addition, overdraft lines are disclosed which might be used.

The outstanding capital amount, the conditions and repayment schedules of the loans as of 31 December 2023, are as follows:

Loans / Overdraft Facility	Capital amount in € million	Issue date	Coupon or interest rate	Interest	Effective interest rate	Due date
Loan / Term Loan (HENSOLDT AG)	620.0	30/9/2020	3M Euribor + 1.50 %	variable	6.23 %	14/4/2027
Loan / Term Facility (HENSOLDT AG)	–	6/12/2023	3M Euribor + 2.00 %	variable	n/a	14/4/2027
Revolving Credit Facility (HENSOLDT AG)	–	30/9/2020	3M Euribor + 2.00 %	variable	n/a	14/4/2027
Loan (HENSOLDT Nexeya France S.A.S.)	1.8	30/4/2021	0.71 %	fix	2.09 %	30/4/2026
Loan (HENSOLDT Nexeya France S.A.S.)	4.6	30/4/2021	0.75 %	fix	0.91 %	23/4/2026
Loan (HENSOLDT Nexeya France S.A.S.)	0.2	8/12/2017	1.31 %	fix	1.64 %	30/6/2025
Loan (HENSOLDT Nexeya France S.A.S.)	1.0	21/12/2022	3.43 %	fix	3.43 %	15/7/2024
Overdraft Facility (HENSOLDT South Africa (Pty) Ltd.)	8.5	31/10/2018	SARB Prime Rate	variable	11.75 %	31/7/2024
Overdraft Facility (HENSOLDT AG)	–	29/10/2019	€STR +1.25 %	variable	n/a	n/a
Overdraft Facility (HENSOLDT Avionics GmbH)	0.0	3/8/2015	7.80 %	fix	7.80 %	n/a

The outstanding capital amount, the conditions and repayment schedules of the loans as of 31 December 2022, are as follows:

Loans / Overdraft Facility	Capital amount in € million	Issue date	Coupon or interest rate	Interest	Effective interest rate	Due date
Loan / Term Loan (HENSOLDT AG)	620.0	30/9/2020	3M Euribor + 1.75 %	variable	3.71 %	14/4/2027
Revolving Credit Facility (HENSOLDT AG)	–	30/9/2020	3M Euribor + 1.50 %	variable	n/a	14/4/2027
Loan (HENSOLDT Nexeya France S.A.S.)	2.5	30/4/2021	0.71 %	fix	2.09 %	30/4/2026
Loan (HENSOLDT Nexeya France S.A.S.)	6.4	30/4/2021	0.75 %	fix	0.91 %	23/4/2026
Loan (HENSOLDT Nexeya France S.A.S.)	0.4	8/12/2017	1.31 %	fix	1.64 %	30/6/2025
Darlehen (HENSOLDT Nexeya France S.A.S.)	1.2	21/12/2022	3.43 %	fix	3.43 %	31/3/2023
Loan (HENSOLDT Avionics GmbH)	0.0	27/7/2020	2.78 %	fix	4.84 %	30/6/2023
Overdraft Facility (HENSOLDT South Africa (Pty) Ltd.)	–	31/10/2018	SARB Prime Rate	variable	n/a	31/7/2023
Overdraft Facility (HENSOLDT AG)	–	29/10/2019	€STR +1.25 %	variable	n/a	n/a
Overdraft Facility (HENSOLDT Avionics GmbH)	–	3/8/2015	7.80 %	fix	7.80 %	n/a

The existing syndicated loan agreement with a term until April 2027 is divided into a term loan of € 620 million and a revolving credit facility (RCF) of € 370 million. For draws in USD and GBP there are corresponding risk free rate provisions in the syndicated loan agreement.

At the reporting dates 31 December 2023 and 31 December 2022, the revolving credit facility, which is repayable at short notice, had not been utilised.

The financing is secured by pledging agreements regarding the shares in the 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..

The transaction costs incurred for obtaining the term loan and making the adaptations are allocated to the base contract in the application of the effective interest rate method. The transaction costs for the RCF have been capitalised as other assets and are amortised over the term of the agreement.

As part of the agreement to take over ESG Elektroniksystem- und Logistik-GmbH in December 2023, a further syndicated loan agreement (“Term Facility”) amounting to € 450 million with a term until April 2027 was concluded. The financing structure is essentially identical to the existing syndicated loan agreement with the exception of the interest rate. The financing is expected to be utilised upon completion of the acquisition around the end of the first quarter of 2024. The transaction costs incurred up to utilisation are initially capitalised as part of the calculation of the effective interest rate and allocated to the underlying contract when the loan is drawn.

In addition, the French subsidiary HENSOLDT Nexeya France S.A.S. raised loans with a total value of € 10 million. These loans have been repaid on schedule since 2022. A further loan in the amount of € 1 million exists since 2017. In addition, a loan of € 1 million was taken out in 2022 from the unconsolidated subsidiary HENSOLDT Nexeya Belgium, which is reported in current Liabilities. The loans are unsecured.

For the South African subsidiary HENSOLDT South Africa (Pty) Ltd., there is an overdraft facility of ZAR 173 million. As at 31 December 2023 it had not been utilised.

HENSOLDT Avionics GmbH has an overdraft facility of € 0.5 million. This overdraft facility can be used both for overdrafts and for issuing guarantees. Utilisation of € 0.04 million as of the reporting date relates to the issue of a rental guarantee.

In addition, there is an overdraft facility at HENSOLDT AG in the amount of € 15 million, which was not utilised as of the reporting date.

Within financing liabilities, the total amounts of financial liabilities to banks as of 31 December 2023, amount to:

in € million	< 1 year	1 to 5 years	> 5 years	Total
Liabilities to banks as of 31 December 2023	22	621	–	**643**
Liabilities to banks as of 31 December 2022	**11**	**619**	**–**	**630**

Financial liabilities to banks include liabilities from recourse factoring amounting to € 11 million (previous year: € 8 million). As of the reporting date, there were other current financial liabilities from cash receipts on assigned receivables that shall be forwarded to the factor on the due date amounting to € 2 million (previous year: € 0 million).

35.3 The reconciliation of changes in financing liabilities to cash flows from financing activities

The following table shows the cash flows from financing activities in a reconciliation from the opening balances to the closing balances for the liabilities and equity components attributable to financing activities including the accompanying financial assets and liabilities from hedging transactions of these financing activities.

			Non-cash changes		
in € million	1 Jan. 2023	Net cash changes	Changes in fair value	Other changes	31 Dec. 2023
Non-current borrowing					
Loan (Term Loan)	612	–	–	5	**617**
Bank loans (net)	7	-3	–	-0	**4**
Current borrowing					
Current borrowing	12	11	–	–	**23**
Other financial liabilities	0	2	–	–	**2**
Change in financing liabilities due to financing activities	**631**	**10**	**–**	**5**	**646**
Change in lease liabilities	**158**	**-19**	**–**	**72**	**211**
Share capital	105	11	–	–	**116**
Capital reserve	472	227	–	-86	**613**
Other reserves	82	–	–	-51	**32**
Retained earnings	-55	-32	–	135	**48**
Non-controlling interests	13	-0	–	3	**16**
Change in equity due to financing activities	**616**	**206**	**–**	**2**	**824**
Cash flows from financing activities		**197**			
Change in assets (-) and liabilities (+) to hedge non-current borrowing	-4	-0	13	–	**9**

in € million	1 Jan. 2022	Net cash changes	Non-cash changes Changes in fair value	Other changes	31 Dec. 2022
Non-current borrowing					
Loan (Term Loan)	613	–	–	-1	**612**
Bank loans (net)	9	-2	–	–	**7**
Current borrowing					
Current borrowing	166	-161	–	7	**12**
Other financial liabilities	6	-5	–	–	**0**
Change in financing liabilities due to financing activities	**794**	**-169**	**–**	**6**	**631**
Change in lease liabilities	**156**	**-19**	**–**	**22**	**158**
Share capital	105	–	–	–	**105**
Capital reserve	537	–	–	-65	**472**
Other reserves	-65	–	–	148	**82**
Retained earnings	-171	-26	–	142	**-55**
Non-controlling interests	11	-0	–	2	**13**
Change in equity due to financing activities	**417**	**-26**	**–**	**226**	**616**
Cash flows from financing activities		**-214**			
Change in assets (-) and liabilities (+) to hedge non-current borrowing	1	–	-5	–	**-4**

36 Information on financial instruments

36.1 Financial risk management

The Group is exposed to a range of financial risks on account of its activity: (i) market risks, in particular foreign exchange risk and interest rate risk, (ii) liquidity risk and (iii) credit risk.

Overall, the Group’s financial risk management system concentrates on minimising unforeseeable market risks and their potential negative effects on the Group's operating and financial performance.

The Group’s financial risk management is carried out in compliance with the guidelines approved by the Chief Financial Officer. Further information on risks relating to financial instruments can be found in the risk report of the Combined Management Report, which is prepared in addition to the IFRS Consolidated Financial Statements.

The Group uses financial derivatives exclusively to mitigate risks (“hedging”).

Market risk

Foreign exchange risk

The HENSOLDT Group‘s foreign exchange risks result from the fact that the Group has operations in various countries around the globe that do not use the Euro.

For orders received that are invoiced in foreign currency, the Group enters into foreign currency forward and foreign currency swap transactions in order to exclude or minimise foreign exchange risks. The necessary measures and rules related to the hedging of orders not invoiced in Euro are set out in the Group-wide treasury policy.

The Group uses mainly foreign currency forward transactions as hedging instruments.

In the fiscal year, a loss on foreign currency translation of € 7 million (previous year: loss of € 22 million)[2] was recognised in the consolidated income statement. Income of € 1 million (previous year: € 0 million)[2] were opposed to expenses of € 8 million (previous year: € 22 million)[2].

[2] Adjustment of the previous year's values compared to the 2022 reporting due to the breakdown of the “other financial result” in note 13

Sensitivity of the foreign exchange risk

The sensitivity analysis approximately quantifies the risk that can occur based on set assumptions if certain parameters are changed to a defined extent. Currency risks pertain in particular to the US dollar (USD), South African rand (ZAR), pound sterling (GBP) and Australian Dollar (AUD).

The following disclosures describe the Group's view of the sensitivity of an increase or decrease in the USD, ZAR, GBP and AUD against the Euro. The change is the value used in the internal reporting of exchange rate risk and represents the Group's assessment regarding a possible change in exchange rates. Currency risks within the meaning of IFRS 7 result from financial instruments that are denominated in a currency other than the functional currency and are of a monetary nature. Translation differences from the translation of financial statements of foreign group entities into the Group's currency remain unconsidered. The sensitivity analysis includes the HENSOLDT Group's main financial instruments outstanding on the reporting date.

If the Euro had appreciated/depreciated by 20.0 % against the USD, ZAR, GBP and AUD as of 31 December 2023 or 2022, the group result would have changed in the manner shown below:

in € million	Changes in the amount of	31 Dec. 2023	Changes in the amount of	31 Dec. 2022[1]
EUR/GBP	+/- 20.0 %	-6.3 / 9.4	+/- 20.0 %	-5.2 / 7.8
EUR/ZAR	+/- 20.0 %	4.2 / -6.3	+/- 20.0 %	0.9 / -1.4
EUR/USD	+/- 20.0 %	-0.9 / 1.3	+/- 20.0 %	-1.0 / 1.5
EUR/AUD	+/- 20.0 %	-2.8 / 4.2	+/- 20.0 %	-1.4 / 2.1

[1] The figures for 2022 have been adjusted compared to the 2022 reporting

Foreign currency exposure is hedged using a macro-hedging approach. In this analysis, it was assumed that all other influencing factors remain equal.

Interest rate risk

The Group is exposed to interest rate risks due to its borrowing at fixed and floating rates. Interest rate risks are a result in particular of variable portions of interest, which depend on current market interest rates; these have an impact on the "Interest paid" item in the cash flows from operating activities. The cash flows risk is mainly due to the change in market interest rates. An increase in the market interest rate implies the risk of an increasing negative cash flows from operating activities, and vice versa.

Interest rate swaps were concluded for one of the variable interest-bearing syndicated loans, the term loan. The changes in the fair values of interest rate derivatives are recognised in the consolidated income statement.

Sensitivity of the interest rate risk

A change of +/- 50 base points in interest rates as of the reporting date would have decreased/increased equity and the group result by € -3.4 million or € 3.4 million (previous year: € -2.3 million or € 0.7 million). This analysis assumed that all other variables, in particular exchange rates, remain constant.

Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents at all times in order to be able to meet current and future obligations when due. The Group manages its liquidity by retaining a sufficient amount of liquid assets.

