

# **H&K AG**

## **Management Report and Consolidated Financial Statements According to IFRS for the Financial Year 2023**

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# Group Management Report 2023

## H&K AG, Oberndorf am Neckar

### 1. Trend in business and overall situation

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#### Trend in business and corporate structure

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

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

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

Since July 28, 2015 H&K AG's shares have been listed under ISIN DE000A11Q133 on the Euronext stock exchange in Paris, on the multilateral trading facility (MTF) "Euronext Access". The average share price shown on the Euronext during 2023 was significantly higher than our calculated share value, due to the very low volume of trading.

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

The H&K Group stands for technologically refined, well-developed and innovative products aligned with outstanding quality. To secure this situation, as of December 31, 2023, 13% (2022: 13%) of our employees work in Quality Management and 8% (2022: 8%) in Research and Development. HKO and

its quality management system are certified to DIN EN ISO 9001:2015 and the NATO AQAP 2110:2016 quality standard.

The departments Finance, Information Management, Personnel, Purchasing, Risk Management, Compliance, Sales, Legal, Foreign Trade, product strategy and development have been certified to DIN EN ISO/IEC 27001:2017.

To underline its responsible and forward-thinking actions, in the spring of 2023, HKO implemented an Environmental management system according to ISO 14001, an Energy management system according to ISO 50001 and a management system for health and safety at work according to ISO 45001, which have also all been certified.

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

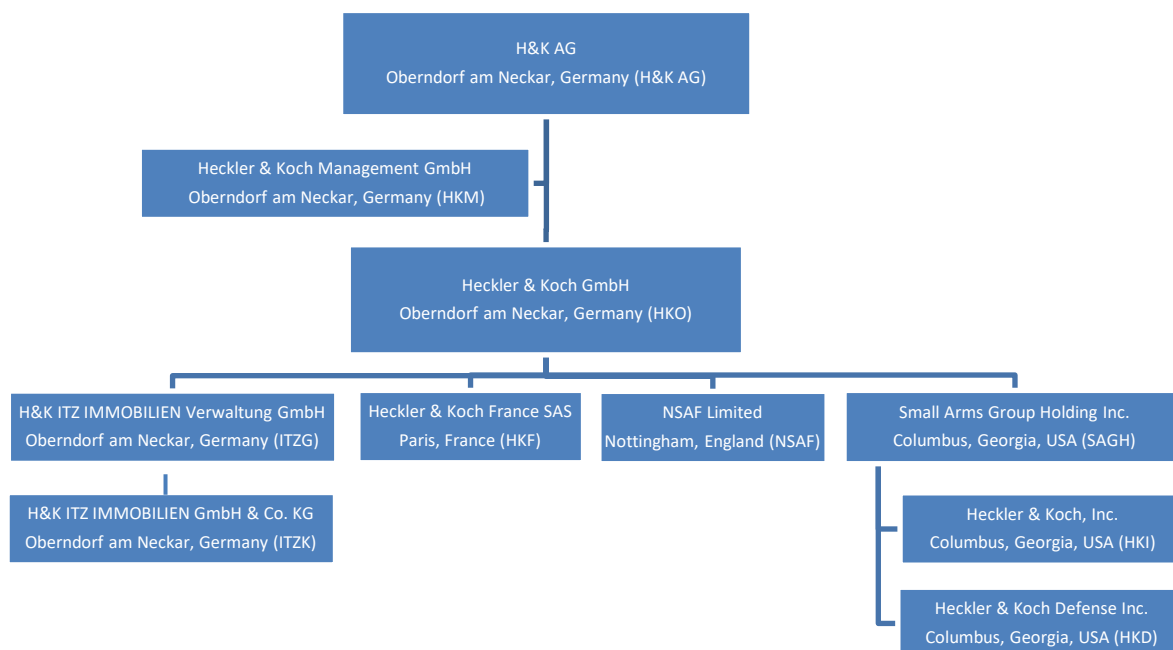
Corresponding US legal requirements such as the International Traffic in Arms Regulation (ITAR) and Export Administration Regulation (EAR) apply extraterritorially and therefore apply to the use of US technologies or the trade in US goods outside the US.

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

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

## Group entities

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



## Internal planning and control system

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

## Financial performance indicators

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

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

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

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

## Non-financial performance indicators

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

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

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

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

## Research and development

The continuous development of its new and current products contributes significantly to the Group's strong market position. The R&D department is therefore integral to safeguarding the Group's future and correspondingly essential for corporate strategy. The expenses for research and development, prior to effects of capitalisation, were €9.3 million in 2023 (2022: €9.5 million). In 2023, of these expenses, €3.5 million development costs were capitalised, a capitalisation rate of 38% and 1.2% of revenues (2022: €5.2 million; 55% capitalisation rate and 1.7% of revenues). See also information provided in “Trend in earnings, variances and significant changes” in Chapter 2 “Business situation”.

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

The primary factors for success in the market are the specialist knowledge and continual training and development, together with the motivation and commitment, of our employees. At the year-end, 8% (2022: 8%) of our employees worked in Research and Development.

As an innovative group, we protect our key developments against copying with patents and the registration of industrial property rights. Internal procedures for the consequent protection of know-how also contribute to maintaining a technological advantage.

## 2. Business situation

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### Macro-economic situation and business trends

According to the German Federal Statistical Office, in 2023, adjusted for price changes, gross domestic product (GDP) decreased by 0.3% over the previous year. The trend of economic growth following the corona epidemic no longer continued. Triggers for the decreasing economic performance included the energy crisis and geopolitical tensions. According to the “Global Economic Prospects” published by the World Bank in January 2024, economic growth in the US, an important sales market for us, was 2.5% in 2023 compared to 1.9% in 2022. The effects of the Russian attack on Ukraine are still being felt. The resulting increasing energy prices had a clearly negative effect on industrial production and, in combination with increasing interest rates, resulted in a negative economic growth.

During 2023, according to the monthly report of German’s Federal Ministry of Finance of January 2024, compared to the previous year, the German Federal Republic’s defence spending increased by 7.6% (€3.9 billion) to €55.5 billion. This increase is partly due to Germany’s increased support of Ukraine. In addition to the €55.5 billion spent, monies from the German Army’s special fund were utilised. In 2024, Germany is planning to reach the NATO target of 2% GDP for defence spending for the first time in three decades.

Changes in the overall economic environment generally have a delayed effect on our business activities. The war in Ukraine has however caused a certain dynamic on the part of the customers.

The military and law enforcement element of our business is generally determined by public spending policies. Our public sector customers usually have planning and implementation horizons stretching over many years and their tenders are therefore largely unaffected by short-term economic trends.

The market environment is defined by the defence policies of the Western nations and the resulting requirement for state-of-the-art weapons systems on the one hand and existing budget restrictions on the other hand. In addition, our market access is limited by weapons export regulations. In this regard the continuing discussions over a new defence export control law should be kept in mind. This law has been in preparation since 2022. In addition, measures for amendments to existing General Authorisations have been presented, of the current NATO-equivalent states: Japan, Switzerland, Australia and New Zealand, may in future be expanded to include South Korea, Singapore, Chile and Uruguay. In 2023 Finland became the 31<sup>st</sup> member of NATO; in March 2024 Sweden also joined NATO.

Armed forces have to have the best possible equipment in order to make an effective military contribution, from humanitarian aid, stabilisation operations, monitoring missions and advice and

support right up to combat missions under the criteria for state and national defence. The increasing destabilisation of the Middle East and North Africa together with the Russian invasion of Ukraine require security forces to refocus their equipment and training. The only way to ensure the most effective protection for a country's own soldiers during foreign deployment, peacekeeping missions and the defence of Germany and other NATO members, is to keep investing in their equipment. Due to the changed security situation, especially in Europe, a reduction in the relevant budgets is currently not expected.

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

## Business trend

The €301.4 million revenue generated in 2023 was, as forecast, slightly lower than the €305.1 million generated in 2022. The reduction in US business was largely offset by increased revenues to European customers.

As forecast, order intake was slightly lower than in 2022. Contrary to forecast (slightly higher), the order book decreased slightly compared to the previous year's figure.

Contrary to the forecast (reduction in double-digit million range) however, the operating performance remained stable at €325.6 million (2022: €325.0 million).

The EBITDA of €62.2 million (2022: €82.0 million) was the second best in the company's history and, as forecast, significantly lower than for the previous year but higher than the EBITDA of 2021.

The result from operating activities (EBIT) also decreased by €19.9 million to €50.4 million (2022: €70.3 million).

Consequently, the result before income tax was €39.6 million (2022: €53.4 million).

From the prior year figure of €107.9 million, contrary to forecast, net working capital increased significantly by €44.9 million to €152.8 million; this was primarily due to higher levels of inventories. For details see explanations in section "Significant changes in net assets" in Chapter 2 "Business situation".

Unrestricted cash (cash and cash equivalents less any security deposits that may be included in that position) was €19.1 million at the end of 2023, and was therefore, as forecast, lower than 2022 (€35.8 million).

The operating cash flow was €54.8 million in the previous year and decreased, not just slightly, as forecast, but significantly, by €46.4 million to €8.4 million in 2023. This was primarily due to the lower EBITDA and the higher net working capital. For details see explanations in section "Significant changes in net assets" in Chapter 2 "Business situation".

The number of employees (excluding agency workers but including trainees) as at the balance sheet date increased slightly, as forecast, by 25 from 1,131 in the prior year to 1,156 for the current year. In

Oberndorf am Neckar, the number of employees for HKO (including trainees but excluding agency workers) increased by 18 from 1,011 to 1,029 employees at the end of 2023. Headcount in the US rose from 93 to 98 during 2023. During the year, the number of agency workers in the Group decreased to 18 (2022: 31).

## Financial performance

### Overview

Overall, the trends for the H&K Group's 2023 earnings performance (EBITDA) met the expectations.

### Trend in revenue and orders received

In 2023, H&K Group recorded revenue, net of sales deductions, of €301.4 million (2022: €305.1 million).

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

Region		Revenues EUR '000	Percentage of sales
Germany (Domestic)	2023	69,307	23%
	2022	64,171	21%
USA	2023	110,767	37%
	2022	131,938	43%
UK	2023	24,703	8%
	2022	23,231	8%
France	2023	31,828	11%
	2022	32,129	11%
Other "Green Countries"	2023	64,821	22%
	2022	52,993	17%
Rest of world	2023	-	0%
	2022	644	0%
Total export	2023	232,119	77%
	2022	240,935	79%
Total	2023	301,426	100%
	2022	305,107	100%
of which "Green Countries"	2023	301,426	100%
	2022	304,462	100%

Domestic revenue increased slightly compared with the prior year and generated 23% of Group revenue in the period under review (2022: 21%).

The market in the USA, which is mainly served by our subsidiaries HKD and HKI, generated 37% (2022: 43%) of revenue. This reduction (€21.2 million or 16%) was both in business with the military market and in commercial business.

The proportion of Group total revenue generated in "Green Countries" was 100% and thereby slightly above previous year's level (100%).



Of the €301 million (2022: €305 million) Group revenue, 54% (2022: 54%) was to the military market, 5% (2022: 4%) to the police and governmental agencies market and 41% (2022: 42%) to the commercial market.

The H&K Group's order intake in 2023 was €285 million (2022: €319 million). This development was in line with the forecast and is primarily due to our business model, in which in some years multi-year orders are placed by government authority customers. The resultant order book at the end of 2023 was €210 million (2022: €230 million). Of this order book, €185 million is scheduled for delivery in 2024 (2022: €170 million was scheduled for delivery in 2023).

## Trend in earnings, variances and significant changes

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

Revenue (net of sales deductions) decreased by €3.7 million (-1.2%) to €301.4 million in the period under review compared to €305.1 million in the prior year.

The cost of sales includes the costs of materials, direct labour costs, overheads and depreciation incurred to achieve the revenue. The cost of sales increased from €183.3 million in the prior year to €185.5 million in the year under review (+ 1.2%). This was primarily due to higher energy costs and a change in the product mix.

The research and development expenses comprise those personnel expenses, overheads and depreciation relating to these activities together with the costs of test materials and tools, to the extent that these costs do not meet the criteria for capitalisation under IAS 38. The normal amortisation and the retirement of previously capitalised development costs relating to projects cancelled due to changed market conditions are also included. The expenses, prior to effects of capitalisation, were €9.3 million (2022: €9.5 million). The amortisation of capitalised development costs was €1.9 million (2022: €2.3 million), less the capitalisation of €3.5 million development costs (2022: €5.2 million). In 2023, there was a retirement of previously capitalised development costs relating to projects cancelled due to changed conditions of €2.7 million (2022: nil). Resulting overall net research and development expenses were €10.4 million (2022: €6.5 million).

Sales, marketing & distribution expenses include primarily personnel, material and marketing expenses as well as depreciation relating to the sales function and project-related costs. They increased by €4.3 million to €30.8 million (2022: €26.5 million); the increase is primarily due to higher overhead costs including for marketing expenses.

General administration expenses include personnel expenses and overheads as well as the depreciation relating to the administration function. They increased by €4.5 million to €25.2 million (2022: €20.7 million). The increase in costs is primarily due to higher overheads, including litigation expenses, together with higher personnel expenses. Further information about litigation is provided in Note 24 of the notes to the consolidated financial statements.

The EBITDA of €62.2 million reduced significantly as a result of increased functional costs compared to the prior year (2022: €82.0 million). As a result, in 2023, EBIT decreased correspondingly by €19.9 million to €50.4 million compared with €70.3 million in the prior year.

The net financial expense in the year under review was €10.8 million (2022: €17.0 million). In 2023 interest expenses of €7.9 million (2022: €11.1 million) were incurred, primarily relating to interest-

bearing loans (Term and Revolving Credit Facilities Agreement, “CFA-loan” and Vendor Loan). In 2023 we recognised accretion of €3.2 million (2022: €2.2 million); this relates primarily to the CFA-loan, provisions for defined benefit and other obligations. The net effect of foreign exchange gains and losses was a loss of €2.7 million (2022: €3.4 million).

In the year under review, earnings before income tax were a profit of €39.6 million (2022: €53.4million).

Income tax expenses (including deferred taxes) amounted to €10.9 million in the year under review (2022: €2.7 million). Deferred taxes are calculated on the basis of statutory tax rates, or of tax rates that have been enacted as of the balance sheet date in each country, which are expected to be in place on realisation. The deferred taxes altered from €6.4 million net income in 2022 to €2.4 million net expense in 2023; deferred taxes on interest carry-forwards were the primary factor in this change. In 2022, for the first time, there was a partial release of the previous full allowances against interest carry-forwards (net income €9.7 million), in 2023 the interest carry-forwards and the associated allowance increased (net expense €1.1 million). The deferred taxes also include the tax effects of the transaction costs for the capital increase (2023: €0.6 million expense; 2022: nil) which are set off against equity according to IAS 32.

Due to the above developments, the Group recorded a consolidated profit for the period of €28.7 million (2022: €50.6 million).

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

	Germany		USA - Commercial		USA - Defence		Great Britain		France		Holding activities	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Net revenues	248.1	238.5	107.6	116.6	3.8	15.8	25.1	23.6	31.2	31.4	-	-
Order Intake (*)	228.3	247.4	93.8	97.8	3.5	6.2	24.3	43.8	30.8	50.8	-	-
Order book	178.3	198.7	10.4	27.1	2.8	3.1	43.9	44.7	40.8	41.2	-	-
EBITDA	60.4	66.7	(0.3)	11.0	0.5	1.7	1.8	2.0	1.0	1.6	(0.9)	(1.0)
EBT	41.6	47.1	(1.6)	9.4	0.0	5.1	1.7	1.9	1.0	1.6	2.9	45.3
Employees (+)	1,029	1,011	93	88	5	5	18	17	3	3	8	7

\* including order book adjustments

+ including trainees; year-end positions

All figures in € millions apart from employee numbers

## Financial position

### Financial management policies and aims

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

## Funding sources and financing expenses

As at December 31, 2023, the H&K Group had the following two financing agreements, that result from refinancing in 2022:

- Secured financing agreement with a syndicate of banks (Term and Revolving Credit Facilities Agreement, “CFA-loan”)
- Unsecured shareholder loan (“Vendor Loan”)

The funds relating to the H&K Group’s defined benefit obligations in the amount of €45.3 million (2022: €45.1 million) are available to the company in the long term and increased primarily due to the reduced interest rates.