Adverse developments on the capital markets could increase the Group's borrowing costs and limit its financial flexibility. Management monitors the Group's cash reserves as well as the expected cash flows from operating activities.The contract terms of the Group's financial liabilities, based on undiscounted cash flows and including interest payments – where applicable – are as follows:

in € million	Carrying amount	Contractual cash flows	< 1 year	1 to 5 years	> 5 years
Non-derivative financial liabilities					
Banks	643	766	56	710	–
Other	461	461	461	–	–
Derivative financial liabilities					
Interest rate swaps	10	10	–	10	–
Foreign currency forwards	4	4	4	–	–
Lease liabilities	211	295	32	105	158
As of 31 December 2023	**1,328**	**1,535**	**553**	**825**	**158**

in € million	Carrying amount	Contractual cash flows	< 1 year	1 to 5 years	> 5 years
Non-derivative financial liabilities					
Banks	630	729	24	705	–
Other	381	381	381	–	–
Derivative financial liabilities					
Foreign currency forwards	6	6	3	3	–
Lease liabilities	158	213	29	96	88
As of 31 December 2022	**1,175**	**1,328**	**436**	**804**	**88**

HENSOLDT Group's liquidity risks relate primarily to the compliance with a financial covenant agreed upon with the banks in the context of corporate financing.

The Senior Facility Agreements define one specified financial covenant. In case of non-compliance with the covenant, the lenders are entitled to terminate the loans. This could result in a going concern risk for the HENSOLDT Group if no alternative funding would be available at the time when the liabilities to banks fall due. The agreed target values have been set in such a way that the Group only runs the risk of not complying with them in the event of an extreme deterioration of its financial situation. Furthermore, the Group can obtain the banks' approval at an early stage to exceed or fall below the set values. The financial ratios are monitored on an ongoing basis.

The HENSOLDT Group's aim is compliance with the financial covenant at all times and to ensure via monthly simulations of budgets that the financial covenant will be complied with in future quarters.

The probability of occurrence of the risk of non-compliance with the financial covenant is considered to be low.

For short-term liquidity management, group-wide rolling liquidity planning, updated bi-weekly, is used and this constitutes the operative instrument for short-term liquidity management of the HENSOLDT Group. Moreover, liquidity is ensured at all times via the RCF of € 370 million.

Credit risk

The Group is exposed to credit risk in respect of the default of financial instruments, whether by customers or by counterparties to the financial instruments, provided that they do not fulfil their commitments at the time of conclusion of the contract or only partially at the time of maturity. However, the Group prepared guidelines in order to avoid the concentration of credit risks and to ensure that the credit risk remains limited.

Where activities of the central treasury department of the Group are affected, the credit risk resulting from financial instruments is managed at group level.

The Group monitors the development of individual financial instruments and the impact of market developments on their performance and takes appropriate measures in the event of foreseeable unfavourable developments on the basis of predefined procedures and escalation levels.

Products and services are sold to customers following a proper internal credit check.

The recognised amount of the financial assets, including contract assets, represents the maximum credit risk.

Assessment of the expected credit losses for customers

The estimated expected credit losses on trade receivables were calculated on the basis of actual credit losses in recent years. Credit risks were segmented according to common credit risk attributes. These are the risk assessments on the basis of rating grades of the Standard & Poor’s rating agency and taking into account the geographic location.

The following table includes information on the credit risk and the expected credit losses for trade receivables as well as contract assets as of 31 December 2023:

in € million	Rating at Standard & Poor's	Loss rate (weighted average)	Gross carrying amount	Loss allowance	Impaired credit-worthiness
Rating 1-6: low risk	BBB- to AAA	0.0 %	403	-0	No
Rating 7-9: moderate risk	BB- to BB+	0.5 %	171	-1	No
Rating 10: below average	B- to CCC-	6.7 %	14	-1	No
Rating 11: doubtful	C to CC	–	–	–	Yes
Rating 12: loss	D	–	–	–	Yes
Total allowance level 1 and 2				-2	
Specific allowance level 3				-9	Yes
As of 31 December 2023			**589**	**-11**	

The following table includes information on the credit risk and the expected credit losses for trade receivables as well as contract assets as of 31 December 2022:

in € million	Rating at Standard & Poor's	Loss rate (weighted average)	Gross carrying amount	Loss allowance	Impaired credit-worthiness
Rating 1-6: low risk	BBB- to AAA	0.0 %	308	-0	No
Rating 7-9: moderate risk	BB- to BB+	0.3 %	206	-1	No
Rating 10: below average	B- to CCC-	6.4 %	1	-0	No
Rating 11: doubtful	C to CC	–	–	–	Yes
Rating 12: loss	D	–	–	–	Yes
Total allowance level 1 and 2				-1	
Specific allowance level 3				-8	Yes
As of 31 December 2022			**514**	**-9**	

The changes of the loss rates compared to the previous year are due to an increase or decrease of the default risks in different classifications.

	31 Dec.	31 Dec.
in € million	2023	2022
Contract assets	196	182
Trade receivables	382	323
Total	**578**	**506**

Expected credit losses for other financial assets in the scope of the IFRS 9 impairment requirements have not been recognised due to materiality.

36.2 Carrying amounts and fair values of financial instruments

The Group's financial assets mainly consist of cash, short and medium-term deposits and trade receivables. The financial liabilities include trade payables and payables to financial institutions. All purchases and sales of financial assets are recorded on the settlement date in line with market convention.

The HENSOLDT Group classifies its financial instruments based on their accounting category. The following tables include the carrying amounts and fair values of financial instruments according to class and valuation category as of 31 December 2023 and 2022:

				Fiscal year 2023
in € million	Category	Carrying amount	Fair value	Level
Assets				
Other investments and other non-current financial assets[1]	FVtOCI	25	25	–
Other non-current financial assets, due on short-notice	AC	0	0	–
Trade receivables	AC	284	284	–
Trade receivables (available for factoring)[1]	FVtOCI	99	99	–
Other financial assets				
Other derivative instruments	FVtPL	2	2	2
Non-derivative instruments	AC	17	17	–
Cash and cash equivalents	AC	802	802	1
Total financial assets		**1,230**	**1,230**	
Liabilities				
Financing liabilities				
Liabilities to banks	FLAC	643	659	2
Trade payables	FLAC	457	457	–
Other financial liabilities				
Other derivative instruments	FVtPL	14	14	2
Other miscellaneous financial liabilities	FLAC	3	3	–
Total financial liabilities		**1,118**	**1,133**	

[1] Measured at amortised cost due to materiality considerations

in € million	Category	Carrying amount	Fair value	Level
			Fiscal year 2022	
Assets				
Other investments and other non-current financial assets[1]	FVtOCI	22	22	–
Other non-current financial assets, due on short-notice	AC	0	0	–
Trade receivables	AC	265	265	–
Trade receivables (available for factoring)[1]	FVtOCI	59	59	–
Other financial assets				
Other derivative instruments	FVtPL	9	9	2
Non-derivative instruments	AC	12	12	–
Cash and cash equivalents	AC	460	460	1
Total financial assets		**826**	**826**	
Liabilities				
Financing liabilities				
Liabilities to banks	FLAC	630	549	2
Trade payables	FLAC	379	379	–
Other financial liabilities				
Derivative instruments for cash flow-hedges	FVtOCI	–	–	2
Other derivative instruments	FVtPL	6	6	2
Other miscellaneous financial liabilities	FLAC	2	2	–
Total financial liabilities		**1,017**	**936**	

[1] Measured at amortised cost due to materiality considerations

The nominal values of the derivative financial instruments were as follows:

	Remaining term nominal amounts					
	under 1 year		over 1 year		total	
in € million	2023	2022	2023	2022	2023	2022
Interest rate derivatives						
Interest rate swaps	–	–	620	620	**620**	**620**
Foreign currency derivatives						
Foreign currency forwards	237	178	23	95	**260**	**273**
Average EUR:USD forward rate	*1.08*	*1.08*	*1.08*	*1.09*	**–**	**–**
Average EUR:GBP forward rate	*0.89*	*0.87*	*0.89*	*0.86*	**–**	**–**

The fair values of the derivative financial instruments were as follows:

	Assets		Liabilities	
	31 Dec.		31 Dec.	
in € million	2023	2022	2023	2022
Interest rate swaps				
not designated in a hedging relationship	–	4	10	–
Foreign currency forwards				
not designated in a hedging relationship	2	5	4	6
Total	**2**	**9**	**14**	**6**

36.3 Net gains or net losses

The following net gains or net losses on measurement of the financial assets and financial liabilities were recognised in profit or loss in the fiscal year 2023 and the previous year:

	From subsequent valuation				Fiscal year	
in € million	From interest and dividends	Fair value	Impair-ment	Currency transla-tion	2023	2022
Financial assets or liabilities at fair value through profit or loss	–	14	–	-0	14	2
Financial assets at amortised costs	-20	–	2	2	-15	2
Financial liabilities at amortised costs	35	–	–	5	40	-45
Total	**16**	**14**	**2**	**7**	**39**	**-41**

36.4 Impairment losses

The following impairment losses on financial assets were recognised in profit or loss in fiscal year 2023 and in the previous year:

		Fiscal year	
in € million	Category	2023	2022
Impairment losses for other investments and other non-current financial assets	FVtOCI	–	–
Impairment losses for:			
Trade receivables and contract assets (level 1 + 2)	AC	1	0
Trade receivables and contract assets (level 3)	AC	2	2
Impairment losses (gross) on financial assets and contract assets		**3**	**2**
Reversals of impairment losses		–	-2
Impairment losses (net) on financial assets and contract assets		**3**	**-0**

VII Additional Notes

37 Auditor‘s fees and services

The HENSOLDT Group, its subsidiaries and other companies included in the Consolidated Financial Statements recognised the following expenses for the fees and services of KPMG AG for the fiscal year 2023 and the previous year:

	Partent company		Subsidiaries		Total	
	Fiscal year		Fiscal year		Fiscal year	
in € million	2023	2022	2023	2022	2023	2022
Audit services	1.0	0.9	0.6	0.5	**1.6**	**1.4**
Other assurance services	0.3	0.3	–	–	**0.3**	**0.3**
Tax advisory services	–	–	–	–	**–**	**–**
Other services	–	–	–	0.1	**–**	**0.1**
Total	**1.3**	**1.2**	**0.6**	**0.6**	**1.9**	**1.8**

The fees for the audit services provided by KPMG AG were related to the audit of the Consolidated Financial Statements of the Group and the annual financial statements together with the combined management report, the management report of HENSOLDT AG and the remuneration report as well as the review of the interim report for the half year and the audit of financial statements of its subsidiaries including statutory extensions of the engagement.

Other assurance services relate to the audit of the Group’s non-financial report as well as the EMIR audit and agreed investigative procedures as part of an EU funding programme.

38 Future payment obligations

There were purchase commitments especially for inventories and services in the amount of € 1,343 million as of 31 December 2023 (previous year: € 1,418 million).

39 Corporate Governance

The group has submitted the declaration of conformity with the German Code required by section 161 AktG, including the recommendations of the government commission for the German Corporate Governance Code for the fiscal year 2023. The declaration of conformity is available on the website of HENSOLDT at https://investors.hensoldt.net in the “Corporate Governance” section.

40 Events after the reporting date

Dividend 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. The 10.5 million shares newly issued as a result of the capital increase are entitled to dividends from 1 January 2023. This corresponds to an expected total payment of about € 46.2 million (previous year: € 31.5 million). The payment of the proposed dividend is subject to the approval of the annual general meeting.

Letter of Comfort

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 significant events after the reporting date.

HENSOLDT AG

Management Board

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

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

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

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 Consolidated Financial Statements and of the Combined Management Report

Opinions

We have audited the consolidated financial statements of HENSOLDT AG, Taufkirchen, District of Munich and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2023, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2023, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of HENSOLDT AG and the Group 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 consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2023, and of its financial performance for the financial year from January 1 to December 31, 2023, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the

consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the 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. The combined management report includes cross-references, marked as unaudited, that are not provided for by law. Our audit opinion does not cover these cross-references or the information they refer to.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined management report.

Basis for the Opinions

We conducted our audit of the consolidated 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 Consolidated Financial Statements and of the Combined Management Report” section of our auditor’s report. We are independent of the group entities 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 consolidated financial statements and on the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated 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 consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Cut-off of revenue recognition in the project business of the Sensors operating segment

With regard to the accounting policies applied, please refer to section "I. Basis of presentation (note 2.3. Revenue from contracts with customers and 3.1. Revenue recognition over time)" in the notes to the consolidated financial statements.

Further information is provided in section "III. Group performance (note 10. Revenue and cost of sales)" in the notes to the consolidated financial statements.

RISKS FOR THE FINANCIAL STATEMENTS

Group revenue totaled EUR 1,847 million in the financial year 2023. The Sensors operating segment accounted for EUR 1,543 million of this amount, including EUR 572 million recognized on the basis of a point in time and EUR 975 million recognized over time (before exchange rate effects).

Customer contracts in the project business of the Sensors operating segment are predominantly complex, in some cases involving high order volumes and long terms. Customer-specific requirements often mean that there is no alternative use for project business output. HENSOLDT has established detailed guidelines, procedures and processes for accounting for revenue from contracts with customers. Application of the guidelines requires considerable judgement, particularly in identifying performance obligations, estimating total costs, determining the time of fulfillment of performance obligations and determining costs incurred up to the reporting date and hence the progress of performance in the case of revenue recognized over time.

Due to the complexity of contracts with customers and the judgement required when assessing the criteria for determining the time at which a customer obtains control, there is a risk for the financial statements that revenue is recognized in the wrong period.

OUR AUDIT APPROACH

Based on our understanding of processes gained during our audit, we assessed the design, structure and effectiveness of identified internal controls, in particular with regard to the correct determination of actual costs incurred, expected total costs, the progress of contracts and the revenue clearance by project controlling.

For new contracts concluded during the reporting period, we analyzed contracts and assessed whether the criteria applied for recognizing revenue at a point in time or over time were met. For this purpose, we assessed the appropriate application of the accounting guidelines for a sample of contracts selected on a risk-oriented basis.

We checked the methodology used to determine actual costs incurred in relation to the various types of costs included as well as the use of the applicable hourly rates.

On the basis of projects selected by us using a risk-oriented approach, we also examined the process for determining expected total costs in relation to the various types of costs and risks included and for updating forecasts of expected total costs for the selected projects with the relevant project managers from both the commercial and the technical side. We agreed the total amount of revenue underlying the selected projects to the relevant contracts.

We also checked the computation of the progress of the contracts concerned. In a final step, we assessed whether the timing of revenue recognition was consistent with the progress of the project or with the transfer of control.

OUR CONCLUSIONS

The approach used by the HENSOLDT Group in the cut-off of revenue relating to the project business of the Sensors operating segment is appropriate. The assumptions underlying the accounting treatment are appropriate.

Measurement of provisions for post-employment benefits

With regard to the accounting policies applied, please refer to section "I. Basis of presentation (notes 2.8. Employee Benefits and 3.6. Employee Benefits)" in the notes to the consolidated financial statements.

Further information is provided in section "V. Expenses and benefits for employees (note 32. Post-employment benefits)" in the notes to the consolidated financial statements.

RISKS FOR THE FINANCIAL STATEMENTS

Provisions for retirement benefits amounting to EUR 304 million are recognized in the consolidated financial statements as at December 31, 2023, representing the net liability arising by setting off the defined benefit obligation (DBO) relating to pension plans (EUR 414 million) and deferred compensation (EUR 154 million) against the fair value of plan assets amounting to EUR 250 million and EUR 14 million, respectively. The present value of obligations under these defined benefit plans is measured using the projected unit credit method, the outcome of which depends significantly on the judgement applied when determining various assumptions, particularly the discount rate, the future salary trend and the exercise of options relating to the disbursement of pensions. The measurement of retirement obligations was based on actuarial reports commissioned by HENSOLDT.

A significant proportion of plan assets relates to an investment in HENSOLDT Real Estate GmbH & Co. KG, which primarily holds investments in real estate. The determination of the fair value of these assets depends on the judgement applied when determining various assumptions such as the amount of future rental income to be generated and the discount rate. HENSOLDT commissioned an external expert to determine the fair values of the main properties.

There is a risk for the financial statements that inappropriate assumptions are used both in the measurement of the retirement obligations and of the plan assets, which could result in the provision for retirement benefits being measured at an incorrect amount.

Furthermore, there is a risk that the disclosures in the notes to the consolidated financial statements relating to the measurement of the provision for the provision for retirement benefits are not appropriate.

OUR AUDIT APPROACH

Within the scope of our audit, we evaluated amongst other things the actuarial reports obtained as well as the professional qualifications of the external expert. We were assisted in this evaluation by our own internal actuarial specialists. We tested the appropriateness of the actuarial assumptions and valuation methodology applied. Based on this, we reconciled the amounts recognized in the consolidated financial statements as well as disclosures in the notes with the relevant actuarial reports.

For the purposes of auditing the fair values of plan assets, we assessed the valuation of the main properties as well as the professional qualifications of the external expert. In light of the specific features of real estate valuation, we were assisted in this matter by own internal real estate specialists. We tested the appropriateness of the valuation methodology and of the underlying parameters and premises applied, assessed the key assumptions used in the valuation reports and agreed them to the underlying records and contracts.

Based on this, we agreed the amounts recognized in the consolidated financial statements and the disclosures made in the notes to the consolidated financial statements.

OUR CONCLUSIONS

The assumptions and data used by the company to measure its retirement benefit obligations and plan assets are, in each case, considered appropriate overall. The notes to the consolidated financial statements contain the necessary information on assumptions underlying the valuation.

Other Information

Management respectively 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
- information extraneous to management reports and marked as unaudited.

The other Information includes also the remaining parts of the annual report. The other Information does not include the consolidated financial statements, the combined management report information audited for content and our auditor’s report thereon.

Our opinions on the consolidated 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 consolidated 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 for the Consolidated Financial Statements and the Combined Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated 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 consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

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

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Combined Management Report

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and 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 consolidated 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 consolidated 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 control.

- Identify and assess the risks of material misstatement of the consolidated 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 control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the 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.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the 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 Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the 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 other 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 consolidated 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 Consolidated 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 reasonable assurance about whether the rendering of the consolidated financial statements and the combined management report (hereinafter the “ESEF documents”) contained in the electronic file “hensoldtag-2023-12-31-de.zip” (SHA256 hash value: 22859c7ee65b331393c765b7f5ed86b5c037ed9e63055a8079f220c8a4743de8) made available 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 consolidated financial statements and the combined management report into the ESEF format and therefore relates neither to the information contained in these renderings nor to any other information contained in the file identified above.

In our opinion, the rendering of the consolidated 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 consolidated 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 Consolidated Financial Statements and 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 consolidated 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 QS 1).

The Company’s management is responsible for the preparation of the ESEF documents including the electronic rendering of the consolidated financial statements and the combined management report in accordance with Section 328 (1) sentence 4 item 1 HGB and for the tagging of the consolidated financial statements in accordance with Section 328 (1) sentence 4 item 2 HGB.

In addition, the company’s management is responsible for such internal control that 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 the 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 consolidated financial statements and the audited combined management report.
- Evaluate whether the tagging of the ESEF documents with Inline XBRL technology (iXBRL) in accordance with the requirements of Articles 4 and 6 of the Delegated Regulation (EU) 2019/815, as amended as at the reporting date, enables an appropriate and complete machine-readable XBRL copy of the XHTML rendering.

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 2HGB.

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 consolidated financial statements and the audited combined management report as well as the examined ESEF documents. The consolidated financial statements and combined management report converted to the ESEF format – including the versions to be entered in the company register – are merely electronic renderings of the audited consolidated 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 made available 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

REPORT OF THE SUPERVISORY BOARD

on the consolidated financial statements
and the financial statements of

HENSOLDT AG

for the fiscal year 2023

Dear shareholders,

The intensification of geopolitical tensions in 2023 is a greater concern for global security policy than ever before. These events highlight the importance of maintaining defense capabilities. HENSOLDT technology plays a decisive role in this. Both the visit by German Chancellor Olaf Scholz and the company's promotion to the MDAX are clear indications of this.

The past year has shown how well HENSOLDT is now positioned in the market. In the 2023 fiscal year, the targets for all relevant key figures were once again achieved and the growth trajectory continued. An important strategic step in this direction is the transformation from a device provider to a solutions provider. We received regular reports on this from the individual divisions and gained an overview of the progress made as well as the opportunities and risks for the company.

The selection of the new CEO Oliver Dörre marks the end of the generational change in the HENSOLDT Management Board that was initiated in 2022. With his deep understanding of the industry and the customer, combined with his diverse experience in corporate management, the Supervisory Board believes that he brings precisely the qualities that the company needs for the challenges ahead in order to continue the HENSOLDT success story initiated by Thomas Müller.

The Supervisory Board sets the course for the future in its area of responsibility. An intensive debate on strategy, regular reviews and clear working structures were further measures to actively shape the responsibility of the Supervisory Board. The involvement of all stakeholders, open dialog and a clear focus on common goals are the top priorities.

The turnaround has also led to the company HENSOLDT being in the public eye more than before. The scope and reach of media coverage of the company has increased. The Supervisory Board therefore also dealt in depth with the public relations work of the HENSOLDT Group and, by adjusting its competence profile, ensured that it also has the skills in this area to ensure qualified supervision and advice for the Management Board.

The Supervisory Board is aware that the coming years will bring major changes not only for HENSOLDT, but for the entire European defense industry. We have therefore discussed the company's strategy intensively with the Management Board. In particular, we have thoroughly discussed the decision to acquire ESG Elektroniksystem- und Logistik-GmbH with the Management Board and are fully supportive of this decision. In the view of the Supervisory Board, the company is thus well prepared for the discussions on the potential impact of a common, strategic European armaments policy.

Cooperation with the Management Board

In 2023, the Supervisory Board of HENSOLDT AG diligently and dutifully fulfilled its duties in accordance with the law, the Articles of Association and the rules of procedure. We advised the Management Board on the management of the company on an ongoing basis and continuously monitored its activities. The Supervisory Board was directly involved at an early stage in all decisions of fundamental importance to the company. The Management Board informed us regularly, both verbally and in writing, promptly and comprehensively about all significant events: the focus was on corporate planning, the course of business, strategic development and the current situation of the Group. The cooperation between the Supervisory Board and the Management Board was constructive, open and trusting at all times.

The Management Board agreed the strategic direction of the company with us. We discussed business transactions of importance to the company in detail on the basis of the Management Board's reports.

The Supervisory Board, in particular the Chairman of the Supervisory Board, was in regular contact with the Management Board beyond the Supervisory Board meetings and was informed about the current development of the business situation and significant business transactions. In this way, the Supervisory Board was always aware of the intended business policy, corporate planning including financial, investment and personnel planning, the course of business, profitability and the situation of the Group.

Ms. Ingrid Jägering, as Chairwoman of the Audit Committee, also regularly discussed current developments with the Chief Financial Officer, the auditor and selected central Group functions.

As Chairwoman of the Compliance Committee, Ms. Hiltrud Werner regularly discussed current issues, important processes and compliance-relevant structures of the company with the heads of the risk-mitigating functions.

Corporate governance and working methods of the Supervisory Board

Further information on corporate governance can be found in the corporate governance statement, which is part of the combined management report for HENSOLDT AG and the HENSOLDT Group. It contains a detailed report on the working methods of the Supervisory Board and its committees. It also contains explanations of the current declaration by the Management Board and Supervisory Board pursuant to Section 161 AktG, which the Supervisory Board adopted on December 5, 2023. The current declaration by the Management Board and Supervisory Board pursuant to Section 161 AktG is also permanently available to shareholders on the HENSOLDT website at https://investors.hensoldt.net in the Corporate Governance section.

The members of the Supervisory Board are responsible for their own training and development measures. The company supports the Supervisory Board in this to an appropriate extent. In the previous fiscal year, the members of the Supervisory Board underwent training according to their individual needs on the topics of new developments in Supervisory Board law and sustainability criteria in corporate financing.

Discussions and resolutions in the full Supervisory Board

The Supervisory Board of HENSOLDT AG held eight meetings in the previous fiscal year.

At its meeting on March 21, 2023, the Supervisory Board resolved to appoint Mr. Oliver Dörre as a member of the Management Board for a term of office of three years with effect from January 1, 2024 at the latest and, following the departure of the current Chairman of the Management Board, as Chairman of the Management Board. At this meeting, the Supervisory Board also dealt with the annual financial statements of HENSOLDT AG and the consolidated financial statements as of December 31, 2022, the combined management and Group management report including the non-financial Group statement and the sustainability report. The Supervisory Board also resolved on the preparation of the remuneration report for 2022 and, following a report from the Executive Committee, on the target values achieved for the 2022 fiscal year and the determination of the target values for 2023 for the variable remuneration of the Management Board. Another focus of the meeting was the resolution on the preparation and implementation of the third Annual General Meeting of HENSOLDT AG. As part of the Management Board's report, the Supervisory Board received reports on key topics, important campaigns, key projects and product developments in the Optronics division. The topic of cyber security was discussed by the Supervisory Board, as was the progress made with the Group-wide introduction of the S/4HANA software solution.

At its meeting on April 5, 2023, the Supervisory Board approved the submission of a large-volume offer by HENSOLDT Sensors GmbH and the provision of corresponding collateral by the company. In addition, the Supervisory Board dealt with the mutually agreed termination of the Management Board service contract of Mr. Thomas Müller.

Mr. Johannes Huth stepped down as a member of the Supervisory Board and Chairman of the Supervisory Board with effect from the end of the Annual General Meeting on 12 May 2023. The Supervisory Board therefore met following the Annual General Meeting to decide on the election of a new Chairman of the Supervisory Board. At this meeting, Mr. Reiner Winkler was elected as the new Chairman of the Supervisory Board. In addition, the seats previously held by Mr. Huth on the Presiding Committee, the Nomination Committee and the Mediation Committee were filled.