### *CFA-loan (Facilities A, B and C)*

This syndicated loan is a €140 million financing agreement from August 17, 2022 (“CFA-loan”) with an initial term of three years and the option of extensions of up to two additional years. The first extension of one year, to 2026, was requested and agreed in 2023; the option of a further extension to 2027 remains. The interest rate comprises a margin plus EURIBOR (if positive) and interest is payable at the end of each agreed interest period (contractual choice: either 3 or 6 months). Initially the margin is set at 3.5% and from 2024, dependent upon certain key figures, may vary between 1.6% and 3.5%. Commitment interest is charged on unutilised Facilities.

The H&K Group recognises two loan liabilities to banks under this agreement:

- **Facility A**, a secured financing loan to HKO (December 31, 2022: €45 million, of which €10 million are current; December 31, 2022: €50 million, of which €5 million were current);
- **Facility B**, a secured financing loan to H&K AG (December 31, 2022: €40 million; December 31, 2022: €40 million).

In addition the CFA financing agreement includes:

- **Facility C**, a €50 million bank guarantee and overdraft facility; as of December 31, 2023, (and as of December 31, 2022) this was only utilised for bank guarantees and therefore, as a contingent liability, not recognised in the Statement of Financial Position. The interest and other conditions of this facility are covered by additional ancillary agreements with the syndicate banks.

Under the CFA-loan agreement H&K AG and its subsidiaries are subject to strict limitations on certain transactions; the Group must also meet specified equity figures and ratios between net debt and the contractually defined EBITDA (“Financial Covenants”). The Group is permitted to partially or fully redeem the CFA-loan liability.

As security for liabilities under the CFA-loan (nominal including accrued interest as at December 31, 2023: €86.4 million; December 31, 2022: €90.9 million; utilisation of bank guarantee facility as at December 31, 2023: €13.9 million; December 31, 2022: €14.7 million), certain direct and indirect subsidiaries of H&K AG have also entered into the agreement as guarantors. In addition, all shares in HKM and certain of its direct and indirect subsidiaries together with, through floating charges and other security agreements, certain non-current assets, inventories, receivables and bank accounts are pledged to the agent for the syndicate banks.

According to the current five-year business plan, for 2024 and the future years a positive net cashflow from operating activities, sufficient to cover capital expenditure and contractual interest payments, is expected.

### *Loans from related parties*

On August 18, 2022, one of H&K AG's main shareholders granted an unsecured loan (the vendor loan) of €20 million with a term of six years to 2028. The interest rate is 6.5% and accrued interest is to be added to the loan annually. The loan was utilised on December 16, 2022. Due to the capitalisation of interest in December 2023, the loan increased to €21.3 million (2022: €20.0 million).

On August 18, 2022, one of H&K AG's main shareholders granted an unsecured loan (the "Additional Mezzanine Loan") of €40 million with a term of six years and an interest rate of 6.5% p.a. However, the loan will only be utilised should certain prerequisites defined in the CFA-loan occur; if the loan were to be utilised, H&K AG would be obliged to use these funds to repay Facility B of the CFA-loan in full. During the term of the CFA-loan, no repayments or interest payments may be made on this loan, so any accrued interest is to be added to the loan at the end of each interest period.

### *Financing expenses*

H&K Group's financing expenses are primarily interest expenses totalling €7.8 million (2022: €1.3 million) relating to the CFA-loan and the vendor loan. In the prior year, interest expenses for the bond and the SFA-loan were also included. Accretion for the CFA-loan and long-term provisions amounting to €3.2 million (2022: €2.2 million including the bond and SFA-loan) is also included.

## Off-balance-sheet financing

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

## Capital expenditure

The H&K Group's capital expenditure on property, plant and equipment and intangible assets (excluding capitalised development costs) amounted to €18.9 million in 2023 (2022: €14.7 million). These were mainly assets for the segment Germany. Capitalised development costs amounted to €3.5 million in 2023 (2022: €5.2 million).

## Cash and cash equivalents

### *Cash inflows and outflows, including effects of particular factors*

On December 31, 2023, the Group's cash and cash equivalents amounted to €19.1 million (2022: €35.8 million).

Details of cash inflows and outflows are provided in the Consolidated Statement of Cash Flows. The performance indicator "operating cash flow" was positive in 2023 (€8.4 million inflow), but €46.4 million below the prior year figure (€54.8 million inflow). This was mainly due to the lower EBITDA commented above (see "Significant changes in net assets") and the higher net working capital (see "Significant

changes in net assets”). The increase in net working capital, especially inventories, was 2022 significantly lower than in 2023, which had a corresponding impact on operating cashflow.

Cash flows due to investing activities were an outflow of €19.8 million in 2023, €8.9 million more than in the prior year. This was primarily due to increased investments in fixed assets for Site Location Germany and lower inflows from deposits.

Cash flows due to financing activities were an outflow of €5.3 million in 2023 compared to €54.7 million in the prior year. This was due in part to inflows from the capital increase in 2023 compared to net outflows from the refinancing in 2022.

## *Solvency*

Due to the available cash and cash equivalents and Facility C, the H&K Group companies were able to meet their payment obligations at all times during 2023.

The unrestricted cash as at December 31, 2023 was €19.1 million (2022: €35.8million). In addition, we had €36,1 million EUR (2022: €35,3 million) available under Facility C for bank guarantees and overdrafts. According to the current five-year business plan, for 2024 and future years a positive net cashflow from operating activities, sufficient to cover capital expenditure and contractual interest payments, is expected.

## Net assets

### Significant changes in net assets

Compared to December 31, 2022, the net assets at December 31, 2023 increased by €25.8 million to €353.9 million.

Non-current assets as at the balance sheet date increased to €143.4 million (2022: €135.7 million), which was primarily due to investments of €7.0 million in tangible fixed assets for Site Location Germany (2022: €6.2 million).

Current assets were €210.6 million; an increase of €18.1 million compared to the prior year. Inventories and prepayments for inventories increased by €30.5 million to €148.2 million (2022: €117.7 million) primarily in Oberndorf, in preparation for upcoming large projects, and in the US to support quick delivery capabilities. As at the balance sheet date, trade accounts receivable increased by €5.5 million year-on-year to €35.4 million (2022: €29.9 million). These balance sheet positions depend on the date of delivery and order-specific payment conditions and are therefore subject to significant fluctuations. The position “Other deposits” decreased by €1.0 million to €1.5 million (2022: €2.5 million).

Group equity, including equity attributable to hybrid capital investors, at December 31, 2023 amounts to €104.4 million (2022: €70.3 million). In May 2023, a capital increase took place for H&K AG with subscription rights for existing shareholders. The capital increase was carried out at a subscription price of €13.40 per share against contributions in kind and in cash. Two main shareholders of the company contributed their repayment claims against the company under three hybrid loans in a total nominal amount of €95.0 million (without accrued interest) as contributions in kind. The gross proceeds from the cash contributions amounted to €10.1 million; against this the transaction costs for

the capital increase were recognized at €2.3 million, less deferred taxes of €0.6 million. In June 2023, the Annual General Meeting resolved to distribute a dividend of €1.4 million, which was also paid in June 2023. The new shares also participated in the profit of the 2022 financial year. The current H&K Group business plan for the next few years shows a further improvement in the equity position and assumes the reduction of debt. Explanations on hybrid loans are given in Notes 22 and 36 of the notes to the consolidated financial statements.

Facilities A and B of the CFA-loan (€83.2 million (2022: €87.2 million)) and the vendor loan (€21.3 million (2022: €20.0 million)) are recognised in the balance sheet in non-current and current liabilities at their net amortised costs. As of December 31, 2023 Facility C was only utilised for bank guarantees and therefore, as a contingent liability, not recognised in the Statement of Financial Position. The associated accrued interest is shown in other liabilities.

Non-current liabilities decreased to €168.3 million (2022: €175.0 million), primarily due to the reclassification of €5 million of Facility A from non-current to current liabilities.

Current liabilities decreased to €81.2 million (2022: €82.9 million).

The net working capital increased from €107.9 million at the end of the previous year to €152.8 million on December 31, 2023. This was primarily due to an increase in inventories and prepayments for inventories by €30.5 million and a €5.5 million increase in trade receivables affected by factors related to the reporting-date, a reduction of €5.8 million in contract liabilities and €2.0 million in trade payables.

## Non-financial performance indicators and sustainability

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

Under our “Green Country Strategy” (see definition in Chapter 1. “Trend in business and overall situation”, Section “Trend in business and corporate structure”) we deliver to countries that achieve and maintain their internal and external security within the context of a liberal democracy.

We have developed our sustainability strategy with three pillars (Environment / Social / Governance). Detailed information and figures are in the Heckler & Koch annual Sustainability Reports. These are on the Group’s website [www.heckler-koch.com](http://www.heckler-koch.com) (Responsibility/Sustainability/Sustainability at HK). The 2023 Sustainability Report is expected to be published there mid-2024.

### *Production and innovation*

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

system and further sub-systems covering for example: inventory turn and range supplemented by the analysis of throughput-times and machine utilisation.

## *Employees*

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

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

Compared to the prior year, in 2023, revenue decreased slightly, and EBITDA is the second best in the company's history. Net working capital increased significantly, and the unrestricted cash is lower than in the previous year.

Debt under the CFA-loan and the vendor loan decreased to nominal €106.3 million at the year-end (2022: €110.0 million). The interest expense decreased by €3.2 million compared to the prior year. As a result of the capital increase with contributions in kind and in cash, the equity attributable to shareholders increased by €103.4 million. At the end of 2023, equity including the hybrid loans is €104.4 million (2022: €70.3 million).

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

For information about particularly significant transactions after the end of the business year, which are not recognised in the income statement or the statement of financial position, see Note 40 Subsequent Events in the notes to the consolidated financial statements.

## 3. Forecast and opportunities and risks report

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### Outlook

#### Introduction

This report contains forward looking statements on business trends, which are based on the judgements, estimates and assumptions of the management. A number of factors, many of which are beyond H&K Group's control, have an impact on its operating activities, success, business strategy and results of operations. These forward-looking statements are based on current business plans, targets, estimates and projections and take into account the state of knowledge up to the date that this report was prepared, but not beyond. If the assumptions on which the projections are based prove

to be incorrect, actual results may differ from these estimates. These elements of uncertainty include changes in the political and economic environment, changes to national and international laws and regulations, swings in the market, fluctuations in foreign currency and interest rates, the impact of competing products and prices, the effect of changes in customer structures, changes in the company's business strategy and also economic effects resulting from the conflict in Ukraine and other geopolitical conflicts, including supply chain disruptions.

## Economic outlook

The International Monetary Fund ("IMF") is projecting a global growth rate of 3.1% for 2024, with a inflation rate of 5.8%; its expectation for 2025 is a moderate increase to a global growth rate of 3.2% and a reduction in the inflation rate to 4.4%.

For the euro area the IMF is projecting a growth of 0.9% and an inflation rate of 2.8% for 2024; for 2025, a recovery of the growth rate to 1.7% and an inflation rate of 2.1% is projected.

For Germany the IMF is expecting economic growth of 0.5%, with an increase to 1.6% in 2025.

For the US the IMF is projecting that growth will fall to 2.1% in 2024 and to 1.7% in 2025, compared to a growth of 2.5% in 2023. For 2024 an inflation rate of 2.2% and for 2025 of 1.9% is expected.

Expenditure to combat the pandemic and inflation leads to a higher debt burden for countries. A potential reduction in budgets for defence and internal security is currently not to be expected due to the Russian attack against Ukraine but could be implemented in the medium term following a possible end of the conflict. Actual developments in the security situations in European countries, NATO members and future NATO members are currently still inconsistent with slight increases in expenditure. The military engagements of affected countries or the joint engagements, for example the VJTF (Very High Readiness Joint Task Forces) and the transfer of a German brigade to Lithuania, particularly given the current situation on the Eastern border of Europe, are an example for this. The continuing conflicts around the world, together with the threat of terrorism, still require a large number of international military interventions and a higher level of police capabilities.

This makes it imperative to increase and train personnel, modernise the armed and law enforcement / governmental agency forces' equipment and to ensure continuity of responsible security policies. In addition, there is continuing pressure within NATO to meet the agreed 2% target. In particular Germany still has considerable backlog investment requirements for this. As part of the turning point ("Zeitenwende") announced as a reaction to the Russian invasion of Ukraine, the 2022 national budget was expanded by a one-off sum of €100 billion for defence spending. Some of these funds have already been used for necessary investments and armament projects. In addition, in future Germany would invest more than two percent of its gross domestic product in defence.

However, the possibility that the current inflation rate will have a negative effect on the purchase of energy, raw materials and services in particular, and it may not be possible to pass this on to the market cannot be completely ruled out.

Overall however, H&K Group considers that it is well positioned to continue for the future, with its innovative product range, as the main supplier for the governmental agencies and armed forces of the EU member states, NATO and NATO-equivalent countries.



## Expected financial performance in 2023 and forecast for non-financial performance indicators

The following forecasts are based on plans from the end of 2023 and include the effects of the Ukraine conflict and other geopolitical tensions known to us at that time.

### *Order intake and order book*

For 2024 it is expected that order intake will be significantly higher than in 2023 with associated deliveries taking place over several years. As a result, the order book at the year-end is expected to be significantly higher.

### *Revenue, operating performance and EBITDA*

For 2024, an increase in the low double-digit million range is planned for revenues and a decrease in the low double-digit million range for operating performance, together with a corresponding slight decrease in EBITDA, is expected.

### *Operating cash flow*

According to the budget for 2024, operating cash flow is expected to be significantly higher.

### *Net working capital*

According to the budget for 2024, net working capital is expected to be slightly lower than the position at December 31, 2023.

### *Cash and cash equivalents*

At the end of 2024, cash and cash equivalents are expected to be significantly lower than at the end of 2023, due in part to planned capital expenditure and the contractually agreed partial repayments of the CFA-loan.

### *Number of employees*

The headcount in 2024 is expected to be slightly above the level of 2023.

## Overall assertion

For 2024 the executive directors expect that, with slightly higher revenues and slightly lower operating performance compared to 2023, EBITDA will be slightly lower.

## Opportunity Report

In 2024, for the first time in three decades, Germany is planning to reach the NATO target of 2% GDP for defence spending. It is highly likely that in addition to Germany, other NATO-members will increase their defence spending and invest more heavily in equipment for their Armed Forces. The consequence for Heckler & Koch is that in coming months and years there may be an increased demand for military weapons. For the business there is the possibility of strengthening its position as

security partner of the liberal democracies and further increasing its market share for military weapons in the EU and NATO. In the long view, for the business this exceptional and threatening situation concerning peace in the EU includes the opportunity of further establishing itself as a reliable defence supplier for NATO and the EU.

In June 2023 the Federal Republic of Germany published its National Security Strategy in which various elements of the security concept were described.

The strengthening of the security apparatus in Germany and the EU is the core element of the security strategy: *“We want to ensure that the European Union (EU) is able to act geopolitically and to uphold its security and sovereignty for the coming generations.”*<sup>1</sup>

The Federal Republic of Germany continues to support the innovativeness of German businesses and particularly those in the defence industry: *“Germany’s resilience and competitiveness are based on its high level of innovativeness and on technological and digital sovereignty. The Federal Government will therefore provide targeted support for science and research, as well as for innovativeness in the business sector [...]”*<sup>1</sup>

The German defence export controls remain restrictive, however, the German Government *“[...] takes into account alliance and security interests, the geostrategic situation and the needs of enhanced European arms cooperation.”*<sup>1</sup>

In addition, the security strategy plans an increase in the state security apparatus: *“We aim to strengthen civil preparedness and protection through a comprehensive approach involving the whole of society [...]”* and *“[...] [join] up civilian, military and police capabilities in crisis prevention, conflict management and peacebuilding and including these capabilities in our actions at international and multilateral level.”*<sup>1</sup>

The H&K Group’s market potential depends on the one hand on the military procurement plans of customer countries and on the other hand on the sporting and commercial arms product segment. Opportunities arise from changes in the military equipment required by the armed and security forces in “Green Countries”, together with the need to replace equipment, which in some cases has not been renewed for years, with modern equipment. In addition, the list of NATO-equivalent states may be expanded to include Chile, Singapore, South Korea and Uruguay. This expansion could have a positive effect on business development in the medium term. The changing threats and deployment scenarios also require the equipment used to have better mobility and increased performance capabilities, corresponding to the technical developments of the last years. High performance armament is central to affording security forces and soldiers the highest level of personal security and giving them the technical capability to accomplish their mission. As technological leader in the small arms market segment, this development offers the H&K Group the opportunity to build on its position as an industrial technological partner for highly developed armies, security forces and special forces and thereby to increase its revenue potential.