Reporting on key topics, important campaigns, key projects and product developments of the Services & Space Solutions division was the subject of the meeting on July 28, 2023. In addition, the Supervisory Board dealt with the risk management system of the HENSOLDT Group in an intensive, thorough analysis. The Supervisory Board dealt intensively with the public relations work of the HENSOLDT Group. The provision of collateral by HENSOLDT AG as part of the development of an air defense system for close and short-range protection together with a partner company was also discussed. After dealing with the reports from the Executive Committee, the Supervisory Board resolved on the remuneration of the ordinary members of the Management Board with effect from January 1, 2024 and on the extension of the appointment of Ms. Celia Pelaz Perez as a member of the Management Board of HENSOLDT AG for a further five years. Furthermore, the Supervisory Board resolved to increase the remuneration of the members of the Supervisory Board and the members of the Supervisory Board committees with effect from January 1, 2024, subject to the approval of the Annual General Meeting, and to propose this increase to the Annual General Meeting in 2024. With regard to the assumption of functions by Supervisory Board member Giovanni Soccodato at MBDA, the Supervisory Board ensured that the Corporate Governance Code will continue to be complied with.

At its meeting on September 19, 2023, the Supervisory Board was informed about the core topics of the Spectrum Dominance & Airborne Solutions division. Other focal points of this meeting were the strategy update by the Chief Strategy Officer, Celia Pelaz Perez, the report on the HR potential process and diversity by the Chief Human Resources Officer, Dr. Immisch, and the efficiency program "HENSOLDT Go! Wave 3" efficiency program.

In two meetings on December 4 and 5, 2023, the Supervisory Board dealt in detail with the acquisition of all shares in ESG Elektroniksystem- und Logistik GmbH by the HENSOLDT Group and the financing required in this context. The

Supervisory Board decided to approve the financing measures, including the conclusion of corresponding loan agreements and the provision of corresponding guarantees by the HENSOLDT Group. It also approved the preparation of a capital increase from authorized capital and decided to set up a special committee of the Supervisory Board for the further implementation of this capital increase.

In addition to the Management Board's report on the company's situation, the Supervisory Board was presented with the HENSOLDT Group's business plan and the provision of a security as part of a major project for approval at a further meeting on December 5, 2023. The Supervisory Board instructed the Executive Committee to prepare the targets for the variable remuneration of the Management Board in 2024. The Supervisory Board also resolved to issue the declaration of compliance with the German Corporate Governance Code. The meeting also included a discussion of the Supervisory Board's profile of skills and expertise and the results of the Supervisory Board's self-assessment. The Supervisory Board decided to expand its skills profile to include expertise in the area of media relations, among other things. In the self-assessment, the Supervisory Board focused on the evaluation of the Supervisory Board's cooperation with the Management Board and the provision of information to the Supervisory Board by the Management Board, with very positive results overall. Due to the resignation of Mr. Soccodato as a member of the Supervisory Board and the court appointment of Mr. Giuseppe Panizzardi to the Supervisory Board, the Supervisory Board decided on the appointment of Mr. Panizzardi to the Audit Committee, the Presiding Committee and the Nomination Committee.

Where necessary, the Supervisory Board also passed resolutions by written procedure. This concerned the mutually agreed premature termination of Mr. Thomas Müller's Management Board service contract, the provision of collateral for an offer of optronic systems and the submission of an application for the appointment of Mr. Panizzardi as successor by the court of registration.

The members of the Management Board regularly attended Supervisory Board and committee meetings. Consultations between the Audit Committee and the auditor and discussions on internal Supervisory Board matters took place without the presence of the Management Board.

Measures that require the approval of the Supervisory Board in accordance with the articles of association, the rules of procedure for the Supervisory Board or the rules of procedure for the Management Board were submitted to the Supervisory Board for a decision in good time. The Supervisory Board approved the resolutions proposed by the Management Board in each case after thorough examination and consultation. Apart from the individual measures already explained, there are no other transactions requiring approval to report in the past fiscal year.

Committees of the Supervisory Board

The Supervisory Board has set up a Presiding Committee and five other committees to perform its duties efficiently. These committees prepare the resolutions of the Supervisory Board and the topics to be dealt with by the full Supervisory Board. To the extent permitted by law, decision-making powers of the Supervisory Board have been transferred to the relevant committees.

Three meetings of the Presiding Committee were held in the past fiscal year.

At its meeting on 21 March 2023, the Presiding Committee assessed the target values achieved for the 2022 fiscal year and prepared a proposal to the Supervisory Board regarding the bonus for the Management Board for the 2022 fiscal year and the determination of the and prepared a proposal to the Supervisory Board on the bonus for the Management Board for the 2022 fiscal year and on setting targets for the Management Board for 2023. The Executive Committee also dealt with personnel planning for the Management Board and proposed to the Supervisory Board that Mr Oliver Dörre be appointed to the Management Board for a period of three years from 1 January 2024.

At the meeting on 4 April 2023, the Presiding Committee prepared the Supervisory Board's resolution on the mutually agreed premature termination of Mr Thomas Müller's Management Board service contract.

At the meeting on 28 July 2023, the Presiding Committee discussed the proposal to the Supervisory Board to adjust the remuneration of the Management Board and the extension of the mandate of Ms Celia Pelaz Perez as a member of the Management Board.

The **Audit Committee** held eight meetings.

A key part of its work was the discussion of the preliminary key financial figures for the 2022 fiscal year, the dividend proposal and the key financial figures for the year (quarterly statement 3M2023, half-year financial report 6M2023 and quarterly statement 9M2023). The Audit Committee consulted with the Chief Financial Officer on the key financial figures and, with regard to the half-year financial report, with the auditor to discuss the results of the audit review.

The representatives of the auditor KPMG also took part in the discussion of the annual and consolidated financial statements.

The Audit Committee also made recommendations to the Supervisory Board regarding the choice of auditor.

At each meeting of the Audit Committee, the Chairwoman of the Audit Committee reported on her regular exchanges with the Management Board, the auditor and key functions within the company. The Chief Financial Officer also reported on current issues in the finance department and other areas of responsibility.

The committee received regular reports from those responsible for the key control functions on current developments and the effectiveness and further development of the control systems.

The committee also discussed the audit results for 2023 and the audit planning for the 2024 fiscal year in the presence of the Head of Internal Audit.

The contents of the meetings were presented to the Supervisory Board as part of the oral reports from the committee meetings and - where necessary - submitted for decision.

In addition, the Chairwoman of the Audit Committee is in regular contact with the auditor - also outside of meetings. The auditor informs the Audit Committee without delay of all findings and occurrences of significance to its tasks that come to its attention during the audit. The auditor has declared to the Audit Committee that there are no circumstances that would give rise to the assumption that the auditor is biased. The Audit Committee obtained the required independence agreement from the auditor and reviewed the auditor's qualifications. Two proven financial experts, Ms. Ingrid Jägering and Mr. Giovanni Soccodato (replaced by Mr. Giuseppe Panizzardi in December 2023) respectively, are permanently represented on the Audit Committee. Expertise in sustainability issues is also ensured in the Audit Committee and is continuously developed.

On February 14, 2023, the Audit Committee discussed the results of the self-assessment of the Audit Committee's work.

At the meeting on February 22, 2024, the Audit Committee discussed the preliminary key financial figures for the 2022 fiscal year together with the Chief Financial Officer and the auditor.

With a view to the Annual General Meeting of HENSOLDT AG, the Audit Committee prepared the Supervisory Board's resolution on the annual financial statements, combined management report and other reporting, including non-financial reporting, at its meeting on March 20, 2023 and made a recommendation to the Supervisory Board on the appropriation of net retained profits. In particular, the Audit Committee satisfied itself that, in the opinion of the auditor, the Management Board had taken the measures required by Section 91 para. 2 AktG to set up a risk monitoring system in an appropriate form in the 2022 fiscal year and that the monitoring system is suitable in all material respects for identifying developments that could jeopardize the company's continued existence at an early stage and with sufficient certainty.

On May 8, 2023, the Audit Committee discussed the quarterly statement for the first three months of the 2023 fiscal year and discussed the review and further design of the investment management function with the Chief Financial Officer.

On July 27, 2023, the Audit Committee assured itself of the quality of the audit and discussed the report for the first half of the 2023 fiscal year.

On September 18, 2023, the Audit Committee defined the audit plan for the consolidated financial statements and the annual financial statements for 2023 and discussed the schedule and processes for complying with future sustainability reporting requirements and the EU taxonomy. The Audit Committee also assured itself of the appropriateness of segment reporting.

The discussion of the interim financial information for the first nine quarters was the subject of the Audit Committee meeting on November 8, 2023.

On December 4, 2023, the Audit Committee discussed the current status of the audit of the annual and consolidated financial statements for 2023 with the auditor and ensured that the requirements of the German Corporate Governance Code were carefully examined before the Supervisory Board issued its declaration of compliance.

At its regular meetings throughout the year, the Audit Committee also received regular reports from senior employees and the Head of Internal Audit on audit activities and investigations as well as on current risk management issues. The Audit Committee ensured that all identified potential risks were addressed appropriately. The committee also focused on financial and non-financial reporting, the status of the introduction of CSRD reporting and financing and refinancing issues, including in connection with the capital increase.

There were regular consultations between the Audit Committee and the auditor without the presence of the Management Board and consultations between the Audit Committee and the Management Board without the presence of the auditor.

The **Compliance Committee** held five meetings in the past fiscal year.

At its meetings, the Compliance Committee received regular reports from the Head of Compliance, the General Counsel and the Head of Internal Audit on the compliance dashboard, the status of e-learning, the compliance risk assessment and the open line cases and discussed the results with the specialist functions and the Management Board. There was also a regular exchange with the Head of Internal Audit and the HENSOLDT Group's Data Protection Officer. The Compliance Committee also dealt with the compliance requirements for reviewing business partners and media coverage of the company.

The Chairwoman of the Compliance Committee also held regular individual discussions with the heads of the company's risk-mitigating functions and reported on this at the meetings.

The **Nomination Committee** held two meetings in the past fiscal year.

On 21 March 2023, the Nomination Committee evaluated the proposal to propose Mr Marco Fuchs to the Annual General Meeting for election to the Supervisory Board. In this context, the Nomination Committee also dealt in particular with the recommendations of the German Corporate Governance Code and resolved to propose to the Supervisory Board that it propose to the Annual General Meeting that Mr. Fuchs be elected to the Supervisory Board.

On 24 October 2023, the Nomination Committee satisfied itself that, with regard to the application for the appointment of Mr. Giuseppe Panizzardi by the register court, there were no legal impediments to his holding office as a member of the Supervisory Board and that Mr. Panizzardi's appointment was in line with the requirements of the German Corporate Governance Code and the objectives adopted by the Supervisory Board for its composition. The Nomination Committee therefore decided to support the Management Board's proposal to appoint Mr. Panizzardi as a shareholder representative until the end of the Annual General Meeting in 2024.

On 5 December 2023, the Supervisory Board resolved to set up a **special committee for the implementation of a capital increase from authorized capital**. This special committee met twice on December 5, 2023 to decide on the approval of the Management Board's resolutions on the launch and implementation of the capital increase as part of the financing of the acquisition of ESG Elektroniksystem- und Logistik-GmbH.

The Mediation Committee and the Committee for Related Party Transactions were not convened in the fiscal year.

Attendance of Supervisory Board members at meetings

Information on the attendance of Supervisory Board members at Supervisory Board meetings and committee meetings held in the reporting year is provided below. The majority of meetings were held in hybrid form as face-to-face meetings with the participation of individual or several Supervisory Board members via video conference, while other meetings of the Supervisory Board and its committees were held purely as face-to-face meetings.

	Supervisory Board plenary		Audit Committee		Compliance Committee		Presidial Committee		Nomination Committee	
(Number of meetings / Attendance in %)	Number	in %	Number	in %	Number	in %	Number	in %	Number	in %
Johannes P. Huth (Chairman, until 12 May 2023)	1/2	50.0%	–	–%	–	–%	2/2	100.0%	1/1	100.0%
Reiner Winkler (Chairman, since 12 May 2023)	7/8	87.5%	–	–%	–	–%	2/3	66.7%	2/2	100.0%
Armin Maier-Junker[1] (Vice Chairman)	5/8	62.5%	–	–%	–	–%	2/3	66.7%	0	–%
Dr. Jürgen Bestle[1]	8/8	100.0%	–	–%	5/5	100.0%	1/1	100.0%	0	–%
Jürgen Bühl[1]	8/8	100.0%	–	–%	–	–%	3/3	100.0%	0	–%
Letizia Colucci	8/8	100.0%	–	–%	5/5	100.0%	0	–%	0	–%
Marco R. Fuchs (since 12 May 2023)	6/6	100.0%	–	–%	–	–%	0	–%	1/1	100.0%
Achim Gruber[1]	8/8	100.0%	–	–%	5/5	100.0%	0	–%	0	–%
Ingrid Jägering	8/8	100.0%	8/8	100.0%	–	–%	0	–%	2/2	100.0%
Marion Koch[1]	8/8	100.0%	8/8	100.0%	–	–%	0	–%	0	–%
Giuseppe Panizzardi (since 1 December 2023)	3/3	100.0%	–	–%	–	–%	0	–%	0	–%
Giovanni Soccodato (until 31 October 2023)	5/5	100.0%	6/6	100.0%	–	–%	1/1	100.0%	2/2	100.0%
Julia Wahl[1]	8/8	100.0%	8/8	100.0%	–	–%	0	–%	0	–%
Hiltrud D. Werner	8/8	100.0%	–	–%	5/5	100.0%	1/1	100.0%	–	–%

Attendance at the meetings of the Supervisory Board was therefore 94.8 % in the past fiscal year.

[1] Representative of the employees

Conflict of interest in the Supervisory Board

No conflicts of interest of members of the Management Board or Supervisory Board that should have been disclosed to the Supervisory Board were reported in the past fiscal year.

Changes in the Management Board and Supervisory Board

The mandate of Ms Celia Pelaz Perez as a member of the Management Board was extended on July 28, 2023 for a further five years, i.e. until June 30, 2029, with effect from July 1, 2024. The mandate of Mr. Thomas Müller as a member of the Management Board and Chairman of the Management Board was terminated by mutual agreement by resolution of the Supervisory Board on 5 April 2023 with effect from 31 March 2024. At its meeting on 21 March 2023, the Supervisory Board resolved to appoint Mr Oliver Dörre as a member of the Management Board for a term of office of three years with effect from 1 January 2024 at the latest and, following the departure of the current Chairman of the Management Board, as Chairman of the Management Board.

With effect from the end of the Annual General Meeting on 12 May 2023, Mr. Johannes Huth resigned from his position as shareholder representative on the Supervisory Board. In his place, Mr. Marco Fuchs was elected to the Supervisory Board as a shareholder representative by the Annual General Meeting on 12 May 2023. Mr. Giovanni Soccodato resigned from his position as a member of the Supervisory Board with effect from the end of 31 October 2023. Mr. Giuseppe Panizzardi was appointed to the Supervisory Board in his place by the register court with effect from 1 December 2023.

Audit of the annual and consolidated financial statements

KPMG AG Wirtschaftsprüfungsgesellschaft was appointed as auditor for the 2023 fiscal year by resolution of the Annual General Meeting on May 12, 2023. KPMG AG Wirtschaftsprüfungsgesellschaft had previously confirmed that there were no circumstances that could impair its independence as auditor or give rise to doubts about its independence. KPMG AG Wirtschaftsprüfungsgesellschaft also explained the extent to which non-audit services were provided to all companies of the HENSOLDT Group in the previous fiscal year.

The Management Board of HENSOLDT AG has prepared the annual financial statements, the combined management report of HENSOLDT AG and Group and the consolidated financial statements for the fiscal year 2023.

KPMG AG Wirtschaftsprüfungsgesellschaft audited the annual financial statements, the combined management report of the HENSOLDT Group and the consolidated financial statements for the fiscal year 2023 and issued an unqualified audit opinion on March 19, 2024. The consolidated financial statements were prepared on the basis of the International Financial Reporting Standards (IFRS), as adopted by the EU, and the additional requirements of German law pursuant to Section 315e (1) HGB. The annual financial statements and the combined management report were prepared in accordance with German commercial law.

The annual financial statements and the combined management report were prepared in accordance with German commercial law.

The auditor conducted the audit of the annual and consolidated financial statements in accordance with Section 317 HGB and the generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW).

The aforementioned documents were distributed to us by the Management Board in good time or were available at the balance sheet meeting. They were discussed in detail by the Audit Committee on March 19, 2024. The members of the Audit Committee reported in detail on these discussions to the full Supervisory Board at the balance sheet meeting on March 21, 2024. The full Supervisory Board discussed the financial statements and reports in detail - also in the presence of the Management Board. Both meetings were attended by the auditor, who reported on the key findings of his audit. The scope, focus and costs of the audit were also presented.

We approved the results of the audit. Following the final results of the audit by the Audit Committee and our own audit, there were no objections to be raised. The Supervisory Board approved the annual financial statements prepared by the Management Board and the consolidated financial statements prepared by the Management Board. The annual financial statements are thus adopted. The Management Board proposes that the distributable profit totaling EUR 57,198,987.42 in the amount of EUR 46,200,000 be used to pay a dividend of EUR 0.40 per dividend-bearing share. We approved this proposal.

As part of its review, the Supervisory Board also examined the non-financial Group statement as part of the sustainability report, which had to be prepared in accordance with Section 315b of the German Commercial Code (HGB), and came to the conclusion that it meets the existing requirements and that there are no objections to be raised. An external review by KPMG AG Wirtschaftsprüfungsgesellschaft had previously confirmed that no matters had come to the auditors' attention that would lead them to conclude that the non-financial Group statement has not been prepared, in all material respects, in accordance with Section 315c HGB.

Thanks to the Management Board and employees

The Supervisory Board would like to thank the members of the Management Board, the employees and the employee representatives of all Group companies for their work. They all have contributed to a very successful year for the HENSOLDT Group.

On behalf of the Supervisory Board

The Chairman of the Supervisory Board

Remuneration Report

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.

Remuneration report 2023

The remuneration report provides an overview of the structure and system of remuneration for the Management Board and Supervisory Board of HENSOLDT AG and contains detailed information on the respective remuneration granted and owed[1] to the current and former members of the Management Board and Supervisory Board.

The remuneration report was prepared jointly by the Management Board and the Supervisory Board.

The contents of this remuneration report comply with the regulatory requirements of the German Stock Corporation Act (section 162 AktG). The remuneration report 2022 was adopted with a majority of 70.00 % of the valid votes cast at the annual general meeting in 2023.

This remuneration report will be submitted to the annual general meeting on 17 May 2024 for approval.

The remuneration report 2023 was audited by KPMG AG Wirtschaftsprüfungsgesellschaft beyond the requirements of section 162 (3) of the German Stock Corporation Act (AktG) according to both formal and content criteria. The audit certificate is attached to the remuneration report 2023.

The remuneration report of HENSOLDT AG is made available on the website of HENSOLDT at https://investors.hensoldt.net.

The current remuneration systems for the members of the Management Board and the Supervisory Board are available on the website of HENSOLDT at https://investors.hensoldt.net.

1 Remuneration of the members of the Management Board in the fiscal year 2023

The structure of the remuneration and the amounts paid to the members of the Management Board are determined and regularly reviewed by the Supervisory Board. The review applies the recommendations of the German Corporate Governance Code in the version adopted by the Government Commission on 28 April 2022 ("GCGC"), unless a deviation was or is declared in individual cases, and implements the requirements pursuant to section 87 and section 87a AktG.

1.1 Overview of the remuneration system

The current remuneration system for the members of the Management Board was adapted in the first quarter of the fiscal year 2023 with effect for the current fiscal year and submitted to the annual general meeting on 12 May 2023 for voting in accordance with section 120a (1) AktG and approved with a majority of 76.62 % of the valid votes cast.

The adaptations to the remuneration system mainly concern the option of an alternative payment to build up a private pension (instead of participating in the occupational pension scheme) and the option of taking into account multi-annual special projects as LTI bonus components with a weighting of up to 15 %.

The remuneration of the members of the Management Board is based on their area of responsibility, individual performance, the performance of the Management Board as a whole, the economic and financial situation as well as the success of the HENSOLDT Group. The compensation paid to the members of the Management Board is appropriate, performance-related and in line with market conditions.

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[1] In order to improve clarity and transparency, in contrast to the previous year, the report shows the granted remuneration for which the underlying activity was fully performed in the reported fiscal year. It is therefore shown when it is earned and is independent of whether the remuneration has already been paid during the fiscal year.

An external independent expert is regularly consulted, most recently in the fiscal year 2023, to review the appropriateness of the Management Board remuneration in terms of amount and structure. In addition, the proportion of the Management Board remuneration to the remuneration of the senior management and the workforce is considered. The benchmark used for a market comparison is based on a German peer group of listed companies of comparable size with a focus on industrial, mechanical engineering and automotive suppliers, as well as listed companies of comparable size from the information technology sector which is explained, in detail, in the remuneration report for members of the Management Board.

The remuneration for the members of the Management Board consists of a fixed remuneration, a short-term variable remuneration component (Short-Term Incentive, “STI annual bonus” or “STI”) and a long-term variable remuneration component (Long-Term Incentive, “LTI bonus” or “LTI”). The variable remuneration resulting from the achievement of long-term targets exceeds the share of short-term targets (under the assumption of a target-achievement of 100 %). The criteria for the assessment of the performance-based remuneration and the annual targets set by the Supervisory Board at the beginning of the fiscal year are not subject to change in the course of a fiscal year. Subsequent changes to the target values or reference parameters for the STI bonus and the LTI bonus are generally excluded. The Supervisory Board does, however, have the option of taking appropriate account of extraordinary developments when assessing target achievement.

The remuneration system for the Management Board members contributes to the promotion of the business strategy and the long-term development of the company and its affiliated companies, namely through a simple design of the Management Board remuneration with a clear incentive structure for the members of the Management Board. The remuneration system is structured in such a way that it appropriately rewards the performance of the Management Board members while complying with all regulatory requirements, the recommendations of the GCGC and market practice. The variable remuneration is designed to reward the achievement of both short-term annual targets and long-term targets measured over multi-year periods. That way, it should be avoided that the Management Board makes decisions for reasons of short-term optimisation of its remuneration that do not promise sustainable business success. Furthermore, the members of the Management Board are incentivised by a share acquisition and shareholding obligation.

Fixed remuneration components

The members of the Management Board receive a fixed annual base salary for their services and fringe benefits from the Company. These mainly comprise a company car, employer contributions to private and statutory health insurance, continued payment of wages in the event of incapacity for work due to illness or death, preventive health checks at the company’s expense, a group accident insurance, a term life insurance, reimbursement of home travel expenses, and a housing cost subsidy for a secondary residence[2] as well as security expenses, e.g. for constructional measures at private apartments to protect the members of the Management Board. The scope may be determined by the Supervisory Board at its reasonable discretion. Fringe benefits are restricted to a maximum amount specified by the Supervisory Board for the fiscal year.

The Management Board members participate in the company pension scheme for the duration of the Management Board service contract in accordance with the pension commitment regulations applicable to senior executives and executives. The corporate pension is granted in the form of a direct commitment. Alternatively, a fixed amount is granted for establishing a private pension. The company does not grant any retirement, survivors or disability benefits, in particular no other defined benefit pension commitments for which provisions would have to be recognised. No bridging allowance or other forms of early retirement are provided for in the remuneration system.

STI annual bonus

The members of the Management Board have the opportunity to receive an STI annual bonus depending on the annual performance of the HENSOLDT Group. The basis for determining the amount of the STI annual bonus is the target amount (“STI target amount”), i.e. the amount to which a Management Board member is entitled if it achieves exactly 100 % of the STI annual targets. The STI annual bonus might amount to a maximum of 150 % of the STI target amount (cap). The STI annual bonus serves as reward for the achievement of the HENSOLDT Group’s short-term business targets and depends on the achievement of the target values for the three current STI bonus components which are free cash flow, EBITDA and revenue – each on a consolidated basis for the HENSOLDT Group. The three STI bonus components are basically each equally weighted, i.e. one third of each is included in the calculation of the target achievement for the STI annual bonus. The Supervisory Board may determine a different weighting on a case-by-case basis and decide on other STI bonus components, including non-financial ones, at its reasonable discretion. Details on the definition of the target values can be found in the remuneration system on the website of HENSOLDT at https://investors.hensoldt.net.

[2] This concerns the Management Board members Celia Pelaz Perez and Dr. Lars Immisch

The corresponding target values are approved by the Supervisory Board as part of the determination of the annual budget. The STI annual bonus is payable within thirty workdays after the approval of the consolidated financial statements for the past fiscal year.

The target setting for the STI annual bonus follows the following logic:

	Disbursement % of target bonus					
Bonus component	weighting	<80 % of target value	>80 % and <100 % of target value[1]	target value	>100 % and <120 % of target value[1]	>120 % of target value[2]
Free Cash Flow	1/3	0 %	linear reduction in the ratio 1:5	100 %	linear increase in the ratio 1:2.5	150 %
EBITDA	1/3	0 %	linear reduction in the ratio 1:5	100 %	linear increase in the ratio 1:2.5	150 %
Consolidated revenue	1/3	0 %	linear reduction in the ratio 1:5	100 %	linear increase in the ratio 1:2.5	150 %

[1] If the respective target value for an STI bonus component is not reached, the respective bonus component is reduced on a straight-line basis in the ratio 1:5. If one target value for an STI bonus component is exceeded, the respective bonus component increases on a straight-line basis in the ratio 1:2.5.

[2] The linear increase in the bonus component only occurs if a target value of more than 80 % for all three STI bonus components has been achieved.

LTI bonus

All members of the Management Board are entitled to a multi-year performance-related remuneration (“LTI bonus”). The basis for determining the amount of the LTI bonus is the target amount (“LTI target amount”), i.e. the amount to which a Management Board member is entitled if they achieve 100 % of the multi-year targets. The LTI bonus might amount to a maximum of 200 % of the LTI target amount (cap). The performance period for the LTI bonus is four years.

At the beginning of the respective four-year evaluation period of an LTI bonus tranche, the Supervisory Board shall determine at its reasonable discretion the terms and conditions for each LTI bonus component, including the weighting, and the corresponding target values of the relevant bonus tranche.