We believe that the sporting and commercial arms product segment has growth potential, particularly in the US market for pistols and long weapons. With an optimised sales and delivery structure and new products specially developed for the US market, the sales volume should continuously increase.

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<sup>1</sup> Integrated Security for Germany, published by the Federal Foreign Office of the Federal Government of the Federal Republic of Germany in June 2023, pdf pages 5 onwards.

The market potential could not be fully achieved in the past years since, with bottlenecks, production was focussed on work for military and governmental agency customers, to whom we give priority. Various measures have been set up and implemented to enable a higher supply to American customers, despite the continuing high demand in Europe. However, in 2023 the sales to the US commercial market decreased, partly due to the inflation rate. If the IMF's projected change in inflation occurs, we expect an improved realisation of our market potential.

Heckler & Koch continues to pursue the improvement programme "HK2025" initiated at the end of 2018, involving numerous initiatives. During the last few years, numerous projects were set up and successfully completed, the effects of which contributed to the improved profitability of the business. This programme is continuously being expanded by strategically oriented projects and projects to improve sustainability, the organisation and implementation of which are agreed with employee representatives. The H&K Group therefore expects further sustainable improvements in our profitability, liquidity and sustainability situation to result from this programme. In addition, we expect a strengthening of internal cooperation and a positive effect on the company's culture.

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

## Risk Report

### Fundamentals of the risk management system

The aim of the risk management system, with its management and control processes, is the early identification of risks, which could hinder the achievement of business targets, and the development and implementation of suitable mitigation measures and strategies.

The H&K Group's risk management includes the related areas of Compliance Management, Corporate Governance, internal control systems and internal audit for all Group companies. The risk management policy applies to all of the H&K Group companies.

A central element of the H&K Group's risk management is the regular risk inventory. This involves a complete assessment of the current risk situation for the Group. Overall coordination of the risk inventory is the responsibility of Group Risk Management. This covers the initiation and control of the risk inventory process. In addition, Group Risk Management has the role of follow-up processing (plausibility checks, consolidation, aggregation and, in agreement with the risk committee, overruling) of the original risks submitted and assessed by the managers responsible, in order to determine the overall risk situation for the H&K Group. Responsibility for the complete and accurate collection and assessment of the risks remains with the managers responsible for these risks in the Group companies.

A standard risk horizon is used for the assessment of risks affecting the next two business years to ensure the comparability of all risks. In the risk assessment for each risk, the associated risk amount and likelihood for the best case, most likely case and worst case are determined. Both the EBIT effect (negative impact on Group EBIT) and the cash effect (negative impact on Group cash flow) are considered. In addition, we differentiate between gross and net assessments. For the gross assessment, the damages and likelihoods are evaluated prior to mitigating measures. Then the effects of the mitigation measures are assessed and included in order to determine the net damage amount and net likelihood.

In addition to the detailed evaluation of risks over the two-year risk horizon, risks that may occur in the longer term are identified, described and qualitatively assessed in order to react to long term developments at an early stage. These risks are also monitored and, if applicable, early mitigation measures are determined. In particular it is assessed whether, over time, these risks may fall within the short-term risk horizon.

After completion of each risk inventory, Group Risk Management prepares a meeting of the Risk Committee. For this meeting a presentation is prepared covering the overall risk situation, the main risks, the overall Group risk and the Group's risk tolerance, based on a comparison between overall risk and potential mitigation measures. The risk committee considers and discusses the overall results of the risk inventory and decides on necessary adjustments where applicable. The executive board considers the results of the committee and informs the supervisory board at their next meeting about the results of the risk inventory and the general risk management within the H&K Group. As part of its supervisory function to consider the appropriateness and effectiveness of the Risk Management System, the supervisory board discusses the overall risk situation with the executive board.

We see Corporate Governance as being responsible business management. In addition to the legislators and the owners, stakeholders influencing Corporate Governance include employees, customers, suppliers, finance providers, non-governmental organisations and society, in particular via politics and the media. The concrete organisation of Corporate Governance is the responsibility of the executive board in close cooperation with its supervisory body, the supervisory board. The supervisory board is required to monitor the appropriateness and functionality of the Corporate Governance.

## External risks and strategy risks

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

Changes to the export licence approval policy can complicate or prevent the export of defence technology products and related realisation of revenue potentials and therefore negatively affect the revenue situation. However, in the current geopolitical situation - at least in the short to medium term - this risk is judged to be low for sales to NATO-, EU- and NATO-equivalent countries.

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

- The requirement from the then coalition contract regarding the continuation of a restrictive approval practice for so-called third-countries ("Drittländer", these are countries other than EU or NATO members or NATO-equivalent countries: Australia, Japan, New Zealand and Switzerland), in particular for the export of small arms, is implemented. This includes the requirement that the export of small arms to these countries should generally no longer be approved.
- The political support for defence cooperation at a European level, and the strengthening of the European defence industry basis is emphasised. Thereby the promotion of European defence cooperation already included in the Permanent Structured Cooperation (PESCO) and the European Defence Fund will also be taken into consideration for defence export decisions.

- The political principles from 2000 have been updated for changes since then of export control regulations at a European and an international level, such as the inclusion of the Arms Trade Treaty that came into force in 2014.

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

The Defence Export Control Law initiated by the current German Government is still not final. Since it is planned to expand the list of NATO-equivalent states but also to extend post shipment controls, this law holds both chances and risks for the H&K Group.

It cannot be ruled out that in the USA the regulations for the small arms market will be tightened, making it more difficult to sell our products in this commercial market, which is the largest in the world by far. There is also the risk that, following national elections in the US at the end of 2024, a new government may restrict, or increase import duties on, weapon imports, which could also weaken sales of Heckler & Koch products. Similar discussions on the tightening of weapon laws are also taking place in Germany. However, at this time these risks are classed as moderate for our market segment.

To win invitations to tender and general order intakes it is important for Heckler & Koch to maintain its technological and quality leadership position in the small arms field. Heckler & Koch counters the long-term risk of potentially losing its quality leadership position through various measures, such as regular review of make-or-buy decisions, selection of the best suppliers and employing highly qualified personnel. Consequently, this long-term risk is classed as moderate. Other external influences, such as potential decisions of European countries to place orders with their local manufacturers without going to tender, or concentration tendencies in supplier markets could also adversely affect the sales opportunities for Heckler & Koch. The Group is therefore observing these developments pro-actively in order to initiate mitigation measures at an early stage. Currently these risks are classed as low.

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

Due to the preventative measures implemented, together with proactive communication with customers and suppliers, the corona pandemic has not led to significant restrictions on our delivery

chain or sales reductions. The H&K Group judges itself to be well prepared for potential new epidemics or pandemics. We would currently classify the risk for H&K as very low.

Overall, due to the geopolitical situation and the measures taken, the external and strategic risks for the H&K Group are considered to be fairly low

## Financial risks

Under the loan agreement from 2022 (CFA-loan), H&K AG and its subsidiaries are subject to strict limitations on certain transactions; the Group must also meet specified equity figures and ratios between net debt and the contractually defined EBITDA (Financial Covenants) together with certain qualitative Covenants (such as turnover limits for certain countries, documentation obligations etc.). In case of contravention of the covenants there is a risk of early termination of the finance agreement. The risk of contravention of the covenants is considered very low on the basis of Heckler & Koch's financial planning and internal control measures.

For details of the financial agreement see explanations in section "Funding sources and financing expenses" in Chapter 2 "Business situation".

As an internationally operating group, the company is exposed to risks arising from fluctuations in foreign currency exchange rates. The foreign currency risk in the company's operating activities arises primarily from USD-denominated invoices for sales in the USA. An appreciation of the euro against the US dollar could have a negative effect on earnings from sales invoiced in US dollars. Heckler & Koch uses derivative financial instruments to partially hedge the expected receivables from these planned, but primarily not yet concluded, transactions from USD-denominated contracts against the exposure to changes in exchange rates. This should minimise risks arising from fluctuations in foreign currency exchange rates. In its management of foreign currency risks, the H&K Group only uses generally accepted instruments to hedge existing transactions and planned sales, but never for speculative purposes. In addition, there are chances of a favourable development of the US-Dollar exchange rate.

Overall the risk of impairment of trade receivables is considered to be low for the H&K Group. This is primarily because most of the debtors are states or state organizations from NATO or the EU, that are classified as having a low risk of default. For trade receivables related to the US commercial business there is risk mitigation through dedicated receivables monitoring and management.

The financial risks are considered to be moderate.

## Risks from core operating processes and infrastructure

For the short-term risk horizon, the main risks for the H&K Group relate to core operating processes. This includes revenue generation, product development, protection of supplies, processing of major orders and the actual production. Since these relate to the Group's key competencies, it is logical that the risks identified in this context are focussed on by Group risk management.

Even though potential revenues are in many cases contractually agreed beyond the short-term risk horizon, however, postponements in customers' exercising of delivery options may lead to postponements in revenues. Large and complex orders in particular with different partners require professional project management to limit the risks. If for a project the recognised risks exceed the potential benefits, then "exit strategies" may be implemented; these require appropriate management

in order to exit with minimum damage. Overall, risks described in this section are considered to be low.

Procurement risks arise from the fact that the raw materials, parts and components needed for the manufacturing process may not be sufficiently available in the required quality or quantity, or cannot be obtained in a timely manner. To ensure the security of supply and enable a prompt response to any changes, the procurement markets are closely monitored. In addition, procurement risks are mitigated by identifying alternative sources, checking supplier quality and reliability, holding suitable minimum inventory levels of raw materials and the establishment of a consequent monitoring of suppliers. Overall, the procurement risks are considered to be low.

To ensure a production preferably without interruptions, the Group's plant and machinery is regularly analysed and plans for maintenance and for replacement and expansion investments are developed and implemented. Single source machines are monitored closely and measures such as investment in further machines, or alternatively the qualification of external suppliers, are initiated. Analogous to this, consequent management of internal and external tools takes place including the determination of appropriate measures. Overall, the risk of interruptions to production is considered to be moderate.

In order to reduce risks in infrastructure, a new shooting and assembly centre will be built in 2024 and 2025, because functional shooting ranges are absolutely essential for ballistic testing and therefore necessary for the delivery of H&K-products. This shooting and assembly centre ensures that state of the art is implemented. Supply of energy and gas is well protected by several measures, which have already been implemented. Further planned measures, for example expanding photovoltaic systems, will increase supply reliability and also have a positive impact on H&K's sustainability concept. In this context, there is a project on the handling of hazardous substances which, together with ISO certification of work safety and environmental management and measures for emergency and crisis management, will lead to a significant decrease in the risk of causing environmental damage by H&K. Overall, the risks in infrastructure and for environment are considered to be low.

## IT and data protection risks

As a business in the defence industry, the H&K Group is exposed to cyber-attacks and risks of industrial espionage and sabotage. The risks, in particular of cyber-attacks, have increased due to the Russian invasion of Ukraine. As a result, comprehensive protective measures and safeguards are in place to protect the integrity of our business data and reduce risk significantly. A residual risk remains none the less. Incidents can have negative effects on our reputation, customer relationships, know-how and business situation. Consequently, technical and organisational protective measures, together with the educating our employees to be careful with all business information and email correspondence, are important issues for us. In addition, a cyber insurance is in place to limit financial damage due to IT security incidents. Given the current security situation and our numerous protective measures, measures together with cyber insurance, the risk is now rated to be low.

Further IT and data protection risks result from potential network and server failures, potential fraudulent data retrieval by employees and incorrect access rights to SAP and other software allocated to employees. Since any types of IT and data protection risks do not belong to the core risks of Heckler & Koch, these risks are consequently reduced by technical measures (for example redundancies of backbone connections or servers, data backup measures, firewalls, data loss prevention techniques) and organisational measures (for example employee training, file classifications, close monitoring of

the assignment of rights). The residual risks after taking into consideration the measures are rated as low.

## Legal and Compliance risks

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

Heckler & Koch is engaged in the manufacture and distribution of small arms, particularly for governmental customers such as the German federal and state police and customs authorities, and domestic and foreign armed forces. The sale of small arms outside Germany takes place based on H&K's "Green Country Strategy in the Member States of the European Union, NATO countries and NATO-equivalent countries and rarely – in cases of explicit security policy interest of the German Federal Government and only with its authorisation – to other countries. Since the export of weapons is only permitted with the approval of the German government, supply to critical countries is explicitly prohibited.

In addition, when small arms are sold to foreign countries for military use, the recipient countries are required, before an export licence can be granted, to submit officially signed end-user certificates to the Federal Republic of Germany in which the recipient countries pledge not to re-export the proposed weapon supplies to other countries.

In relation to the manufacture and sale of small arms, our company is subject to the constant control and regular monitoring of the following authorities: the Federal Ministry of Economic Affairs and Climate Action ("BMWK"), the Federal Office of Economics and Export Control ("BAFA"), the Wiesbaden Federal Office of Criminal Investigation, the Karlsruhe Regional Finance Office and the Rottweil District Administration Office. The underlying prerequisite for obtaining weapons and export approvals depends on the reliability of our company; for this reason, complying with the law is a top priority. Absolute compliance with the weapons and export regulations forms the basis of our company. We have therefore implemented strict monitoring procedures and control systems to monitor the operating, production, supply and approval processes. In particular, this includes the careful selection of staff, regular training, continuous monitoring, precise operating instructions, external audits and the use of an IT-supported control system which is integrated into our working processes.

Risks from unauthorised exports or transportation of small arms is considered to be low since, due to the implemented measures, the occurrence of risk is unlikely.

To guarantee legally compliant actions of all employees, to take appropriate account of legal regulations in projects and contracts and to avoid non-compliance acting with contractual duties, numerous risk reduction measures were implemented. After consideration of these mitigation measures, risks in this area are considered to be on a low level. These measures include in particular the continuing training of employees, adoption of policies, implementing an electronic contract management system and a legal cadastral register.

Suitable provisions were created to cover risks from legal disputes and other litigation. The H&K Group recognises provisions for legal disputes and other litigation when the resulting liabilities are probable, and their amount can be reliably measured. Because of uncertainties and the difficulty of predicting



the outcome of court and governmental authority decisions, there is always the chance of costs being incurred which exceed the provisions and can have an impact on the company and its results. At the moment these risks are considered to be low.

As explained in Notes 24 and 40 of the notes to the consolidated financial statements, it is expected that the confiscation of €3.7 million, provided for in previous years, will take place in 2024. We do not expect any material effects on the Group's financial statements to result from the Law to Ensure the Global Minimum Taxation of Business Groups (Minimum Tax Act, MinStG) published on December 27, 2023, in Germany's Federal Law Gazette or from other similar foreign minimum taxation laws.

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

### *Approval processes*

To ensure compliance with laws and internal rules there are binding rules and policies within the company, which allocate clear responsibilities to departments. Employee-related policies are posted on the intranet. The aim of this authorisation process is to reduce risks, ensure effectiveness and avoid misstatements in the accounts in all individual companies and central functions.

### *Accounting-related IT-systems*

Information for management in all areas requires the timely availability of accurate data. The orderly IT-supported processing of accounting transactions and the integrity of data in business information and reporting systems are of great importance. The business information and reporting system is therefore particularly important. The SAP information system provides numerous reports and performance indicators on a daily basis for the finance department as well as all operational areas.

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

### *Accounting organisation and policies*

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

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

## *Overall assertion*

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

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

## Overall statement on the opportunities and risk situation

In the short term, the risks resulting from operating core processes, infrastructure risks and financial risks are paramount for Heckler & Koch. In the longer term, external risks and risks from strategy have great importance to the Group.

Through the HK2025 project that is underway, amongst other things, the value-adding functions production, logistics and quality, will be optimised in order to further reduce delivery bottlenecks and enable the delivery of the high order book on time and the achievement of the sales potentials.

With its highly innovative product portfolio, the H&K Group is well prepared for the future.

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

In order to assess the Group's risk-bearing capability, the Group's overall risk was determined based on assessments of the individual risks in a summarising simulation and compared to the Group's risk coverage potential. As a result, it can be seen that the risk-bearing capacity corresponds to the desired level of safety.

No events of particular significance occurred after the end of the reporting period that would have an impact on the presentation of a true and fair view of the Group's business performance, business results, position and expected development.

Oberndorf am Neckar, March 25, 2024

H&K AG

The Executive Board

Dr Jens Bodo Koch

Andreas Schnautz

Marco Geißinger

## Consolidated Statement of Financial Position

(€ thousands)	§	31.12.2023	31.12.2022
Property, plant & equipment	17	76,458	67,855
Intangible assets - goodwill	16	5,149	5,149
Intangible assets - other	16	43,100	43,504
Other investments	18	2,512	2,435
Deferred tax assets	15	16,167	16,770
<b>Total non-current assets</b>		<b>143,386</b>	<b>135,712</b>
Inventories	19	147,672	117,586
Prepayments for inventories	20	532	141
Prepayments for other current assets	20	1,329	168
Other deposits and derivatives	18,29	1,543	2,538
Current tax assets		1,477	1,053
Trade receivables	20	35,385	29,898
Other receivables	20	3,540	5,253
Cash & cash equivalents	21	19,081	35,844
<b>Total current assets</b>		<b>210,559</b>	<b>192,482</b>
<b>Total assets</b>		<b>353,945</b>	<b>328,194</b>
<b>Equity</b>			
Share capital		35,483	27,641
Additional paid in capital		148,630	53,025
Other reserves		(10,925)	(9,313)
Consolidated retained earnings		(78,251)	(96,040)
<b>Total equity attributable to H&amp;K AG shareholders</b>		<b>94,937</b>	<b>(24,687)</b>
Equity attributable to hybrid capital investors		9,500	95,000
<b>Total equity</b>	<b>22</b>	<b>104,437</b>	<b>70,313</b>
<b>Liabilities</b>			
Loans & borrowings	25	94,733	102,396
Lease liabilities	25	1,388	1,103
Employee defined benefit obligations	23	45,261	45,092
Provisions	24	2,266	2,453
Other payables	26	58	58
Deferred tax liabilities	15	24,693	23,914
<b>Total non-current liabilities</b>		<b>168,399</b>	<b>175,016</b>
Loans & borrowings	25	9,796	4,848
Trade payables	26	19,257	21,217
Other payables	26	13,911	13,799
Contract liabilities	27	12,909	18,704
Derivatives	26,29	-	1,454
Tax liabilities		10,090	8,259
Other provisions & accruals	24	15,145	14,584
<b>Total current liabilities</b>		<b>81,109</b>	<b>82,865</b>
<b>Total liabilities</b>		<b>249,508</b>	<b>257,881</b>
<b>Total equity &amp; liabilities</b>		<b>353,945</b>	<b>328,194</b>

## Consolidated Income Statement for the period from January 1 to December 31

(€ thousands)	§	2023	2022
Revenue	6	301,426	305,107
Cost of sales	7	(185,489)	(183,257)
<b>Gross profit</b>		<b>115,937</b>	<b>121,850</b>
Research & development expenses	8	(10,384)	(6,506)
Sales, marketing & distribution expenses	9	(30,800)	(26,549)
Administration expenses	10	(25,205)	(20,703)
Other operating income	11	1,936	2,220
Other operating expenses	12	(1,050)	(332)
Impairment loss on trade receivables, net of reversals	12,20	(10)	362
<b>Results from operating activities</b>		<b>50,424</b>	<b>70,341</b>
Interest income		234	190
Gains on valuation of derivative financial instruments		2,793	-
Gains on translation of foreign currencies		969	4,059
<b>Total financial income</b>	<b>14</b>	<b>3,996</b>	<b>4,248</b>
Interest expense		(7,892)	(11,125)
Accretion of non-current liabilities		(3,157)	(2,226)
Losses on val'n of derivative financial instruments		-	(335)
Losses on translation of foreign currencies		(3,678)	(7,470)
Other financial expense		(90)	(78)
<b>Total financial expense</b>	<b>14</b>	<b>(14,817)</b>	<b>(21,235)</b>
<b>Net financial result</b>		<b>(10,822)</b>	<b>(16,986)</b>
<b>Profit / (loss) before income tax</b>		<b>39,602</b>	<b>53,355</b>
Income tax expense		(10,894)	(2,716)
<b>Profit / (loss) for the period</b>		<b>28,709</b>	<b>50,639</b>
<b>Attributable to:</b>			
<b>H&amp;K AG shareholders</b>		<b>19.209</b>	<b>50.639</b>
<b>H&amp;K AG hybrid capital investors</b>		<b>9.500</b>	<b>-</b>
<b>Earnings per share (€) *</b>	<b>22</b>	<b>0.54</b>	<b>1.43</b>

\* all periods adjusted to include dividend rights of new shares issued in May 2023

## Consolidated Statement of Profit or Loss and Other Comprehensive Income for the period from January 1 to December 31

(€ thousands)	2023	2022
<b>Profit / (loss) for the period</b>	<b>28,709</b>	<b>50,639</b>
<b>Other comprehensive income</b>		
DBO actuarial gains / (losses)	(1,494)	13,518
Related deferred tax	419	(3,795)
<b>Items that will never be reclassified to profit or loss</b>	<b>(1,074)</b>	<b>9,723</b>
Forex translation differences for foreign operations	(538)	202
<b>Items that are or may be reclassified to profit or loss</b>	<b>(538)</b>	<b>202</b>
<b>Other comprehensive income / (expense), net of tax</b>	<b>(1,613)</b>	<b>9,925</b>
<b>Total comprehensive income for the period</b>	<b>27,096</b>	<b>60,564</b>
<b>Attributable to:</b>		
H&K AG shareholders	17,596	60,564
H&K AG hybrid capital investors	9,500	-

## Consolidated Statement of Changes in Equity for the period from January 1 to December 31, 2023

(€ thousands)	Share capital	Additional paid in capital	Translation reserve	Reserve for defined benefit obligations	Consolidated retained earnings	Shareholders' equity	Equity attributable to hybrid capital investors	Total equity
<b>As of 01.01.2022</b>	<b>27,641</b>	<b>53,025</b>	<b>122</b>	<b>(19,360)</b>	<b>(146,680)</b>	<b>(85,251)</b>	<b>-</b>	<b>(85,251)</b>
Conversion of loans to hybrid capital	-	-	-	-	-	-	95,000	95,000
Total recognised income & expense	-	-	202	9,723	50,639	60,564	-	60,564
<b>As of 31.12.2022</b>	<b>27,641</b>	<b>53,025</b>	<b>325</b>	<b>(9,637)</b>	<b>(96,040)</b>	<b>(24,687)</b>	<b>95,000</b>	<b>70,313</b>
Issue of new shares	7,842	97,239	-	-	-	105,081	(95,000)	10,081
Transaction costs for share issue	-	(2,272)	-	-	-	(2,272)	-	(2,272)
Deferred tax effects	-	638	-	-	-	638	-	638
Total recognised income & expense	-	-	(538)	(1,074)	19,209	17,596	9,500	27,096
Dividends declared	-	-	-	-	(1,419)	(1,419)	-	(1,419)
<b>As of 31.12.2023</b>	<b>35,483</b>	<b>148,630</b>	<b>(214)</b>	<b>(10,712)</b>	<b>(78,251)</b>	<b>94,937</b>	<b>9,500</b>	<b>104,437</b>

## Consolidated Statement of Cash Flows for the period from January 1 to December 31

(€ thousands)	2023	2022
<b>Cash flows from operating activities</b>		
Profit / (loss) for the period	28,709	50,639
Adjustments for:		
Depreciation of property, plant & equipment	9,132	8,769
Amortisation of intangible assets	2,679	2,938
(Reversal of) impairment losses on intangible assets	2,660	-
Net interest expense	10,905	13,240
Change in fair value of derivatives	(2,793)	335
(Gain) / loss on disposal of property, plant & equipment	11	142
Income tax expense	10,894	2,716
	62,197	78,780
Change in inventories	(31,260)	(19,984)
Change in trade & other receivables	(4,622)	(816)
Change in prepayments	(1,562)	676
Change in trade & other payables	(6,613)	6,999
Change in provisions & employee defined benefit obligations	(2,659)	(5,251)
	15,481	60,404
Income tax paid	(7,083)	(5,606)
<b>Net cash flows due to operating activities</b>	<b>8,398</b>	<b>54,797</b>
<b>Cash flows from investing activities</b>		
Interest received	371	50
Proceeds from sale of property, plant & equipment	21	48
Acq'n of property, plant, equipment and intangibles	(18,887)	(14,731)
Investments in other financial assets	(59)	(26)
Movement in deposits with terms >3 months	2,256	9,006
Capitalised development expenditure	(3,483)	(5,229)
<b>Net cash flows due to investing activities</b>	<b>(19,780)</b>	<b>(10,881)</b>
<b>Cash flows from financing activities</b>		
Cash proceeds from issue of new shares	10,081	-
Transaction costs for share issue	(2,272)	-
Proceeds from loans & overdrafts	-	90,000
Payment of transaction costs	-	(4,911)
Repayment of loans	(5,000)	(120,030)
Interest paid	(6,206)	(19,452)
Repayment of lease liabilities	(454)	(351)
Dividends paid	(1,419)	-
<b>Net cash flows due to financing activities</b>	<b>(5,269)</b>	<b>(54,744)</b>
<b>Net cashflows</b>	<b>(16,652)</b>	<b>(10,828)</b>
Cash & cash equivalents at 1st January	35,844	46,514
Effect of exchange rate fluctuations on cash held	(112)	158
<b>Cash &amp; cash equivalents at December 31</b>	<b>19,081</b>	<b>35,844</b>





# Notes to the consolidated financial statements for the financial year 2023

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## General disclosures

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### (1) Presentation of the consolidated financial statements

H&K AG, the parent company of the Group, is registered in the commercial register under HRB 748522 at the Stuttgart district court. The company's registered office is in Oberndorf am Neckar, Germany, and the postal address is H&K AG, Heckler & Koch-Str. 1, 78727 Oberndorf am Neckar, Germany. The articles of incorporation are from March 18, 2014, with an addendum from March 21, 2014 and last changed by a resolution on June 20, 2023; the registered name of the company is H&K AG. Since July 28, 2015, H&K AG's shares have been listed under ISIN DE000A11Q133 on the Euronext stock exchange in Paris, on the "Euronext Access" multilateral trading facility (MTF). The average share price shown on the Euronext during 2023 was significantly higher than our calculated share value due to the very low volume of trading. The financial year is the calendar year.

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

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

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

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

### (2) Executive board approval

The board of directors of H&K AG finalised & approved the consolidated financial statements on March 25, 2024.

### (3) Statement of compliance with applicable law and IFRS

The consolidated financial statements of H&K AG (H&K Group / Group) as at December 31, 2023, have been prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) as applicable in the EU, together with interpretations of the International Financial Reporting Interpretation Committee (IFRIC) and the supplementary German commercial law regulations pursuant to § 315e (1) in conjunction with (3) German Commercial Code (HGB). All IFRS's and IFRIC's which were effective for the financial year 2023 have been applied. The consolidated financial statements were prepared on a going concern basis.

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

#### New requirements currently mandatory in the EU

Changes due to the following IFRS that were mandatory in the EU for the first time in 2023 have no material effects on the Group and are therefore not detailed here:

- Amendments to IAS 1 - Presentation of financial statements - and IFRS Practice Statement 2: disclosure of accounting policies.
- Amendments to IAS 8 – Definition of accounting estimates (published February 12, 2021).
- Amendments to IAS 12 – Deferred taxes related to assets and liabilities arising from a single transaction.
- IFRS 17 Insurance contracts including amendments to IFRS 17 (published June 25, 2020) and initial application of IFRS 17 and IFRS 9 – comparative information (published December 9, 2021).

#### New standards not yet adopted

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

##### *Endorsed by the EU*

- Amendments to IAS 1 – Presentation of financial statements: classification of liabilities as current or non-current and – non-current liabilities with covenants.  
The amendments are effective for accounting periods beginning on or after January 1, 2024 and are to be applied retrospectively.
- Amendments to IFRS 16 – Leasing liabilities in a sales and leaseback transaction (published September 22, 2022)  
The amendments are effective for accounting periods beginning on or after January 1, 2024.

##### *EU endorsement pending*

- Amendments to IAS 7 and IFRS 7 – Supplier finance arrangements (published May 25, 2023).  
The amendments are effective for accounting periods beginning on or after January 1, 2024.
- Amendments to IAS 21 – Lack of exchangeability of a currency (published on August 15, 2023).  
The amendments are effective for accounting periods beginning on or after January 1, 2025.

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- Amendments to IAS 10 and IAS 28 – Sale or contribution of assets between an investor and its associate or joint venture.  
The effective date has been postponed indefinitely.

## (4) Group entities

Apart from the single entity statements of H&K AG, the consolidated financial statements of H&K AG as at December 31, 2023, include the annual financial statements of nine (2022: seven) foreign and domestic subsidiaries. Subsidiaries are companies which the parent enterprise can control due to voting rights or for other reasons and for which it is exposed to positive and negative variable returns and can affect such returns through its control position.

H&K AG is owned by private investors, for details see Note 36.

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

	Abbreviation	Functional currency	2023			2022		
			% held	Equity	Profit	% held	Equity	Profit
<b>Direct holdings</b>								
Heckler & Koch Management GmbH	HKM	EUR '000	100%	351,299	(40,066)	100%	351,299	16,828
Heckler & Koch GmbH	HKO	EUR '000	5.1%	151,674	41,760	5.1%	154,965	47,089
<b>Indirect holdings</b>								
Heckler & Koch GmbH	HKO	EUR '000	94.9%	151,674	41,760	94.9%	154,965	47,089
NSAF Limited, Nottingham, England	NSAF	GBP '000	100.0%	3,990	1,112	100.0%	3,914	1,321
Heckler & Koch France S.A.S., St-Nom-la-Bretèche, France	HKF	EUR '000	100.0%	881	685	100.0%	1,196	1,177
Small Arms Group Holding Inc., Columbus, GA, USA	SAGH	USD '000	100.0%	20,919	(0)	100.0%	20,919	3,900
Heckler & Koch Defense Inc., Columbus, GA, USA	HKD	USD '000	100.0%	(3,660)	66	100.0%	(3,726)	1,527
Heckler & Koch, Inc., Columbus GA, USA	HKI	USD '000	100.0%	22,552	(1,208)	100.0%	23,760	8,083
H&K ITZ IMMOBILIEN Verwaltung GmbH Oberndorf am Neckar, Germany	ITZG	EUR '000	100.0%	21	(4)	100.0%	-	-
H&K ITZ IMMOBILIEN GmbH & Co. KG Oberndorf am Neckar, Germany	ITZK	EUR '000	100.0%	(165)	(166)	100.0%	-	-

On October 26, 2022, two off-the-shelf companies, “Kronen 2902 GmbH” and “Kronen 2902 GmbH & Co. Vorrats KG”, were acquired by HKO and renamed “H&K ITZ IMMOBILIEN Verwaltung GmbH” (ITZG) and “H&K ITZ IMMOBILIEN GmbH & Co. KG” (ITZK) respectively. These German companies are wholly owned and included in the consolidation for 2023. Due to their then lack of materiality, they were excluded from the consolidation for 2022; instead, they were included in the other non-current investments of €26k (2023: nil) (Note 18).

On March 3, 2023, “HK Greece Single Member Société Anonyme” (HKGR) was founded by HKO. This company is wholly owned but due to its lack of materiality it has been excluded from the consolidation for 2023; instead, it is included in the other non-current investments of €25k (2022: nil) (Note 18).

These transactions had no material effect on these consolidated financial statements.

HKO and HKM have availed themselves of the German commercial law option § 264 (3) HGB to not publish single entity accounts. This exemption clause was also applied by HKO regarding the preparation of a management report.

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

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

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

### **Business combinations and consolidation methods**

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

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

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

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

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

### ***Currency translation***

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

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

The financial statements of the foreign companies are translated from their functional currencies into euro. Since subsidiaries operate their business independently, their functional currency is their individual local currency. In the consolidated financial statements, income and expenses from the financial statements of subsidiaries that are prepared in foreign currency are translated at the average rate for the year calculated from the daily rates. This method is used for simplicity since usually the local currency income and expenditure involved are fairly evenly spread throughout the year and

consequently any potential variances are not material. Assets and liabilities are translated at the spot rate on the balance sheet date. Foreign currency translation variances are taken directly to the foreign currency translation reserve in equity. In the event of the disposal of a consolidated entity, associated accumulated foreign currency translation variances are recorded as part of the profit or loss on disposal.