The LTI bonus is generally measured according to the following LTI bonus components from the remuneration system:

- 30-40 % based on the relative total shareholder return[3] (TSR) of the company compared to the MDAX,
- 25-30 % based on the order intake of the HENSOLDT Group,
- generally 15 % each based on two ESG targets (such as “diversity” and “climate impact”).

The “diversity” goal is aimed at achieving certain percentage of women at various company levels. The “climate impact” goal aims to increase the share of renewable energies in the energy consumed by the HENSOLDT Group and to reduce CO_2 emissions. In addition, the Supervisory Board may include up to 15 % as an LTI bonus component for individual LTI tranches based on multi-year (measurable) special projects. The exact targets for the various LTI bonus components and their exact weighting are to be determined by the Supervisory Board at the appropriate discretion for each LTI tranche.

At the end of each measurement period, an overall target achievement level is determined for the performance targets set by the Supervisory Board before the start of the performance period. The target achievement for each of the LTI bonus components and the total target achievement resulting from the individual target achievement values can amount to a maximum of 150 %. The LTI bonus is payable when the Supervisory Board determines that the target values have been achieved.

[3] The relative TSR refers to the share price performance plus notionally reinvested gross dividends during the four-year performance period and is determined on the basis of data from a recognised data provider (e.g. Bloomberg, Thomson Reuters).

Furthermore, the performance share plan to be applied as part of the LTI bonus ensures that the amount of the LTI bonus is even more dependent on the share price of HENSOLDT AG. At the beginning of the respective measurement period, the Management Board member receives a number of virtual shares (“stock rights”) calculated by dividing the target amount of the LTI target bonus by the average price of the shares of HENSOLDT AG. After the end of the respective assessment period, the number of stock rights calculated at the beginning of the measurement period is multiplied by the total target achievement of the LTI bonus components determined from the target achievement of the individual LTI bonus components.

The LTI bonus to be paid out as a cash entitlement is determined by multiplying the number of stocks calculated on the basis of the target achievement with the average closing price of the shares of HENSOLDT AG.

Tranche 2023-2026

The weighting of the LTI bonus components for the tranche 2023-2026 was established as follows: 35 % for the TSR, 30 % for the intake of new orders and 10 % each for the two ESG targets. The successful implementation of the business transformation for SAP S/4HANA was defined as a special project with a 15 % LTI bonus component.

The overall degree of target achievement for the tranche 2023-2026 is determined according to the following logic:

	Disbursement % of target bonus					
Bonus component	weighting	<80 % of target value	>80 % and <100 % of target value[1]	target value	>100 % and <120 % of targe tvalue[1]	>120 % of target value
Relative total shareholder return compared with MDAX	35 %	0 %	linear reduction in the ratio 1:5	100 %	linear increase in the ratio 1:2.5	150 %
Order Intake of HENSOLDT Group acc. to management report	30 %	0 %	linear reduction in the ratio 1:5	100 %	linear increase in the ratio 1:2.5	150 %
ESG-target: Diversity	10 %			100 %		150 %[2]
ESG-target: Climate Impact	10 %	0 %	linear reduction in the ratio 1:5	100 %	linear increase in the ratio 1:2.5	150 %[2]
Special target: SAP S/4HANA	15 %			100 %		150 %[2]

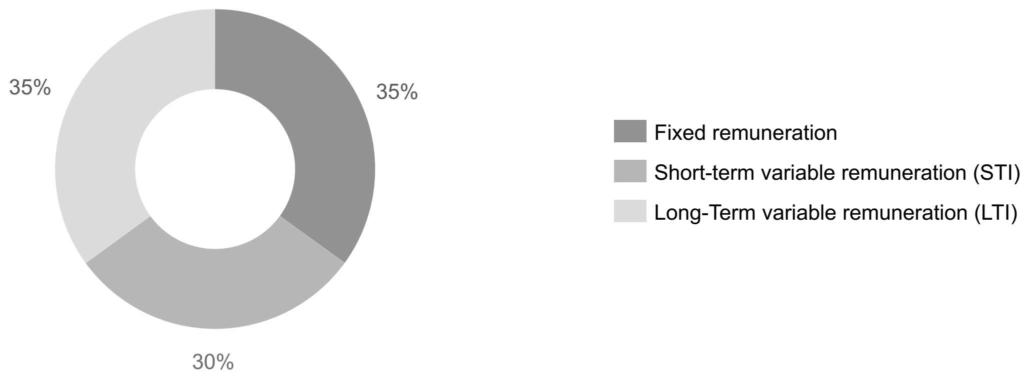
1 If the respective target value for an LTI bonus component is not reached, the respective bonus component is reduced on a straight-line basis in the ratio 1:5. If one target value for an LTI bonus component is exceeded, the respective bonus component increases on a linear basis in the ratio 1:2.5.

2 The determination of whether and to what extent the Management Board member has achieved this LTI bonus component shall be made at the end of the four-year measurement period by the Supervisory Board, which, in doing so, shall compare the actual value achieved with the targeted objectives at its reasonable discretion and may, at its reasonable discretion, take into account any under- or overachievement, but with a maximum of 150 % of the intended weighting (as well as the individual components, if applicable).

Further details on the setting of targets and the determination of target achievement can be found in the remuneration system of the Management Board on the website of HENSOLDT at https://investors.hensoldt.net.

Relationship of the remuneration components to each other

The current target direct remuneration for the average of all Management Board members will thus comprise basic remuneration and variable remuneration as follows (assuming that each of the targets have been achieved to 100 %):



Clawback

STI annual bonus and LTI bonus have been subject to a clawback regulation. Further details on the clawback provision can be found in the remuneration system of the Management Board on the website of HENSOLDT at https://investors.hensoldt.net.

Maximum remuneration

The annual maximum remuneration in terms of section 87a (1) sentence 2 no. 1 AktG for the members of the Management Board in office as of 31 December 2023 was determined by the Supervisory Board as follows:

- for the CEO: € 3.5 million
- for any other ordinary member of the Management Board[4]: € 2.5 million

If the actual remuneration granted exceeds the maximum remuneration cap, the entitlement to the LTI bonus will be reduced accordingly.

Share retention program

The members of the Management Board are obliged to hold shares of HENSOLDT AG for the duration of their appointment as a member of the Management Board, whereby this obligation must be fulfilled for the first time latest four years after the initial appointment as a member of the Management Board (“build-up phase”). The share retention programme is designed to incentivise the members of the Management Board to increase the value of the Company in the interest of the shareholders. Further details on the share retention programme provision can be found in the remuneration system of the Management Board on the website of HENSOLDT at https://investors.hensoldt.net.

Benefits in the event of premature termination of employment

In the event of premature termination of the appointment, the Management Board members are entitled to a severance payment. The severance payment is limited to two years’ remuneration and is reduced on a pro rata temporis basis if the remaining term of the Management Board service contract is less than two years (“severance cap”). More details on the benefits in the event of premature termination of employment can be found in the remuneration system of the Management Board on the website of HENSOLDT at https://investors.hensoldt.net.

[4] According to the remuneration system, the maximum remuneration for the CFO is € 3.3 million.

The Management Board members are subject to a post-contractual non-competition clause for a period of one year. During this period the Management Board member is entitled to a compensation of monthly 50 % (gross) of the proportional annual basic remuneration most recently received by the Management Board member on a monthly basis. The severance payment will be offset in the full amount against the entitlement.

The service contracts of the members of HENSOLDT AG's Management Board do not include any commitments for benefits in the event of premature termination of the Management Board service contract by the Management Board member due to a change of control.

1.2 Remuneration of the members of the Management Board in the fiscal year

Composition of the Management Board in the fiscal year 2023

In the fiscal year 2023, the Management Board of HENSOLDT AG comprised the following members:

- Thomas Müller, chairman of the Management Board since 11 August 2020
- Dr. Lars Immisch, member of the Management Board since 1 October 2022
- Christian Ladurner, member of the Management Board since 1 July 2022
- Celia Pelaz Perez, member of the Management Board since 1 July 2021

The Supervisory Board of HENSOLDT AG appointed, at its meeting of 21 March 2023, Oliver Dörre as successor of Thomas Müller as CEO of HENSOLDT AG. Oliver Dörre joined the Management Board of HENSOLDT on 1 January 2024 as another member. After the retirement of Thomas Müller on 1 April 2024, Oliver Dörre will take over as chairman.

Fixed remuneration components

Application in the fiscal year

The following table shows the fixed remuneration components granted in the fiscal year 2023 to the acting members of the Management Board in the fiscal year 2023.

Active members of the Management Board as per 31 December 2023 (amounts in €)	Thomas Müller (CEO)	Christian Ladurner (CFO)	Dr. Lars Immisch (CHRO)	Celia Pelaz Perez (CStO)
Annual basic remuneration	600,000	300,000	340,000	340,000
Additional benefits	48,408	17,602	34,619	33,933
Fixed remuneration 2023	**648,408**	**317,602**	**374,619**	**373,933**

Contribution of the remuneration system to the long-term development of the HENSOLDT Group

For the contribution of the remuneration system to the long-term development of the company, please refer to the general remarks under 1.1. The purpose of the fixed remuneration is to attract and retain suitable personalities for management duties in the Group by means of an attractive fixed salary in line with customs in the market.

STI annual bonus

Adjustment of the statement of “remuneration granted and owed”

In order to improve clarity and transparency, in contrast to the previous year, the remuneration granted is reported for which the underlying activity was fully performed in the reported current fiscal year. It is therefore shown when it is earned and is independent of whether the remuneration has already been paid out during the financial year. The disclosure is thus made at the time of vesting and is independent of whether the remuneration has already been paid during the fiscal year. Accordingly, the STI earned in the fiscal year 2023 is presented as the remuneration granted and due for the fiscal year 2023.

Application in the current fiscal year

Target achievement for the STI 2023 (amounts in T€)	weighting	target value	actual	target achieve ment	adjustment in case of under/ overrun
Consolidated Revenue	33 %	1,910	1,847	97 %	83 %
EBITDA[1]	33 %	330	329	100 %	99 %
Free Cashflow[2]	33 %	156	198	127 %	150 %
Total target achievement				108 %	111 %

[1] Key figure adjusted for special items as per reconciliation in Chapter II Economic Report 3.1 Result of operations in the Combined Management Report for the year ended 31 December 2023.
[2] Key figure adjusted for special items and M&A activities as per reconciliation in Chapter II Economic Report 3.3 Financial position in the Combined Management Report for the year ended 31 December 2023.

The table below shows, for each Management Board member the respective target amount (for a target achievement of 100%), the degree of target achievement determined by the Supervisory Board and the amount paid out in the fiscal year 2023 in accordance with the due date set out in the remuneration system.

STI-annual bonus earned in 2023 for 2023	target value in €	degree of achievement in %	disbursement amount in €
Active members of the Management Board as of 31 December 2023			
Thomas Müller (CEO)	550,000	111 %	610,500
Christian Ladurner (CFO)	225,000	111 %	249,750
Dr. Lars Immisch (CHRO)	255,000	111 %	283,050
Celia Pelaz Perez (CStO)	255,000	111 %	283,050

The STI for 2023 will be due within thirty working days after the approval of the consolidated financial statements of HENSOLDT AG for the fiscal year 2023 in 2024.

Annual STI bonus paid in 2023 for the fiscal year 2022

The previous interpretation of the term “granted” was based on the payment of the STI annual bonus. As the STI annual bonus for the year 2022 paid in the reporting year, it was accordingly not presented in the remuneration report of the previous year and will be explained below for the sake of completeness.

The STI for the fiscal year 2022 (“STI 2022”) was due within thirty working days after the approval of the consolidated financial statements of HENSOLDT AG for the fiscal year 2022. The Supervisory Board issued corresponding target values for the parameters defined in the remuneration system – Free Cashflow, EBITDA and consolidated revenue – where each criterion was included in the overall assessment to one third.

The tables show all amounts actually paid to the individual members of the Management Board during the reporting period (“remuneration granted according to previous interpretation”) or all legally due but not paid remuneration (“remuneration due”).

For the STI 2022, the Supervisory Board has made use of the option provided in the remuneration system to adjust the key figures for special items, so that the underlying parameters correspond to the adjusted key figures reported in the annual report for 2022. Furthermore, against the backdrop of achieving or exceeding further financial and non-financial targets in a difficult market environment (inflation, supply bottlenecks), the Supervisory Board additionally adjusted the overall target achievement level which had already been adjusted for under-/overachievement in accordance with the remuneration system for the fiscal year 2022.

In the opinion of the Supervisory Board, this resulted in a performance-based correction of the STI payout amounts.

Target achievement for the STI 2022 (amounts in T€)	weighting	target value	actual	target achieve ment	adjustment in case of under/ overrun	adjustment	total target achieve ment
Consolidated Revenue	33 %	1,791	1,707	95 %	77 %		
EBITDA[1]	33 %	292	292	100 %	100 %		
Free Cashflow[2]	33 %	154	183	119 %	148 %		
Total target achievement				105 %	108 %	12 %	120 %

1 Key figure adjusted for special items as per reconciliation in Chapter II Economic Report 3.1 Result of operations in the Combined Management Report for the fiscal year ended on 31 December 2022.
2 Key figure adjusted for special items and M&A activities as per reconciliation in Chapter II Economic Report 3.3 Financial position in the Combined Management Report for the fiscal year ended on 31 December 2022.