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

Currency	Abbr.	Rate on balance sheet date 31.12.2023	Rate on balance sheet date 31.12.2022	Average exchange rate 2023	Average exchange rate 2022
US Dollar (USA)	USD	1.1050	1.0666	1.0813	1.0530
Pound (Great Britain)	GBP	0.8691	0.8869	0.8698	0.8528

## Significant accounting policies

### *Goodwill*

Goodwill is a separate asset representing the future economic benefits that cannot be individually identified and separately recognised from the net assets obtained through a business combination. Goodwill is allocated to the cash-generating-units (CGUs) / groups of CGUs acquired and to any other CGUs for which synergies are expected due to the business combination. Accordingly, the goodwill recognised by the Group is allocated to CGUs which correspond to the legal entities HKO (segment “Site location: Germany”) and HKF (segment “Site location: France”):

EUR '000	31.12.2023	31.12.2022
Site location: Germany	4,016	4,016
Site location: France	1,133	1,133
<b>Total</b>	<b>5,149</b>	<b>5,149</b>

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

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

### *Intangible assets*

Purchased intangible assets, mainly trademarks, patents, licences and software, are capitalised at acquisition cost. Internally generated intangible assets, with the exception of goodwill, are capitalised if it is sufficiently probable that a future economic benefit will flow from the use of the asset and the costs of the asset can be determined reliably. The manufacturing costs of internally generated

intangible assets are determined on the basis of directly attributable individual costs as well as a proportion of directly allocable overheads. Financing costs are only capitalised to the extent that they are directly attributable to the acquisition or production of a qualifying asset.

With the exception of goodwill and the trademark “Heckler & Koch”, all intangible assets have finite useful lives and are amortised using the straight-line method over this period. The €8,393k (2022: €8,393k) trademark is allocated to the cash-generating unit HKO (segment “Site Location: Germany”) and at least annually, as of the balance sheet date, but also during the year, if there is an indication that an impairment may have occurred, is subject to impairment testing in line with that described for goodwill. Additional information on this impairment testing for the reporting period is provided in Note 16. Licences and software usually have useful lives of one to ten years; capitalised development costs usually have useful lives of eight years from the date that sales of the developed product commence. If the expected useful life for an individual asset is materially longer or shorter than these standard periods, the expected useful life is used. If there is an indication that an impairment may have occurred, the assets are subject to impairment testing.

### *Property, plant and equipment*

Tangible assets which will be used in the business for more than one year are capitalised and valued at acquisition or manufacturing costs less depreciation calculated using the straight-line, use-related method, together with impairment if appropriate. The manufacturing costs of internally generated tangible assets are determined on the basis of directly attributable individual costs as well as a proportion of directly allocable overheads. Financing costs relating to the period of production are not currently capitalised, since financing costs are only capitalised to the extent that they are directly attributable to the acquisition, construction or production of a qualifying asset, and this is not the case at present. The permitted alternative method of revaluation is not applied.

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

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

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

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

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

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



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

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

## *Financial instruments*

### *i. Recognition and initial measurement*

Trade receivables and debt securities issued etc. are initially recognised when they originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is initially measured at fair value. For an item not valued at fair value through profit or loss (“FVTPL”), transaction costs that are directly attributable to its acquisition or issue are also included.

### *ii. Classification and subsequent measurement*

On initial recognition, a financial asset is classified as being measured at: amortised cost; fair value through other comprehensive income (“FVOCI”) – debt investment; FVOCI – equity investment; or FVTPL.

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

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

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

For 2023 the financial assets are primarily cash and cash equivalents, trade receivables, other receivables, deposit accounts and derivatives relating to currency forward-cover contracts with positive fair values at the balance sheet date (2022: the then derivatives had negative fair values and were recognised as liabilities). The financial liabilities include trade payables and liabilities to lenders and lessors. Trade receivables and payables result from the delivery / receipt of goods and / or services to / from third parties in the normal course of business.

As a result, in line with IFRS 9 – with the exception of the derivatives – all the financial instruments held by the Group during 2023 were classified and measured “at amortised cost”. The derivatives are classified and measured at “fair value through profit or loss”.

### *Financial assets at amortised cost*

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

and impairment are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

### *Financial liabilities*

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

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

### **iii. Impairment of financial assets**

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

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

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

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

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

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

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

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

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

The gross carrying amount of a financial asset is written down when the Group has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For commercial market

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

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

#### iv. Derecognition

##### *Financial assets*

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred. A derecognition also occurs if the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset. The Group also derecognises a financial asset when its terms are modified and the cash flows of the modified asset are substantially different, in which case a new financial asset based on the modified terms is recognised at fair value.

##### *Financial liabilities*

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

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

#### v. Offsetting

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

#### vi. Derivatives

H&K Group policy is, dependent upon the exchange rates on offer and the conditions of potential forward cover contracts and taking expected USD developments into consideration, to cover a proportion of the expected USD (\$) income and the associated foreign exchange transaction exposure with forward cover transactions. These derivatives are initially recognised at fair value; subsequently they are also valued at fair value, with changes in their fair value being recognised through profit or loss since these derivatives are not designated as hedges. The treatment of designated hedges will not be covered here since during 2022 and 2023 the Group did not have any.

### *Inventories*

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

### *Non-current assets held for sale*

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

### *Provisions for pensions and similar defined benefit obligations*

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

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

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

#### Other non-current and current provisions

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

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

### *Leases*

At inception the Group assesses whether the contract is or contains a lease. This is the case if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract includes such a right, the Group uses the definition of a lease in IFRS 16.

### i. Leases in which the Group is a lessee

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

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

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

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

discounted using the interest rate implicit in the lease or, if this rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

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

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

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

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

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

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

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

### iii. Leases in which the Group is a lessor

Since we had no such leases during 2022 or 2023, we will not go into further detail in this report.

## *Recognition of income and expense*

### *Sale of goods and services*

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

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

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

### *Interest and other income*

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

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

### *Other expenses*

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

### *Expenses for research and development*

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

### *Borrowing costs*

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

### *Income taxes and deferred taxes*

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

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

Deferred taxes are the expected tax charge or relief arising from differences between the carrying values of assets and debts in the Group IFRS consolidated financial statements and their values in the tax accounts of the individual companies. The balance sheet-oriented liability method is applied. In general, deferred tax liabilities are recorded for all taxable temporary differences, and deferred tax

assets are recorded to the extent that it is probable that taxable profits will be available for which the deductible temporary differences can be used. Such assets and liabilities are not recognised if the temporary difference arises from (i) the initial recognition of goodwill or (ii) from the initial recognition of other assets and liabilities in a transaction that affects neither the accounting profit / (loss) nor taxable profit / (loss). In addition, deferred taxes are recognised for the carry forward of unused tax losses, including interest expenses that are not yet deductible for taxation purposes, to the extent that it is probable that it will be possible to utilise them in the future.

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

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

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

### *Contingent liabilities and contingent assets*

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

### *The use of estimates and assumptions*

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

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

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

the defendant is more likely than not, or if the company is the claimant, only litigation fees are provided for (Note 24).

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

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

## Notes on the income statement

### (6) Revenue

Revenue decreased by €3,681k to €301,426k compared with revenue of €305,107k in 2022. In accordance with IFRS 15, associated expenses for late delivery penalties are included in sales deductions (“discounts, bonuses etc.”). The revenue of the Group was made up as follows:

EUR '000	2023	2022
Sale of goods	293,599	298,738
Sale of services	11,299	9,776
<b>Gross revenue</b>	<b>304,898</b>	<b>308,514</b>
Discounts, bonuses, etc.	(3,472)	(3,407)
<b>Revenue</b>	<b>301,426</b>	<b>305,107</b>

Breakdown by geographical market:

EUR '000	2023	2022
Domestic (Germany)	69,671	64,398
Foreign - other "Green Countries"	235,227	243,472
Foreign - rest of the world	-	644
<b>Gross revenue</b>	<b>304,898</b>	<b>308,514</b>
Discounts, bonuses, etc.	(3,472)	(3,407)
<b>Revenue</b>	<b>301,426</b>	<b>305,107</b>

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



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

EUR '000	31.12.2023	31.12.2022
Trade receivables	35,385	29,898
Contract liabilities	(12,909)	(18,704)
<b>Total</b>	<b>22,476</b>	<b>11,194</b>

Contract liabilities primarily relate to advance payments received from customers. Of the €18,704k contract liabilities recognised at the beginning of the year (€12,985k at the beginning of 2022), €17,828k (2022: €9,310k) was recognised as revenue during the year. The amount of revenue recognised in the financial year relating to performance obligations satisfied (or partially satisfied) in previous periods was €602k (2022: €1,539k).

As permitted by IFRS 15, no information is provided about remaining performance obligations as at December 31, 2023 that have an original expected duration of one year or less.

## (7) Cost of sales

The cost of sales includes materials, production labour and overhead expenses, and depreciation relating to the revenue. The cost of sales increased by €2,232k to €185,489k compared with €183,257k in 2022; this was primarily due to higher energy costs and a change in the product mix.

## (8) Research and development expenses

The research and development expenses recorded as expenses comprise those personnel and overhead expenses and depreciation relating to these activities, together with the costs of test materials and tools, that do not meet the criteria for capitalisation of development costs under IAS 38. In addition, the normal amortisation and the retirement of capitalised development costs are included. These research and development expenses increased by €3,878k to €10,384k compared with €6,506k in 2022; the change is primarily due to an increase in the amount included for the retirement of capitalised development costs relating to projects that have been cancelled because of changed conditions (2023: €2,660k; 2022: nil). In addition, there was a reduction in the capitalisation of development costs by €1,746k; this was partially offset by a reduction of €208k in general development expenses and €320k in amortisation of capitalised development costs.

## (9) Sales, marketing & distribution expenses

The sales, marketing & distribution expenses mainly comprise personnel expenses, material and marketing costs as well as depreciation relating to the sales function and project-related costs. They increased by €4,251k to €30,800k compared with €26,549k in 2022; the increase is primarily due to higher overheads, including marketing expenses.

## (10) Administration expenses

General administration expenses include personnel expenses and overheads as well as the depreciation relating to the administration function. They increased by €4,502k to €25,205k compared with €20,703k in 2022, primarily due to higher overheads, including litigation expenses, together with higher personnel expenses.

## (11) Other operating income

EUR '000	2023	2022
Income from derecognition of liabilities	627	149
Relief for energy and electricity taxes	175	237
Insurance benefits	-	437
Profit on disposal of non-current assets	19	44
Income from the disposal of scrap etc.	463	656
Income from refund of legal fees etc.	532	6
Other	120	691
<b>Total</b>	<b>1,936</b>	<b>2,220</b>

The other operating income includes out-of-period income of €1,353k (2022: €1,402k). This primarily relates to income from refunds, tax relief and derecognition of liabilities (2023: €1,334k; 2022: €386k).

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

The position “other operating expenses” includes the following material items:

EUR '000	2023	2022
Provision for the possible calling of bank guarantees	114	(227)
Prior year credit notes	(31)	27
Loss on disposal of non-current assets	(30)	(186)
Other taxes	(559)	(490)
Insurance for natural hazards and business interruption	(472)	(378)
Late delivery penalties, other periods	(64)	959
Other	(8)	(37)
<b>Total</b>	<b>(1,050)</b>	<b>(332)</b>

The other operating expenses include out-of-period net expenses of €67k (2022: €800k net income). In 2023 the out-of-period net expenses related primarily to prior period credit notes and losses on the disposal of non-current assets. In 2022 the out-of-period net income related primarily to the release of certain provisions for potential contractual penalties.

In 2023 the position “impairment loss on trade receivables, net of reversals” relates primarily to an increase in specific allowances together with a reduction in the general impairments determined in accordance with IFRS 9, offset by income from receipts for receivables that had been derecognised in prior periods. In 2022, the position related primarily to the utilisation of specific allowances of €490k

from 2020; the corresponding derecognitions resulted in the reversal of the associated revenues (€997k) and the return of the goods to inventories (Note 20).

## (13) Analysis of expenses by nature and EBITDA

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

EUR '000	2023	2022
Revenue	301,426	305,107
Material costs and movement in inventories	(109,780)	(108,615)
Capitalised costs	3,934	5,797
Retirement of intangible assets	(2,660)	-
Other operating income	1,936	2,220
Payroll	(90,410)	(89,406)
Other operating expenses	(42,201)	(33,414)
Impairment loss on trade receivables, net of reversals	(10)	362
<b>EBITDA</b>	<b>62,235</b>	<b>82,049</b>
Depreciation and amortisation	(11,811)	(11,708)
<b>Results from operating activities</b>	<b>50,424</b>	<b>70,341</b>

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

## (14) Financial result

EUR '000	2023	2022
<b>Financial income</b>		
Interest income	234	190
Gains on valuation of derivative financial instruments	2,793	-
Gains on translation of foreign currencies	969	4,059
<b>Total financial income</b>	<b>3,996</b>	<b>4,248</b>
<b>Financial expenses</b>		
Interest expenses	(7,892)	(11,125)
Accretion of non-current liabilities	(3,157)	(2,226)
Losses on valuation of derivative financial instruments	-	(335)
Losses on translation of foreign currencies	(3,678)	(7,470)
Other	(90)	(78)
<b>Total financial expense</b>	<b>(14,817)</b>	<b>(21,235)</b>
<b>Financial result</b>	<b>(10,822)</b>	<b>(16,986)</b>

The interest income primarily includes interest on bank balances and tax refunds; currently no interest income results from using the effective interest method (Note 5). The gains (2022: losses) on valuation of derivative financial instruments result from forward cover contracts to reduce the currency risk for the conversion of expected USD cash flows. The gains and losses on translation of foreign currencies include realised exchange variances together with unrealised variances on the translation of balance

sheet positions held by group companies in currencies other than their own functional currency. The interest expenses are primarily due to long-term loans (2022: also interest on the bond), including commitment fees relating to the new CFA-loan (Note 25). The accretion of non-current liabilities relates to defined benefit obligations, other long-term provisions and the CFA-loan (2022: also the bond and the SFA Loan). Other financial expenses relate to guarantee costs, primarily for the provision of guarantees to our customers.

## (15) Income taxes

Income taxes include German corporation tax (“Körperschaftsteuer”), trade income tax (“Gewerbesteuer”) and associated reunification surcharges (“Solidaritätszuschlag”) for the German companies, together with similar income taxes for the foreign subsidiaries.

The companies in Germany have a calculated statutory tax rate of 28.1% (2022: 28.1%). Foreign taxation is calculated at the rates valid in each country; these vary between 22.0% and 25.0% (2022: between 19.0% and 25.0%). Deferred taxes are calculated on the basis of current statutory tax rates, or of tax rates which have been enacted as of the balance sheet date in each country, that are expected to be in place on realisation. As in the prior year, deferred taxes relating to interest expenses carried forward for taxation purposes are calculated at 25.0%.

The income tax expense comprises:

EUR '000	2023	2022
Current tax expense	(8,463)	(9,096)
Deferred tax income / (expense)	(2,431)	6,380
<b>Income tax expense</b>	<b>(10,894)</b>	<b>(2,716)</b>

Primarily due to the lower profit before income tax of €39,602k (2022: €53,355k) in the financial year, the current income tax expense recognised decreased to €8,463k (2022: €9,096k). Deferred tax changed from a net income of €6,380k in 2022 to a net expense of €2,431k; this related primarily to our interest carry-forwards. In 2022 for the first time there was a partial release of the previous full allowances against interest carry-forwards (net income: €9,700k); in 2023 the interest carry-forwards and the associated allowance increased (net expense: €1,051k). The deferred taxes also include the tax effects of the transaction costs for the capital increase (2023: €638k expense; 2022: nil).

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The following table shows a reconciliation of the expected income tax expense using the current statutory tax rate for the parent company of 28.1% (2022: 28.1%) and the actual income tax expense shown for the Group:

EUR '000	2023	2022
<b>Profit / (loss) before income tax</b>	<b>39,602</b>	<b>53,355</b>
<b>Expected tax rate (current German statutory rate)</b>	<b>28.1%</b>	<b>28.1%</b>
<b>Expected tax (expense) / income</b>	<b>(11,118)</b>	<b>(14,979)</b>
Adjustments to expected tax expense due to:		
- change in tax rates	2	(0)
- non-tax-deductible expenses	(1,045)	(417)
- non-taxable income	10	8
- taxes relating to other periods	(548)	265
- differences in foreign tax rates	(61)	820
- change in valuation adjustments for tax losses	(2)	-
- utilisation of tax losses not previously recognised	-	917
- utilisation of interest carry-forwards not previously recognised	-	936
- revaluation of interest carry-forwards	(1,100)	9,700
- interest recognised for hybrid loans tax deductible but in IFRS interest is movement in equity	2,667	-
- other effects	302	35
<b>Actual tax expense</b>	<b>(10,894)</b>	<b>(2,716)</b>
<b>Effective tax rate</b>	<b>27.5%</b>	<b>5.1%</b>

Deferred tax relates to the following positions:

Balance Sheet Item	Deferred tax	Deferred tax	Deferred tax	Deferred tax
	assets	assets	liabilities	liabilities
EUR '000	31.12.2023	31.12.2022	31.12.2023	31.12.2022
Intangible non-current assets	-	-	17,998	17,566
Tangible non-current assets	154	157	5,289	4,951
Inventories	1,298	1,255	214	176
Trade accounts receivable	153	169	15	10
Other current assets	318	122	673	436
Employee defined benefit obligations	4,200	3,777	-	-
Other non-current provisions	404	751	-	-
Non-current financial liabilities	-	-	446	731
Other non-current liabilities	365	22	-	-
Current provisions	412	218	-	-
Trade accounts payable	3	2	-	1
Other current financial liabilities	-	-	57	43
Other current liabilities	259	596	-	-
Carryforward of unused tax losses	-	0	-	-
Carryforward of interest expenses not yet deductible	8,600	9,700	-	-
<b>Total</b>	<b>16,167</b>	<b>16,770</b>	<b>24,693</b>	<b>23,914</b>

During 2023, a net increase in deferred tax assets of €419k (2022: €3,795k net decrease) was recognised through other comprehensive income into equity since it related to the actuarial variances

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on defined benefit schemes. The variances due to the effects of changing exchange rates on the translation of deferred tax assets and liabilities in foreign subsidiaries' accounts are also recognised within "Forex translation differences for foreign operations" in other comprehensive income (2023: €8k net decrease; 2022: €43k net increase). Apart from these, all other changes in deferred tax assets and liabilities were recognised in the income statement.

Balance Sheet Item	Deferred Tax	Recognised in profit or loss	Recognised in other comprehensive income	Deferred Tax	Recognised in profit or loss	Recognised in other comprehensive income	Deferred Tax
EUR '000	01.01.2022			31.12.2022			31.12.2023
Intangible non-current assets	(16,735)	(831)	-	(17,566)	(432)	-	(17,998)
Tangible non-current assets	(4,403)	(317)	(73)	(4,793)	(378)	36	(5,135)
Inventories	1,099	(40)	19	1,079	19	(14)	1,084
Trade accounts receivable	147	2	10	159	(15)	(6)	138
Other current assets	109	(424)	-	(315)	(41)	0	(355)
Employee defined benefit obligations	8,013	(508)	(3,728)	3,777	6	418	4,200
Other non-current provisions	808	10	(67)	751	(349)	2	404
Non-current financial liabilities	(96)	(635)	-	(731)	285	-	(446)
Other non-current liabilities	31	(8)	(1)	22	342	0	365
Current provisions	96	118	4	218	206	(12)	412
Trade accounts payable	2	(0)	-	2	1	-	3
Other current financial liabilities	(61)	19	-	(43)	(15)	-	(57)
Other current liabilities	945	(412)	64	596	(323)	(14)	259
Carryforward of unused tax losses	273	(294)	21	0	(0)	-	-
Carryforward of interest expenses not yet deductible	-	9,700	-	9,700	(1,100)	-	8,600
<b>Total</b>	<b>(9,773)</b>	<b>6,380</b>	<b>(3,752)</b>	<b>(7,144)</b>	<b>(1,793)</b>	<b>411</b>	<b>(8,526)</b>

At the end of 2023, deferred tax assets of the parent company amounting to €8,600k (2022: €9,700k) relating to the tax carry-forward of interest expenses were assessed to be unimpaired since, according to our current plans, they can be utilised within the five-year planning horizon. Potential deferred tax assets of €24,380k (2022: €22,995k) resulting from the tax carry-forward of interest expenses that will probably not be utilised until after our planning horizon are still allowed for in full.

In 2023, income tax payments amounted to €7.1 million (2022: €5.6 million). Of these, €3.8 million (2022: €2.8 million) relate to advance payments for current year German income taxes, €1.4 million net payments (2022: €1.1 million net payments) relate to German income taxes for prior years, while foreign income taxes account for €1.9 million net payments (2022: €1.7 million net payments).

We do not expect any material effects on the Group's financial statements from the Law to Ensure the Global Minimum Taxation of Business Groups (Minimum Tax Act, MinStG) published on December 27, 2023, in Germany's Federal Law Gazette or from other similar foreign minimum taxation laws.

## Notes on the balance sheet

### (16) Intangible assets

EUR '000	Development costs (intently generated)	Goodwill (acquired)	Trade marks patents, licences, software (acquired)	Total
<b>Net carrying value at 01.01.2022</b>	<b>30,279</b>	<b>5,149</b>	<b>10,031</b>	<b>45,458</b>
<b>Acquisition / manufacturing costs</b>				
<b>Balance at 01.01.2022</b>	<b>53,551</b>	<b>6,649</b>	<b>25,172</b>	<b>85,372</b>
Effect of movement in exchange rates	157	-	29	187
Additions	5,229	-	747	5,976
Disposals / retirements	-	-	(607)	(607)
<b>Balance at 31.12.2022</b>	<b>58,937</b>	<b>6,649</b>	<b>25,341</b>	<b>90,928</b>
<b>Amortisation &amp; depreciation</b>				
<b>Balance at 01.01.2022</b>	<b>(23,272)</b>	<b>(1,500)</b>	<b>(15,141)</b>	<b>(39,914)</b>
Effect of movement in exchange rates	-	-	(30)	(30)
Amortisation for the year	(2,266)	-	(672)	(2,938)
Accumulated amortisation on disposals / retirements	-	-	607	607
<b>Balance at 31.12.2022</b>	<b>(25,538)</b>	<b>(1,500)</b>	<b>(15,236)</b>	<b>(42,275)</b>
<b>Net carrying value at 31.12.2022</b>	<b>33,399</b>	<b>5,149</b>	<b>10,105</b>	<b>48,653</b>
<b>Acquisition / manufacturing costs</b>				
<b>Balance at 01.01.2023</b>	<b>58,937</b>	<b>6,649</b>	<b>25,341</b>	<b>90,928</b>
Effect of movement in exchange rates	(37)	-	(28)	(65)
Additions	3,483	-	567	4,050
Disposals / retirements	(2,660)	-	(274)	(2,934)
<b>Balance at 31.12.2023</b>	<b>59,723</b>	<b>6,649</b>	<b>26,536</b>	<b>92,909</b>
<b>Amortisation &amp; depreciation</b>				
<b>Balance at 01.01.2023</b>	<b>(25,538)</b>	<b>(1,500)</b>	<b>(15,236)</b>	<b>(42,275)</b>
Effect of movement in exchange rates	-	-	21	21
Amortisation for the year	(1,946)	-	(733)	(2,679)
Accumulated amortisation on disposals / retirements	-	-	273	273
<b>Balance at 31.12.2023</b>	<b>(27,484)</b>	<b>(1,500)</b>	<b>(15,675)</b>	<b>(44,659)</b>
<b>Net carrying value at 31.12.2023</b>	<b>32,239</b>	<b>5,149</b>	<b>10,861</b>	<b>48,249</b>

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

As shown in the above table, aggregate goodwill is unchanged from the previous year at €5,149k. This is the portion of the net book value of the goodwill (excluding trademarks), through acquisitions from independent third parties, held in the Defence Technology Sub-Group's consolidated financial statements under German GAAP at the date of that sub-group's transition to IFRS (January 1, 2006). Originally, the parent company of this Sub-Group was called Heckler & Koch Wehrtechnik Holding GmbH. This company acquired the design, manufacturing and distribution company Heckler & Koch Gesellschaft mit beschränkter Haftung, at the end of 2003. In 2004 the two companies were merged and renamed Heckler & Koch GmbH. As a result, the Group has goodwill of €4,016k allocated to the

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merged company, Heckler & Koch GmbH (HKO), a CGU that is equivalent to the segment “site location: Germany”. The goodwill balance of €1,133k relates to the acquisition of Heckler & Koch France SAS (HKF) in 2004 and is therefore allocated to this CGU, equivalent to the segment “site location: France”. On the acquisition of Heckler & Koch Gesellschaft mit beschränkter Haftung, at the end of 2003, the trademark “Heckler & Koch” was also recognised as an intangible asset (2023: €8,393k; 2022: €8,393k) and allocated to the CGU HKO. Since the Group’s reputation is associated with this trademark, like goodwill, it is treated as being of indefinite life. The use of the trademark is charged to the other operating companies in the Group via internal pricing and certain licence fees; the impairment test for the trademark is therefore simply carried out at the level of the CGU HKO.

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

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

A detailed plan is made of the cash flows for the cash-generating units for the forecast period of five years. Subsequent periods are accounted for by a terminal value determined on the basis of the final year, adjusted for material one-off events and effects in the current order book and applying a 1% growth rate. The key assumptions for the determination of the value in use are the planned sales, taking account of order intake and order book, output and EBITDA. Plans are based on past experience together with available information on future requirements and take account of management recharges. The fulfilment of these plans assumes that the current regulation of market access continues and that the Group can maintain its strong competitive position.

The discount rates used for December 31, 2023 are pre-tax cost of capital rates determined using the CAPM.

	<b>2023</b>	<b>2022</b>
HKO	7.5%-9.1%; terminal value 6.5%	7.7%-8.4%; terminal value 7.2%
HKF	4.5%-7.3%; terminal value 5.1%	5.0%-6.8%; terminal value 5.6%

Changes within the reasonably possible interest range at the balance sheet date would not lead to an impairment of goodwill or of trademarks. IAS 36.134(f) does not apply.

Under a corresponding security assignment agreement, certain patents, trademarks and domains have been pledged as security for a long-term financing agreement (Term and Revolving Credit Facilities Agreement, “CFA-loan”) (net book value 2023: €8,393k; 2022: €8,393k) (Note 25).

The normal amortisation (2023: €2,679k; 2022: €2,938k) and the impairment of intangible assets is included in the following income statement positions; the impairments relate to the retirement of



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capitalised development costs for projects that have been cancelled due to changed market conditions  
(2023: €2,660k; 2022: nil):

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<b>EUR '000</b>	<b>2023</b>	<b>2022</b>
Cost of sales	247	241
Research and development expenses	4,765	2,308
Sales, marketing & distribution expenses	52	7
Administration expenses	275	383
<b>Total</b>	<b>5,339</b>	<b>2,938</b>

As at December 31, 2023, the Group had a balance of €247k (2022: €142k) on order for intangible assets.

## (17) Property, plant and equipment

EUR '000	Land and buildings	Plant and machinery	Fixtures, fittings and other assets	Assets under construction	Total
<b>Net carrying value</b>					
at 01.01.2022	22,313	25,190	9,601	4,564	61,668
<b>Acquisition / manufacturing costs</b>					
Balance at 01.01.2022	38,727	75,812	70,517	4,564	189,621
Effect of movement in exchange rates	353	319	239	111	1,022
Additions	278	5,973	4,444	3,778	14,472
Reclassifications	-	9	187	(195)	-
Disposals	(129)	(1,166)	(1,237)	(151)	(2,683)
<b>Balance at 31.12.2022</b>	<b>39,230</b>	<b>80,947</b>	<b>74,149</b>	<b>8,107</b>	<b>202,432</b>
<b>Amortisation &amp; depreciation</b>					
Balance at 01.01.2022	(16,414)	(50,623)	(60,916)	-	(127,953)
Effect of movement in exchange rates	(41)	(109)	(199)	-	(349)
Depreciation for the year	(1,083)	(3,813)	(3,873)	-	(8,769)
Reclassifications	0	1	(1)	-	(0)
Accumulated amortisation & depreciation on disposals	129	1,153	1,211	-	2,493
<b>Balance at 31.12.2022</b>	<b>(17,409)</b>	<b>(53,390)</b>	<b>(63,778)</b>	<b>-</b>	<b>(134,578)</b>
<b>Net carrying value at 31.12.2022</b>	<b>21,821</b>	<b>27,557</b>	<b>10,370</b>	<b>8,107</b>	<b>67,855</b>
<b>Acquisition / manufacturing costs</b>					
Balance at 01.01.2023	39,230	80,947	74,149	8,107	202,432
Effect of movement in exchange rates	(231)	(233)	(151)	(30)	(646)
Additions	2,713	2,622	4,549	9,166	19,051
Reclassifications	102	3,735	586	(5,350)	(927)
Disposals	-	(1,923)	(3,116)	-	(5,038)
<b>Balance at 31.12.2023</b>	<b>41,814</b>	<b>85,148</b>	<b>76,017</b>	<b>11,893</b>	<b>214,872</b>
<b>Amortisation &amp; depreciation</b>					
Balance at 01.01.2023	(17,409)	(53,390)	(63,778)	(0)	(134,578)
Effect of movement in exchange rates	53	99	135	1	288
Depreciation for the year	(1,077)	(4,389)	(3,605)	(61)	(9,132)
Reclassifications	-	-	-	-	-
Accumulated amortisation & depreciation on disposals	-	1,921	3,086	-	5,007
<b>Balance at 31.12.2023</b>	<b>(18,433)</b>	<b>(55,759)</b>	<b>(64,163)</b>	<b>(60)</b>	<b>(138,414)</b>
<b>Net carrying value at 31.12.2023</b>	<b>23,381</b>	<b>29,390</b>	<b>11,854</b>	<b>11,833</b>	<b>76,458</b>

Right-of-use assets for leasing agreements are recognised for land and buildings and for fixtures, fittings and other assets. At the end of 2023, land and buildings included such assets with net carrying values of €422k (2022: €560k) and fixtures, fittings and other assets included such assets with net carrying values of €895k (2022: €463k); these right-of-use assets are allocated to the applicable CGUs and segments and increase their book values accordingly (the associated lease liabilities are also allocated to the CGUs and segments). At the year-end there were no indications of potential impairments for these right-of-use assets. See Note 25 for details of the associated lease obligations and the reconciliation between the total minimum lease payments at the balance sheet date and their present values.

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

As at December 31, 2023, the H&K Group had a balance of €7,610k (2022: €4,988k) on order for tangible non-current assets.

## (18) Non-current investments and current other deposits and derivatives

The non-current "Other investments" and the current "Other deposits and derivatives" include bank deposits of €2,487k (2022: €2,410k) recognised as non-current assets and bank deposits of €204k (2022: €2,538k) recognised as current assets since they have terms of less than twelve months. These deposits serve as security for certain bank guarantees and similar.

The Group has current forward-cover contracts for USD / EUR that are recognised at fair value through profit or loss (2023: €1,339k; 2022: in liabilities, Note 26).

In the previous year, the investments in ITZG and ITZK were shown in other investments. They were wholly owned by H&K, but due to their lack of materiality (carrying value 2022: €26k), they were excluded from the consolidation. In 2023 they were included in consolidation, so they are no longer shown within other investments (Note 4).

HKGR was founded in 2023 and is wholly owned but due to its lack of materiality it has been excluded from the consolidation for 2023; instead, it is included in the other investments at their book value of €25k (2022: nil) (Note 4).

## (19) Inventories

EUR '000	31.12.2023	31.12.2022
Raw materials, consumables and supplies	42,881	34,975
Work in progress	75,558	62,937
Finished goods and merchandise	29,232	19,673
<b>Total</b>	<b>147,672</b>	<b>117,586</b>

Within inventories, allowances of €16,264k (2022: €16,412k) have been created to account for impairments due to marketability risks, slow-moving items and inventory range. These allowances reduce certain items of inventory to carrying values in line with their net realisable values as at December 31, 2023 of €7,489k (2022: €6,198k). Impairment losses of €499k (2022: €2,041k) were recognised as an expense. Due to the sale or scrapping of related items and to improved inventory movements, impairment losses recorded in prior years of €634k (2022: €150k) have been reversed within cost of sales.