The table below shows, for each Management Board member the respective target amount (for a target achievement of 100 %), the degree of target achievement determined by the Supervisory Board and the amount paid out in the fiscal year 2023 in accordance with the due date stipulated in the remuneration system.

STI-annual bonus paid in 2023 for 2022	target value in €	degree of achievement in %	STI-annual bonus paid in 2023 for 2022
Active members of the Management Board as of 31 December 2023			
Thomas Müller (CEO)	550,000	120 %	660,000
Christian Ladurner (CFO)[1]	225,000	120 %	135,000
Dr. Lars Immisch (CHRO)[2]	255,000	120 %	76,500
Celia Pelaz Perez (CStO)	255,000	120 %	306,000
Resigned members of the Management Board in the fiscal year 2022			
Axel Salzmann (CFO)[3]	500,000	120 %	300,000
Peter Fieser (CHRO)	300,000	120 %	360,000

1 prorated from 1 July 2022
2 prorated from 1 October 2022
3 prorated until 30 June 2022

Contribution to the long-term development of the HENSOLDT Group

For the contribution of the remuneration system to the long-term development of the company, please refer to the general explanations under 1.1. The STI is intended to reward the achievement of specific financial targets that are classified as being important for the strategic development of the group.

LTI bonus

Application in the fiscal year

The overall degree of target achievement is determined from the degree of target achievement of the targets for the relevant LTI bonus components set by the Supervisory Board for the respective performance period. These are for the performance period 2021 to 2024 and for the performance period 2022 to 2025 the relative total shareholder return of HENSOLDT AG compared to the MDAX, the order intake of HENSOLDT Group and the ESG objectives diversity and climate impact. For the performance period 2023 to 2026, the special target “Successful implementation of the business transformation for SAP S/4HANA” was additionally included as LTI bonus component.

Details and definitions as well as general information on the remuneration system can be found under 1.1.

The number of virtual shares of LTIP underwent the following changes in the current fiscal year:

Virtual shares (Tranche 2021-2024)	Thomas Müller	Axel Salzmann	Peter Fieser	Celia Pelaz Perez[1]
Target value (in €)	650,000	600,000	400,000	170,000
Share price (in €)	13.94	13.94	13.94	13.94
Number of virtual shares granted in 2021	46,628	43,042	28,694	12,195

Virtual shares (Tranche 2022-2025)	Thomas Müller	Christian Ladurner[1]	Dr. Lars Immisch[1]	Celia Pelaz Perez	Axel Salzmann[1]	Peter Fieser
Target value (in €)	650,000	150,000	85,000	340,000	300,000	400,000
Share price (in €)	16.44	16.44	16.44	16.44	16.44	16.44
Number of virtual shares granted in 2022	39,538	9,124	5,170	20,681	18,248	24,331

Virtual shares (Tranche 2023-2026)	Thomas Müller	Christian Ladurner	Dr. Lars Immisch	Celia Pelaz Perez
Target value (in €)	650,000	300,000	340,000	340,000
Share price (in €)	28.42	28.42	28.42	28.42
Number of virtual shares granted in the reporting period	22,871	10,556	11,963	11,963

1 Pro-rata assignment value (target amount)

Contribution to the long-term development of the HENSOLDT Group

For the contribution of the remuneration system to the long-term development of the company, please refer to the general remarks under 1.1. The LTI should be a reward for achieving the long-term objectives, measured over multi-year periods. That way, it should be avoided that the Management Board makes decisions for reasons of short-term optimisation of its remuneration that do not promise sustainable business success. For the purpose of the LTI, success parameters from the areas of environment, social and governance are added as so-called ESG targets to the financial performance targets and the strong alignment on the share price. In the current Management Board employment contracts, these ESG goals include the “diversity” target, which is aimed at achieving certain percentages of women at various company levels, as well as the “climate impact” target, through which an increase in the share of renewable energy in the energy consumed by the HENSOLDT Group, and a reduction of CO_2 emissions are targeted.

Share retention program

Currently, the four-year build-up phase for the share retention program has not expired for any of the members of the Management Board who were in office in the fiscal year 2023. Details of the share retention program are available in the remuneration system on the website of HENSOLDT at https://investors.hensoldt.net.

Overview table of the remuneration granted and owed in terms of section 162 (1) sentence 1 AktG

The following tables show the total remuneration granted and owed individually to the members of the Management Board in office in the fiscal year 2023, in accordance with section 162 (1) sentence 1 AktG.

Beginning with this fiscal year, the remuneration is considered to be “granted” for the year in which the activity underlying the remuneration was fully performed. The term “remuneration due” refers to any remuneration that is legally due but has not yet paid.

Thus, the STI 2023 is already reported for the reporting year 2023, although the disbursement takes place only after the end of the reporting year. This enables a transparent and comprehensible reporting and ensures the link between performance and remuneration during the reporting period.

Since no performance period has yet expired, the LTI will not result in any remuneration granted or owed in the fiscal year 2023. Reports on the respective performance periods will be made accordingly after their expiry.

Compensations are included insofar as they were already due in the fiscal year 2023.

Active members of the Management Board as of 31 December 2023 (values in €)	Thomas Müller (CEO)	in %	Christian Ladurner (CFO)	in %	Dr. Lars Immisch (CHRO)	in %	Celia Pelaz Perez (CStO)	in %
Annual basic remuneration	600,000	48 %	300,000	53 %	340,000	52 %	340,000	52 %
Additional and other benefits	48,408	4 %	17,602	3 %	34,619	5 %	33,933	5 %
Total	**648,408**	**52 %**	**317,602**	**56 %**	**374,619**	**57 %**	**373,933**	**57 %**
STI annual bonus 2023	**610,500**	**48 %**	**249,750**	**44 %**	**283,050**	**43 %**	**283,050**	**43 %**
LTI bonus	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total compensation awarded and due in the fiscal year 2023[1]	**1,258,908**	**100 %**	**567,352**	**100 %**	**657,669**	**100 %**	**656,983**	**100 %**

[1] Definition adjusted compared to the previous year

Peter Fieser received a one-off payment of € 1,825,000 in January 2023, after having left the Management Board on 30 September 2022.

Review of the maximum amount of remuneration (cap)

The maximum amount of remuneration pursuant to section 87a (1), sentence 2, point 1 AktG shall include any and all remuneration components allocated for the fiscal year 2023. The maximum remuneration for the fiscal year 2023 must therefore also take into account the LTI tranche 2023, the amount of disbursement of which is not fixed until the end of the fiscal year 2026. This means that the amount of all remuneration components allocated for the fiscal year 2023 can only be determined after the end of the fiscal year 2026. In principle, the appropriateness of the potential payout amounts is ensured by limiting STI and LTI payouts to a maximum of 150 % (STI) and 200 % (LTI) of the individual target amount.

The relevant maximum cap for the total remuneration to be granted (sum of all amounts of remuneration spent for the relevant financial year, including the fixed annual salary, variable remuneration components, pension and ancillary services or any compensation payments on the occasion of taking up office for new orders) was not exceeded by cash payments in the reporting year for any member of the Management Board.

Granted or promised shares and share options

In accordance with the remuneration system, no shares or share options were granted or promised to the members of the Management Board who were in office during the reporting year.

Retention (Malus) and Clawback

No use was made of the option to withhold or reclaim variable remuneration components.

Deviations from the remuneration system applicable to the Management Board

There were no deviations from the remuneration system of the Management Board in the reporting year.

Benefits promised or granted by a third party

In the reporting year, no benefits were promised or granted to any member of the Management Board by a third party with regard to their activities as a member of the Management Board.

Commitments in connection with contract terminations

Commitments in the event of premature termination of activity, including changes to these commitments agreed during the last fiscal year

The appointment as well as the employment contract of Thomas Müller as a member of the Management Board of HENSOLDT AG were terminated prematurely by mutual agreement with effect from 31 March 2024. The contractual rights under the service contract remain unaffected for the period until 31 March 2024. To settle the claims for the period from the termination date of 31 March 2024 until the regular end of his appointment and employment contract on 30 September 2024, a compensation payment in the gross amount of € 660,000 was agreed with Thomas Müller, which will be due on 1 April 2024. The pro-rata STI bonus for the fiscal year 2024 will be determined and paid out in 2025 after the financial statements for 2024 have been adopted. The LTI bonus for the fiscal years 2022 and 2023 will be determined and paid out after the end of the four-year assessment period in the years 2026 and 2027. The full LTI bonus for the fiscal year 2024 will be determined and paid out after the end of the four-year assessment period in 2028.

Axel Salzmann (member of the Management Board until 30 June 2022) received a pro-rata STI bonus for the fiscal year 2022 in the fiscal year 2023, after the financial statements for 2022 have been adopted. The LTI bonus for the fiscal years 2021 and 2022 (pro-rata) will be determined and paid after the end of the four-year assessment period in 2025 and 2026.

Peter Fieser (member of the Management Board until 30 September 2022; thereafter employee of the company until 31 December 2022) received a STI bonus for the full fiscal year 2022 in the fiscal year 2023, after the financial statements for 2022 have been adopted. The LTI bonus for the fiscal years 2021 and 2022 will be determined and paid out after the end of the four-year assessment period in 2025 and 2026. In addition, Peter Fieser received a one-off payment of € 1,825,000 in January 2023.

Pension benefits

Even though the past service cost for occupational retirement provision is not classified as remuneration granted and owed, it is also shown in addition in the following tables for reasons of transparency.

The company pension commitments contractually agreed with the members of the Management Board are granted in the form of a direct commitment and comply with the requirements of the remuneration system, which is described on the website of HENSOLDT at https://investors.hensoldt.net. The pension benefits presented below also include commitments to the members of the Management Board prior to their appointment from previous activities at the HENSOLDT Group.

	Pension plans		Deferred compensation	
Active members of the Management Board as of 31 December 2023 (values in €)	commitments 31 Dec. 2023 (accumulated)	service cost in 2023	commitments 31 Dec. 2023 (accumulated)	service cost in 2023
Thomas Müller	1,675,316	–	–	–
Christian Ladurner	257,869	37,461	–	–
Dr. Lars Immisch	104,221	83,780	–	–
Celia Pelaz Perez	625,344	20,932	15,503	–

	Pension plans		Deferred compensation	
Resigned members of the Management Board during the fiscal year 2022 (values in €)	commitments 31 Dec. 2023 (accumulated)	service cost in 2023	commitments 31 Dec. 2023 (accumulated)	service cost in 2023
Axel Salzmann	1,106,043	–	–	–
Peter Fieser	667,324	–	1,076,465	–

2 Remuneration of the members of the Supervisory Board

2.1 Remuneration system for the members of the Supervisory Board

The remuneration system for the members of the Supervisory Board was submitted to the annual general meeting on 18 May 2021, for voting and approved by a majority of 99.99 % of the valid votes cast. In the fiscal year 2023, the remuneration system applied to all active and resigned members of the Supervisory Board. The remuneration of the members of the Supervisory Board is regulated in section 12 of the articles of association of HENSOLDT AG

According to the articles of association, the fixed annual remuneration of each Supervisory Board member amounts to € 40,000. The chairman of the Supervisory Board receives twice the amount, thus € 80,000, the vice chairman receives one and a half times this amount, thus € 60,000. For their work on the Executive Committee, Nominating Committee, Audit Committee or Compliance Committee, the members receive additional fixed compensation amounting to € 10,000. The Chairpersons of these Committees receive € 15,000 each. No remuneration is paid for activities in other committees.

The maximum remuneration for Supervisory Board members is provided for in section 12 (3) in the articles of association and amounts to twice the amount of the annual remuneration of the Supervisory Board members according to section 12 (1) in the articles of association. Supervisory Board members, who are members of the Supervisory Board or a committee or are chairperson of a committee for only part of the fiscal year, receive a remuneration which is lower in proportion to the time served. The remuneration is due four weeks after the end of each fiscal year.

The company reimburses the members of the Supervisory Board for expenses incurred in the performance of their duties, including any value-added tax payable on the reimbursement of expenses.

The company has taken out a liability insurance policy in favour of the members of the Supervisory Board, which covers the legal liability arising from their Supervisory Board activities.

The system for the remuneration of the members of the Supervisory Board provides for a purely fixed remuneration without performance-based variable components and without share-based remuneration. The Management Board and the Supervisory Board are of the opinion that a purely fixed remuneration of the Supervisory Board members is best suited to strengthen the independence of the Supervisory Board, to take into account the advisory and supervisory function of the Supervisory Board to be fulfilled independently of the company’s success and to avoid potential wrong incentives in the process. The granting of a fixed remuneration is also in line with the current predominant practice in other listed companies and the suggestion G.18 sentence 1 GCGC. The amount and structure of the Supervisory Board remuneration is in line with the market. It enables the company to attract and retain outstandingly qualified candidates with valuable, industry-specific knowledge for the Supervisory Board. This is a prerequisite for the best possible performance of the advisory and supervisory activities by the Supervisory Board and contributes significantly to the promotion of the business strategy and the long-term development of HENSOLDT Group.

More details of the remuneration system can be found on the website of HENSOLDT at https://investors.hensoldt.net.

2.2 Remuneration of the members of the Supervisory Board in the fiscal year 2023

The following table shows the remuneration granted and due to current and former members of the Supervisory Board in the fiscal year 2023 within the meaning of section 162 AktG. The remuneration earned in 2023 is reported as the remuneration granted in the reporting period within the meaning of section 162 AktG.

in €	fixed remuneration	in %	committee remuneration	in %	total 2023
Active members of the Supervisory Board as of 31 December 2023					
Reiner Winkler (Chairman, since 12 May 2023; before ordinary member)	65,000	71 %	26,250	29 %	91,250
Armin Maier-Junker[1,2] (Vice Chairman)	60,000	86 %	10,000	14 %	70,000
Dr. Jürgen Bestle[1,2]	40,000	71 %	16,250	29 %	56,250
Jürgen Bühl[1]	40,000	80 %	10,000	20 %	50,000
Letizia Colucci	40,000	80 %	10,000	20 %	50,000
Marco R. Fuchs (since 12 May 2023)	25,000	80 %	6,250	20 %	31,250
Achim Gruber[1,2]	40,000	80 %	10,000	20 %	50,000
Ingrid Jägering	40,000	62 %	25,000	38 %	65,000
Marion Koch[1,2]	40,000	80 %	10,000	20 %	50,000
Giuseppe Panizzardi (since 1 December 2023)	3,333	57 %	2,500	43 %	5,833
Julia Wahl[1]	40,000	80 %	10,000	20 %	50,000
Hiltrud D. Werner	40,000	65 %	21,250	35 %	61,250
Retired members of the Supervisory Board in the fiscal year 2023					
Johannes P. Huth (Chairman until 12 May 2023 and retired from the Supervisory Board)	30,000	73 %	11,250	27 %	41,250
Giovanni Soccodato (until 31 October 2023)	33,333	61 %	21,250	39 %	54,583

[1] Representative of the employees
[2] Employees of HENSOLDT AG or one of the group companies

No deviations from the remuneration system of the Supervisory Board occurred in the fiscal year.

3 Multiple-year overview: Information on the development of Management Board and Supervisory Board remuneration in relation to the remuneration of the rest of the workforce and the development of the result of operation of the HENSOLDT Group

Pursuant to section 162 (1) sentence 2 no. 2 AktG, the following overview presents the relative development of the remuneration granted and due to members of the Management Board and Supervisory Board in the respective fiscal year in accordance with the presentations in the tables under 1.2 and 2.2 in comparison to the average remuneration of the employees on a full-time equivalent basis as well as selected key earnings figures of the HENSOLDT Group.

For the presentation of the Group's earnings situation, those key figures are used for which HENSOLDT AG issued a forecast in the past fiscal year, as well as the key figures that form the basis for the short-term remuneration of the Management Board. In addition, the net profit for the year from the individual financial statements of HENSOLDT AG according to the German Commercial Code (HGB) is included in the comparison.

For the presentation of the average remuneration of the employees, the gross taxable amount for employees covered by collective agreements and non-tariff employees on the basis of full-time equivalence (without apprentices, trainees, etc.) is used, insofar as it exceeds € 4,000 per year. This is based on the workforce of HENSOLDT AG and the following German subsidiaries of HENSOLDT AG: HENSOLDT Optronics GmbH, HENSOLDT Holding Germany GmbH and HENSOLDT Sensors GmbH.

	Fiscal Year		
Remuneration granted and owed acc. to section 162 AktG in € [1]	**2023**	**2022**	**% Delta**
Management Board compensation			
Members in office			
Thomas Müller (Chairman)	1,258,908	1,380,073	-8.8 %
Christian Ladurner	567,352	159,296	>200 %
Dr. Lars Immisch	657,669	493,563	33.2 %
Celia Pelaz Perez	656,983	547,023	20.1 %
Retired Members			
Axel Salzmann (until 30 June 2022)	–	1,061,814	–
Peter Fieser (until 30 September 2022)	–	724,053	–

[1] Definition adjusted compared to the previous year (see section 1.2 Remuneration of the members of the Executive Board in the reporting year). The remuneration for the comparative period 2022 was recognised in line with the previous interpretation of the term "granted" according to the inflow principle.

	Fiscal Year		
Remuneration granted and owed acc. to section 162 AktG in €	**2023**	**2022**	**% Delta**
Supervisory Board compensation			
Members in office			
Reiner Winkler (Chairman, since 12 May 2023; before ordinary member)	91,250	37,500	143.3 %
Armin Maier-Junker (Vice Chairman)	70,000	70,000	– %
Dr. Jürgen Bestle	56,250	50,000	12.5 %
Jürgen Bühl	50,000	50,000	– %
Letizia Colucci	50,000	31,250	60.0 %
Marco R. Fuchs (since 12 May 2023)	31,250	–	–
Achim Gruber	50,000	50,000	– %
Ingrid Jägering	65,000	65,000	– %
Marion Koch	50,000	50,000	– %
Giuseppe Panizzardi (since 1 December 2023)	5,833	–	–
Julia Wahl	50,000	50,000	– %
Hiltrud D. Werner	61,250	14,942	>200 %
Retired members			
Johannes P. Huth (Chairman, until 12 May 2023)	41,250	110,000	-62.5 %
Prof. Wolfgang Ischinger	–	22,500	–
Christian Ollig[1]	–	–	–
Prof. Dr. Burkhard Schwenker	–	39,875	–
Giovanni Soccodato (until 31 October 2023)	54,583	37,500	45.6 %
Claire Wellby	–	15,000	–

1 Member of the Supervisory Board waived his remuneration.

	Fiscal Year		
Key earnings figures in € million	**2023**	**2022**	**% Delta**
Net result (annual financial statement acc. to German commercial code)	-90	-52	-71.1 %
Net result (Group)	56	80	-30.6 %
Revenue (Group)	1,847	1,707	8.2 %
EBITDA (Group)[1]	329	292	12.8 %
Order Intake (Group)	2,087	1,993	4.7 %
Free Cashflow (Group)[2]	259	219	18.5 %

1 Key figure adjusted for special items as per reconciliation in Chapter II Economic Report 3.1 Results of Operations in the Combined Management Report for the fiscal year ended on 31 December 2023.
2 Key figure adjusted for taxes, interest, special items and M&A activities as per reconciliation in Chapter II Economic Report 3.3 Financial Situation in the Combined Management Report for the fiscal year ended on 31 December 2023.

	Fiscal Year			
Workforce information	**2023**	**2022**	**2021**	**2020**
Employee compensation in €	94,036	91,946	91,218	90,956
Change compared to previous year in %	2.3 %	0.8 %	0.3 %	–

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 remuneration report

We have audited the attached remuneration report of HENSOLDT AG, Taufkirchen, District of Munich, for the financial year from January 1 to December 31, 2023, including the related disclosures, prepared to meet the requirements of Section 162 AktG [Aktiengesetz: German Stock Corporation Act].

Responsibilities of the Management Board and the Supervisory Board

The Management Board and the Supervisory Board of HENSOLDT AG are responsible for the preparation of the remuneration report, including the related disclosures, in accordance with the requirements of Section 162 AktG. The Management Board and the Supervisory Board are also responsible for such internal control as they have determined necessary to enable the preparation of the remuneration report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our responsibility is to express an opinion on this remuneration report, including the related disclosures, based on our audit. We conducted our audit in accordance with the German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report, including the related disclosures, is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts, including the related disclosures, in the remuneration report. The procedures selected depend on the auditor's professional judgement. This includes an assessment of the risks of material misstatement, whether due to fraud or error, in the remuneration report, including the related disclosures. In assessing these risks, the auditor considers the internal control system relevant for the preparation of the remuneration report, including the related disclosures. The objective is to plan and perform audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the Supervisory Board, as well as evaluating the overall presentation of the remuneration report, including the related disclosures.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, on the basis of the knowledge obtained in the audit, the remuneration report for the financial year from January 1 to December 31, 2023, including the related disclosures, complies in all material respects with the financial reporting requirements of Section 162 AktG.

Other matter – formal examination of the remuneration report

The substantive audit of the remuneration report described in this independent auditor's report includes the formal examination of the remuneration report required by Section 162 (3) AktG, including issuing an assurance report on this examination. As we have issued an unqualified opinion on the substantive audit of the remuneration report, this opinion includes the conclusion that the disclosures pursuant to Section 162 (1) and (2) AktG have been made, in all material respects, in the remuneration report.

Limitation of liability

The terms governing this engagement, which we fulfilled by rendering the aforementioned services to HENSOLDT AG, are set out in the General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms] as amended on 1 January 2017. By taking note of and using the information as contained in this auditor's report, each recipient confirms to have taken note of the terms and conditions laid down therein (including the limitation of liability of EUR 4 million for negligence under Clause 9 of the General Engagement Terms) and acknowledges their validity in relation to us.

Munich, March 21, 2024

KPMG AG
Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

Koeplin	Schieler
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

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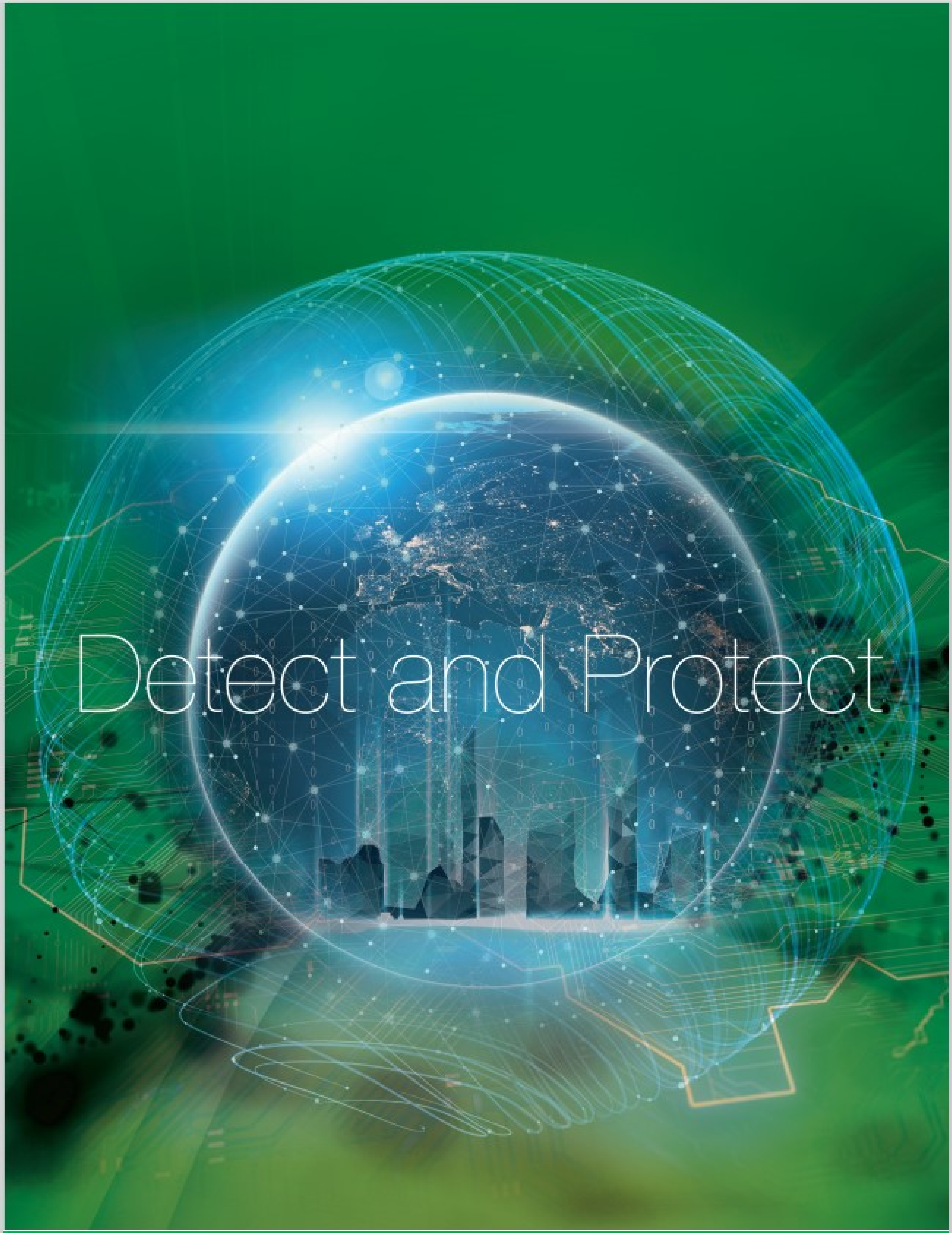

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