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

## (20) Trade receivables, prepayments and other assets

EUR '000	31.12.2023	31.12.2022
Trade receivables	35,385	29,898
Prepayments for inventories	532	141
Prepayments for other current assets	1,329	168
Other assets	3,540	5,253
<b>Total</b>	<b>40,786</b>	<b>35,461</b>

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

The other assets comprise mainly VAT & other tax claims arising in the normal course of business; in addition, this position includes the remaining book value of the transaction costs from the 2022 refinancing that were allocated to Facility C of the CFA-loan (Facility C is a credit line for bank guarantees and overdrafts that, at the end of 2023 and of 2022, was only used for bank guarantees and is therefore not shown in the liabilities; see Note 26).

If there is an indication that a trade receivable may be impaired, at the latest if it is over 90 days overdue, the possibility of an impairment is reviewed by the finance, sales and legal departments. In addition, general allowances for expected credit losses have been recognised in accordance with IFRS 9; these relate to trade receivables from our US commercial market customers, since our other trade receivables are primarily against governmental authorities with very good credit-standing and therefore a minimal risk of credit losses is expected. Consequently, provisions have been made for expected credit losses within trade receivables; all impairments in the allowance account for this are determined on the basis of the expected credit losses over the lifetime of the trade receivables. The account has had the following movements during the reporting period:

EUR '000	2023	2022
Opening balance January 1	2,535	2,867
Creations	89	204
(Release) / (utilisation)	(1,150)	(581)
Effects of foreign currency conversion	(26)	45
<b>Closing balance December 31</b>	<b>1,447</b>	<b>2,535</b>

Expenses from the impairment of trade receivables and income from the reversal of such impairments are shown under a separate position in the consolidated income statement (Note 12). The impairment expenses in 2023 primarily relate to the creation of allowances for specific trade receivables; the utilisation of allowances in 2023 related to the derecognition of irrecoverable receivables.

Trade receivables with specific impairment allowances at the end of 2023 are still subject to collection procedures.

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

EUR '000	31.12.2023	31.12.2022
<b>Neither overdue nor impaired:</b>	<b>26,648</b>	<b>25,079</b>
<b>Overdue but not impaired:</b>		
- within 30 days	6,124	3,138
- between 30 and 60 days	808	380
- between 60 and 90 days	456	1,041
- between 90 and 180 days	685	182
- after more than 180 days	752	160
<b>Total:</b>	<b>8,825</b>	<b>4,900</b>
General allowance	(90)	(83)
<b>Impaired (gross)</b>	<b>1,360</b>	<b>2,454</b>
Specific allowance(s)	(1,358)	(2,452)
<b>Book value</b>	<b>35,385</b>	<b>29,898</b>

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

## (21) Cash and cash equivalents

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

As security for the CFA-loan, certain group bank accounts have been pledged (2023: €14.8 million; 2022: €29.4 million) (Note 25).

## (22) Shareholders' equity and earnings per share

H&K AG has a share capital of €35.5 million (2022: €27.6 million), divided into €35.5 million (2022: €27.6 million) no-par bearer shares.

In May 2023 a capital increase took place for H&K AG with subscription rights for existing shareholders by making partial use of the company’s authorised capital approved in 2022. The new bearer shares have a notional value of €1.00 in the company's share capital and with the same dividend rights as all other outstanding ordinary shares of the Company, including full dividend rights for the financial year ended December 31, 2022.

The capital increase was carried out at a subscription price of €13.40 per share against contributions in kind and in cash. Two main shareholders of the company contributed their repayment claims against the company under three hybrid loans in a total nominal amount of €95.0 million (without accrued interest) as contributions in kind (Note 36). The gross proceeds from the cash contributions amounted to €10.1 million; against this the transaction costs for the capital increase were recognised at €2.3 million, less deferred taxes of €0.6 million.

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The calculation of the undiluted basic earnings per share of €0.59 profit (2022: €1.83 profit) is based on the following earnings attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding. Since the new shares issued in May 2023 also had full dividend rights for prior years, the earnings per share that has associated dividend rights is €0.54 (2022: €1.43).

<b>EUR '000</b>	<b>2023</b>	<b>2022</b>
Profit / (loss) for the year attributable to the owners of the parent company	28,709	50,639
of which not attributable to ordinary shareholders	(9,500)	-
<b>Profit / (loss) attributable to ordinary shareholders</b>	<b>19,209</b>	<b>50,639</b>

<b>Thousands of shares</b>	<b>2023</b>	<b>2022</b>
Issued ordinary shares at 01.01.	27,641	27,641
Effect of 7,090k shares issued related to contributions in kind 17.05.2023	7,090	-
Effect of 6k shares issued related to cash contributions 17.05.2023	6	-
Effect of 746k shares issued related to cash contributions 19.05.2023	746	-
<b>Issued ordinary shares at 31.12.</b>	<b>35,483</b>	<b>27,641</b>
<b>Weighted average number of ordinary shares at 31.12.</b>	<b>32,535</b>	<b>27,641</b>

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

The additional paid in capital arises from additional capital contributions from the shareholders and associated transaction costs (net).

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

The reserve for defined benefit obligations comprises the cumulative actuarial gains and losses arising on the employee defined benefit obligation provisions, net of tax. The net increase is due to actuarial losses of €1,494k (2022: €13,518k gains) net of €419k (2022: €3,795k) deferred taxes.

The consolidated retained earnings include a reduction of €62,333k arising from the effects of the transition of the H&K Group (then Heckler & Koch Beteiligungs GmbH Group) to IFRS on January 1, 2008, mainly due to the valuation difference on the acquisition of treasury stock in November 2007. An additional reduction of €2,857k arose from the difference between the acquisition price and the associated net assets for each of the common control transactions involving the acquisition of Suhler

USA, Inc. (since merged into SAGH), in April 2009, and Suhler Jagd- und Sportwaffen Holding GmbH (since merged into H&K AG), in May 2009.

Under the German Stock Corporation Act (AktG), the distributable dividend is determined by the retained earnings in the annual financial statements of the parent company, H&K AG, prepared in accordance with the German Commercial Code (HGB). The executive directors and supervisory board will propose to the shareholders' meeting that, out of the company's €163.5 million cumulative profits as at December 31, 2023, a dividend of €0.06 per share should be distributed and the remaining balance be carried forward.

In May 2023 hybrid loans of €95.0 million were contributed at their nominal values as contributions in kind for the capital increase. Interest only arises in certain circumstances. The lenders' entitlement to interest only applies if, in line with such a proposal from the executive directors, the Annual General Meeting ("AGM") of H&K AG resolves to distribute dividends to ordinary shareholders relating to the corresponding financial year. These entitlements are therefore only recognised, if these prerequisites are satisfied, after the AGM takes place in the following year. The AGM in June 2023 resolved a dividend so in 2023 €9.5 million entitlements to hybrid interest were added to the hybrid loans. The corresponding contingent liabilities as of December 31, 2023 total €4.5 million (Note 32). The equity attributable to hybrid capital investors as of December 31, 2023 was €9.5 million (December 31, 2022: €95.0 million).

Including equity attributable to hybrid capital investors, the H&K Group has equity of €104.4 million (2022: €70.3 million) at the balance sheet date.

## (23) Employee defined benefit obligations

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

Under the defined contribution plans the company pays contributions to state or private pension schemes on the basis of statutory or contractual obligations or on a voluntary basis. Having paid the contributions, the company has no further obligations. The current contribution payments are shown as payroll expense for the relevant year: they amounted to a total of €6,090k (2022: €5,828k) for the Group.

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

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

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

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

EUR '000	Defined benefit obligation		Fair value of plan assets		Net obligation for defined benefit plans	
	2023	2022	2023	2022	2023	2022
<b>Balance at January 1</b>	<b>46,301</b>	<b>61,643</b>	<b>(1,209)</b>	<b>(1,102)</b>	<b>45,092</b>	<b>60,541</b>
<b>Included in profit or loss</b>						
Current service cost	253	474	-	-	253	474
Interest cost (income)	1,717	630	(47)	(12)	1,670	618
<b>Total recognised in profit or loss</b>	<b>1,969</b>	<b>1,104</b>	<b>(47)</b>	<b>(12)</b>	<b>1,923</b>	<b>1,092</b>
<b>Included in other comprehensive income</b>						
Actuarial loss (gain) arising from:						
- demographic assumptions	-	-	-	-	-	-
- financial assumptions	2,093	(14,322)	-	-	2,093	(14,322)
- experience adjustments	(615)	1,185	-	-	(615)	1,185
Return on plan assets excluding interest income	-	-	10	(141)	10	(141)
<b>Total recognised in OCI</b>	<b>1,478</b>	<b>(13,137)</b>	<b>10</b>	<b>(141)</b>	<b>1,488</b>	<b>(13,278)</b>
<b>Other</b>						
Contributions paid by employer	-	-	-	-	-	-
Benefits paid	(3,289)	(3,309)	47	46	(3,243)	(3,263)
<b>Total other</b>	<b>(3,289)</b>	<b>(3,309)</b>	<b>47</b>	<b>46</b>	<b>(3,243)</b>	<b>(3,263)</b>
<b>Balance at December 31</b>	<b>46,460</b>	<b>46,301</b>	<b>(1,198)</b>	<b>(1,209)</b>	<b>45,261</b>	<b>45,092</b>
<b>represented by:</b>						
Net defined benefit obligation for funded plan	1,198	1,209	(1,198)	(1,209)	-	-
Defined benefit obligation for unfunded plans	45,261	45,092	-	-	45,261	45,092
<b>Balance at December 31</b>	<b>46,460</b>	<b>46,301</b>	<b>(1,198)</b>	<b>(1,209)</b>	<b>45,261</b>	<b>45,092</b>

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

The fair market value of the plan assets relates solely to asset values from reinsurance policies. The expected long-term returns from these plan assets for 2023 were calculated at 3.85% (2022: 1.05%). This is based on the discount rate for the associated pension obligations. The actual earnings from the plan assets were €36k (2022: €153k). Since the investment phase is over, no further contributions will be paid in.

The calculated average duration of the pensions schemes is 11.1 years (2022: 10.5 years). The following table shows the principle actuarial assumptions at the reporting date:

	31.12.2023	31.12.2022
Discount rate	3.40%	3.85%
Future salary growth for active plan members	0.00%	0.00%
Future pension growth	2.00%	2.00%
Longevity rates according to	RT 2018 G	RT 2018 G
Invalidity rates according to	RT 2018 G	RT 2018 G



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

31.12.2023	Defined benefit obligation	
	Increase	Decrease
Effect in EUR '000		
Discount rate (0.5% movement)	(2,315)	2,556
Future pension growth (0.5% movement)	2,253	(2,089)

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

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

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

EUR '000	31.12.2023	31.12.2022
Current provisions & accruals	15,145	14,584
Non-current provisions	2,266	2,453
<b>Total</b>	<b>17,412</b>	<b>17,038</b>

The provisions comprise:

EUR '000	Personnel obligations	Warranty obligations	Other obligations relating to sales	Other risks	Total
<b>Balance at 01.01.2023</b>	<b>7,603</b>	<b>1,117</b>	<b>3,561</b>	<b>4,756</b>	<b>17,038</b>
Exchange rate difference / reclassification	-	0	(61)	-	(61)
Utilisation	(4,727)	(555)	(489)	(726)	(6,496)
Release	(490)	(10)	(271)	-	(771)
Creation	3,097	311	1,178	3,116	7,702
<b>Balance at 31.12.2023</b>	<b>5,483</b>	<b>863</b>	<b>3,919</b>	<b>7,146</b>	<b>17,412</b>

Provisions for the German early retirement scheme ("Altersteilzeit") are included in the personnel obligations (€524k; 2022: €531k). These include the reduced pay taken by employees in this scheme during the working phase together with the accumulated additional costs to the company during the remainder of each early retirement period. The value is based on the associated contractual obligations and is obtained from actuarial reports; these use biometric actuarial assumptions from Prof. Dr Klaus Heubeck's 2018 G guideline tables and discounted at 3.1% (2022: 3.85%). There are no material uncertainties with regard to the value of these provisions. These obligations are secured by certain securities; these plan assets are offset against the associated provisions. The current early retirement scheme agreements are for between two and six years. In the working phase (first half of early retirement agreement term) the provision is created; the outflows of economic benefits occur in

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

Other personnel obligations also include provisions for long-service anniversary benefits, bonuses and similar obligations. These personnel provisions are determined based on the associated contractual obligations and the outflows of economic benefits are generally expected within twelve months, although the outflows for anniversary benefits (€640k; 2022: €583k) could be over a period of up to forty years. There are no material uncertainties with regard to the value of these provisions.

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

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

The provisions for other risks relate mainly to litigation risks and expenses, recognised in line with the probability of their incidence. As at December 31, 2023, the outcome of a proportion of the litigation risks is dependent on associated legal proceedings and accordingly the provision for these is based on particular uncertainties; €3.7 million relate to a decided case that has not yet been enforced; accordingly the provision for this has few uncertainties. The outflows of economic benefits are generally expected within twelve months; however, the final conclusion of certain cases is not expected until later. The provision for litigation risks includes the following case:

In 2019 HKO was sentenced by the Stuttgart District Court to pay over €3.7 million relating to certain deliveries to Mexico between 2006 and 2009. HKO appealed this verdict as did the Public Prosecutor. In March 2021, the Federal Court of Justice (BGH) confirmed the Stuttgart District Court's verdict and as a result the confiscation of €3.0 million from HKO became legally binding; the BGH severed its consideration regarding the confiscation of a further €0.7 million. The legal question involved on statutory limitations has since been dismissed by the "Große Senat" of the BGH. At the oral hearing of the BGH in March 2024, the 3<sup>rd</sup> Criminal Division dismissed the balance of the appeal as well. Therefore, the verdict of Stuttgart District Court is final. The confiscations are expected to take place in 2024.

HKO is plaintiff in legal disputes on public procurement in three European countries. The first step is to stop current monopolistic contract awards that are already under way and, in the long term, to obtain a fundamental ruling from the European Court of Justice, which will then apply to all EU countries, stating that small arms, as a (comparatively) trivial technology, do not have the procurement privilege of Article 346 of the Treaty on the Functioning of the EU, so invitations to tender must continue to be advertised throughout the EU. The three proceedings are all before the first judicial instance; verdicts are expected during 2024.

The effects of accretion and changes in discount rates were material for the valuations of certain non-current general liability provisions. The financial result includes €44k net expense (2022: €14k net

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

## (25) Financial liabilities and credit lines

### Significant financing agreements

As at December 31, 2023, the H&K Group has the following financing agreements:

- Secured financing agreement with a syndicate of banks (Term and Revolving Credit Facilities Agreement, “CFA-loan”), nominal €140 million.
- Unsecured shareholder loan (“Vendor Loan”), nominal €20 million.
- Unsecured shareholder loan (“Additional Mezzanine Loan”), nominal €40 million (agreed but not utilised).

#### CFA-loan (Facilities A, B and C)

This syndicated loan is a €140 million financing agreement from August 17, 2022 (“CFA-loan”) with an initial term of three years and the option of extensions of up to two additional years. The first extension of one year was requested and agreed in 2023. The interest rate comprises a margin plus EURIBOR (if positive), and interest is payable at the end of each agreed interest period (contractual choice: either 3 or 6 months). Initially the margin is set at 3.5% and from 2024, dependent upon certain key figures, may vary between 1.6% and 3.5%. Commitment interest (35% of current margin) is charged on unutilised Facilities.

The H&K Group recognises two loan liabilities to banks under this agreement:

**Facility A**, a secured financing loan to HKO (December 31, 2023: €45 million; of which €10 million are current; December 31, 2022: €50 million, of which €5 million were current);

**Facility B**, a secured financing loan to HKAG (December 31, 2023: €40 million; December 31, 2022: €40 million).

In addition the CFA financing agreement includes:

**Facility C**, a €50 million bank guarantee and overdraft facility; as of December 31, 2023 (and as of December 31, 2022), this was only utilised for bank guarantees and therefore, as a contingent liability, not recognised in the statement of financial position. The interest and other conditions of this facility are covered by additional ancillary agreements with the syndicate banks.

Under the CFA financing agreement H&K AG and its subsidiaries are subject to strict limitations on certain transactions; the Group must also meet specified equity figures and ratios between net debt and the contractually defined EBITDA (“Financial Covenants”). The Group is permitted to partially or fully redeem the CFA-loan liability.

As security for liabilities under the CFA-loan (nominal including accrued interest as at December 31, 2023: €86.4 million; December 31, 2022: €90.9 million; utilisation of bank guarantee facility as at December 31, 2023: €13.9 million; December 31, 2022: €14.7 million), certain direct and indirect subsidiaries of H&K AG have also entered into the agreement as guarantors. In addition, all shares in HKM and in certain direct and indirect subsidiaries together with, through floating charges and other security agreements, certain non-current assets, inventories, receivables and bank accounts are pledged to the agent for the syndicate banks (Notes 16, 17, 19, 20, and 21).

### *Loans from related parties*

On August 18, 2022, one of H&K AG's main shareholders granted an unsecured loan (the "Vendor Loan") of €20 million with a term of six years. The interest rate is 6.5% and accrued interest is to be added to the loan annually. The loan was utilised on December 16, 2022. Due to the capitalisation of interest in December 2023, the loan increased to €21.3 million (2022: €20.0 million).

On August 18, 2022, one of H&K AG's main shareholders granted an unsecured loan (the "Additional Mezzanine Loan") of €40 million with a term of six years and an interest rate of 6.5% p.a. However, the loan will only be utilised should certain prerequisites defined in the CFA-loan occur; if the loan were to be utilised, H&K AG would be obliged to use these funds to repay Facility B of the CFA-loan in full. During the term of the CFA-loan, no repayments or interest payments may be made on this loan, so any accrued interest is to be added to the loan at the end of each interest period.

### *Overview of the development of the financing liabilities*

Facilities A and B of the CFA-loan are recognised in the statement of financial position at their amortised amounts totalling €83,207k (2022: €87,244k). As at the balance sheet date, Facility C of the CFA-loan is currently only being used as a guarantee line and is therefore shown within contingent liabilities; its proportion of the transaction costs is recognised in the other assets (Note 20) rather than being offset against the liability. The associated accrued interest liabilities totalling €1,437k (2022: €940k) are recognised within other liabilities. There were no material transaction costs for the loan from a related party so the amortised amounts, amounting to €21,322k (2022: €20,000k), is identical to the nominal value.

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EUR '000	2023 Nominal	2023 Book value	2023 Associated interest liabilities	2022 Nominal	2022 Book value	2022 Associated interest liabilities
<b>Balance at 01.01.</b>	<b>110,000</b>	<b>107,244</b>	<b>998</b>	<b>243,500</b>	<b>242,537</b>	<b>822</b>
Accretion of SFA loan and 2017 bond	-	-	-	-	963	-
Interest expense for SFA loan and 2017 bond	-	-	-	-	-	9,558
Interest payments for SFA loan and 2017 bond	-	-	-	-	-	(10,380)
Repayment of SFA loan	-	-	-	(80,030)	(80,030)	-
Repayment of 2017 bond	-	-	-	(60,000)	(60,000)	-
Interest payments for bridging loans	-	-	-	(8,470)	(8,470)	-
Conversion of bridging loans to hybrid capital	-	-	-	(95,000)	(95,000)	-
Funds from 2022 refinancing - CFA loan	-	-	-	90,000	90,000	-
Transaction costs for 2022 refinancing - CFA loan, Facilities A, B & C	-	-	-	-	(4,911)	-
Element of transaction costs relating to Facility C (in other assets)	-	-	-	-	1,754	-
Accretion of CFA Facilities A, B & C	-	1,453	-	-	621	-
Element of accretion relating to Facility C (other assets)	-	(490)	-	-	(219)	-
Interest expense for CFA	-	-	6,431	-	-	1,245
Interest payments for CFA	-	-	(5,934)	-	-	(305)
Repayment of CFA loan	(5,000)	(5,000)	-	-	-	-
Funds from 2022 refinancing - Vendor Loan	-	-	-	20,000	20,000	-
Interest expense for Vendor Loan	-	-	1,322	-	-	58
Transfer of interest to principal for Vendor Loan	1,322	1,322	(1,322)	-	-	-
<b>Balance at 31.12.</b>	<b>106,322</b>	<b>104,529</b>	<b>1,495</b>	<b>110,000</b>	<b>107,244</b>	<b>998</b>

## Other group credit lines

The other credit lines are only for the provision of performance guarantees. The security for these lines is provided through bank deposits recognised within other current investments (2023: €0.2 million; 2022: €2.5 million) (Note 18), and within other non-current investments (2023: €2.5 million; 2022: €2.4 million) (Note 18).

## Group lease liabilities

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

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

	<b>Contractual Cashflows</b>	<b>Contractual Cashflows</b>
<b>EUR '000</b>	<b>31.12.2023</b>	<b>31.12.2022</b>
Less than one year	632	451
Between one and five years	1,068	866
More than five years	-	-
<b>Total lease payments</b>	<b>1,700</b>	<b>1,317</b>
Effects of discounting and options	(312)	(214)
<b>Lease liabilities recognised</b>	<b>1,388</b>	<b>1,103</b>

Additional information on leases is provided in Note 33.

## (26) Trade and other payables and derivatives

Trade and other payables include outstanding liabilities from trade and operating costs, together with accrued interest payable on the CFA-loan and the Vendor Loan (2022: and derivatives for forward-cover contracts).

<b>EUR '000</b>	<b>31.12.2023</b>	<b>31.12.2022</b>
Trade payables	19,257	21,217
Interest payables	1,500	1,044
Other liabilities	12,469	12,812
Derivatives	0	1,454
<b>Total</b>	<b>33,226</b>	<b>36,527</b>

With the exception of normal trading ownership retention clauses for the trade payables and security agreements relating to the interest liabilities for the CFA-loan (2022: and security deposits for forward cover contracts) (Notes 16, 17, 19, 20, 21, 25), these payables are not secured.

## (27) Contract liabilities

The €12,909k (2022: €18,704k) contract liabilities comprise payments received from customers in advance of the delivery of the associated products or services.

## Other disclosures

### (28) Financial risk management

#### Market risk

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

#### *Currency risk*

The H&K Group is exposed to currency risk relating to sales and purchases that are denominated in a currency other than the respective functional currencies of group entities, primarily the euro (EUR), but also US dollars (USD) and Sterling (GBP). The majority of both costs and sales are in euro, so we only have foreign exchange transaction exposure for those sales in currencies different to the associated costs. H&K Group policy is, dependent upon the exchange rates on offer and the conditions of potential forward cover contracts and taking expected USD developments into consideration, to cover a proportion of the expected USD (\$) income and the associated foreign exchange transaction exposure with hedging transactions. As at December 31, 2023, there were forward cover contracts in place for a total of \$42.0 million (as at December 31, 2022: \$44.0 million).

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

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

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

Currency	Abbr.	Rate on balance sheet date 31.12.2023	Rate on balance sheet date 31.12.2022	Average exchange rate 2023	Average exchange rate 2022
US Dollar (USA)	USD	1.1050	1.0666	1.0813	1.0530
Pound (Great Britain)	GBP	0.8691	0.8869	0.8698	0.8528

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

If the euro had been 5% weaker against the US dollar compared to the rates used for the 2023 consolidation, (i.e. had been an average rate of €1 = \$1.0272 and a spot rate of €1 = \$1.0498), then 2023 sales would have been approximately €5.8 million higher, EBITDA would have been approximately €4.1 million higher, and equity and reserves would have been approximately €4.3 million higher.

If the euro had been 5% weaker against the pound sterling compared to the rates used for the 2023 consolidation, (i.e. had been an average rate of €1 = £0.8263 and a spot rate of €1 = £0.8256), then 2023 sales would have been approximately €0.3 million higher, EBITDA would have been roughly unchanged, and equity and reserves would have been approximately €0.1 million higher.

### *Interest rate risk*

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument may change depending on market interest rates. As at December 31, 2023, the Group's interest profile of its interest-bearing financial instruments consisted of variable rate instruments with a total nominal value of €85.0 million (2022: €90.0 million) and fixed-rate instruments (including hybrid capital) with a total nominal value of €31.3 million (2022: €115.0 million).

Under the CFA-loan's Facilities A and B, the Group has a total of €85 million loans with a variable interest rate of 3.5% plus EURIBOR (if positive) in 2023; the applicable rate is set at the beginning of each interest period (currently six months). A 100 basis-point (Bp) reduction in EURIBOR at each of the interest-fixing dates would have increased equity and profit by approx. €0.5 million. A 100 basis-point (Bp) increase in EURIBOR at each of the interest-fixing dates would have reduced equity and profit by approx. €0.5 million. This analysis assumes that all other variables, in particular tax-deductibility, remain constant.

The Group's €21.3 million Vendor Loan is an interest-bearing liability with a fixed interest rate of 6.5% and the three hybrid loans totalling €9.5 million are hybrid equity bearing interest at a fixed rate of 10%; however the lender's entitlement to hybrid interest only arises if, in line with such a proposal from the executive directors, the AGM of H&K AG resolves to distribute dividends to ordinary shareholders relating to the corresponding financial year (Notes 22, 36). The fair values of the Vendor Loan and the hybrid loans are dependent on market interest rates, but these liabilities and equity positions are not recognised at fair value and a change in interest rates at the balance sheet date would therefore not have had an effect on profit or loss or equity. This analysis assumes that all other variables remain constant.

### *Commodity risk*

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

### *Credit risk*

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

### *Trade receivables*

Because the majority of the Group's trade receivables at the balance sheet date relate to sales to customers that are federal, state or local governmental agencies of NATO countries and NATO-



equivalent countries, Group exposure to credit risk is limited. Goods are sold subject to retention of title clauses so that, in the event of a customer failing to pay, the H&K Group has a secured claim. Where management is of the opinion that the risk is not sufficiently secured by the retention of title clauses, we require letters of credit or prepayments. The H&K Group has internal credit management processes to review and manage overdue positions and if necessary, stop further deliveries or initiate legal action.

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

### *Cash and cash equivalents*

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

### **Liquidity risk**

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

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

According to the current five-year business plan, for 2024 and the future years a positive net cashflow from operating activities, sufficient to cover capital expenditure and contractual interest payments, is expected.

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

	Trade payables	Loans including interest
<b>EUR '000</b>		
<b>Balance at 31.12.2023</b>		
Book value	19,257	106,029
Related payments	19,257	107,817
Payments due:		
- within one month	11,140	-
- between one and three months	6,236	1,322
- between three and twelve months	1,881	10,116
- between one and five years	-	96,379
- after more than five years	-	-
<b>Balance at 31.12.2022</b>		
Book value	21,217	108,242
Related payments	21,217	110,998
Payments due:		
- within one month	15,575	-
- between one and three months	3,914	833
- between three and twelve months	1,727	5,107
- between one and five years	-	85,000
- after more than five years	-	20,058

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

## Financial management

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

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The Group's capital structure is as follows:

EUR '000	31.12.2023	31.12.2022
Total equity attributable to H&K AG shareholders	94,937	(24,687)
Equity attributable to hybrid capital investors	9,500	95,000
<b>Equity</b>	<b>104,437</b>	<b>70,313</b>
as a percentage of total financing	30%	21%
Long-term liabilities	168,399	175,016
Short-term liabilities	81,109	82,865
<b>Debt</b>	<b>249,508</b>	<b>257,881</b>
as a percentage of total financing	70%	79%
<b>Total equity &amp; liabilities</b>	<b>353,945</b>	<b>328,194</b>

## (29) Additional disclosures on financial instruments

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

EUR '000	31.12.2023	31.12.2022
<b>Non-current assets</b>		
Other investments & derivatives	2,512	2,435
<b>Current assets</b>		
Other loans, deposits & derivatives	1,543	2,538
Trade receivables	35,385	29,898
Other receivables	3,540	5,253
Cash and cash equivalents	19,081	35,844
<b>Asset positions containing financial instruments</b>	<b>62,062</b>	<b>75,969</b>
of which non-financial instruments	3,242	5,144
<b>of which financial instruments</b>	<b>58,819</b>	<b>70,825</b>

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

EUR '000	Cash and cash equivalents		Trade accounts receivable		Derivative financial instruments		Other financial instruments	
	BV	FV	BV	FV	BV	FV	BV	FV
<b>Balance at 31.12.2023</b>								
Recognised at amortised cost	19,081	19,081	35,385	35,385	-	-	2,953	2,953
Recognised at fair value through profit or loss	-	-	-	-	1,339	1,339	-	-
<b>Total financial assets</b>	<b>19,081</b>	<b>19,081</b>	<b>35,385</b>	<b>35,385</b>	<b>1,339</b>	<b>1,339</b>	<b>2,953</b>	<b>2,953</b>
<b>Balance at 31.12.2022</b>								
Recognised at amortised cost	35,844	35,844	29,898	29,898	-	-	5,083	5,083
Recognised at fair value through profit or loss	-	-	-	-	-	-	-	-
<b>Total financial assets</b>	<b>35,844</b>	<b>35,844</b>	<b>29,898</b>	<b>29,898</b>	<b>-</b>	<b>-</b>	<b>5,083</b>	<b>5,083</b>

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The fair values of accounts receivable are in line with their book values. This is mainly due to the short terms of these instruments. The derivative financial instruments relate to forward cover contracts for USD / EUR, held at fair value through profit or loss. The other financial instruments relate primarily to short and long-term bank deposits as security for certain bank guarantee lines etc. (2023: €2,692k; 2022: €4,948k) (Notes 18, 25); their aging is as follows:

EUR '000	Other financial instruments	
	31.12.2023	31.12.2022
Neither overdue nor impaired:	2,953	5,083
<b>Book value</b>	<b>2,953</b>	<b>5,083</b>

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

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

EUR '000	31.12.2023	31.12.2022
<b>Non-current liabilities</b>		
Loans & borrowings	94,733	102,396
Lease obligations	1,388	1,103
Liabilities to third parties	58	58
<b>Current liabilities</b>		
Loans from third parties	9,796	4,848
Trade payables	19,257	21,217
Derivatives	-	1,454
Other liabilities	13,911	13,799
<b>Liability positions containing financial instruments</b>	<b>139,143</b>	<b>144,874</b>
of which non-financial instruments	12,463	12,855
<b>of which financial instruments</b>	<b>126,680</b>	<b>132,020</b>

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

EUR '000	Trade payables		Short- and long-term loans		Derivative liabilities		Other financial liabilities	
	BV	FV	BV	FV	BV	FV	BV	FV
<b>Balance at 31.12.2023</b>								
Held at amortised cost	19,257	19,257	104,529	106,322	-	-	1,506	1,506
Held at fair value through profit or loss	-	-	-	-	-	-	-	-
<b>Financial liabilities</b>	<b>19,257</b>	<b>19,257</b>	<b>104,529</b>	<b>106,322</b>	<b>-</b>	<b>-</b>	<b>1,506</b>	<b>1,506</b>
<b>Balance at 31.12.2022</b>								
Held at amortised cost	21,217	21,217	107,244	110,000	-	-	1,002	1,002
Held at fair value through profit or loss	-	-	-	-	1,454	1,454	-	-
<b>Financial liabilities</b>	<b>21,217</b>	<b>21,217</b>	<b>107,244</b>	<b>110,000</b>	<b>1,454</b>	<b>1,454</b>	<b>1,002</b>	<b>1,002</b>

The fair values of the trade payables are in line with the book values. This is mainly due to the short terms of these instruments. The CFA-loan is held at amortised cost; its fair value at the balance sheet date is its nominal value. The derivative liabilities relate primarily to forward cover contracts held at fair value through profit or loss. The other financial liabilities mainly relate to the interest liabilities for the CFA-loan and for the Vendor Loan (2023: €1,495k; 2022: €940k).

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

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**31.12.2023**

EUR '000	Level 1	Level 2	Level 3
Derivative financial assets	-	1,339	-
Derivative financial liabilities	-	-	-

**31.12.2022**

EUR '000	Level 1	Level 2	Level 3
Derivative financial assets	-	-	-
Derivative financial liabilities	-	1,454	-

Net income / (expenses) due to financial instruments:

EUR '000	2023	2022
Recognised at amortised cost	(2,719)	(3,050)
Held at fair value through profit or loss	2,793	(335)

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

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

EUR '000	2023	2022
Interest income	230	50
Accretion of non-current financial liabilities	(1,453)	(1,584)
Other interest expenses	(7,845)	(11,079)

## (30) Cash flow statement

The Group cash flow statement shows the change in the H&K Group's cash and cash equivalents due to cash inflows and outflows during the year. Cash and cash equivalents include cash balances, cheques and bank balances; the latter could also include deposits with original terms of less than three months (Note 21, 25).

As required by IAS 7, cash flows are distinguished between operating, investing and financing activities. Cash flows from investing and financing activities are determined directly while those from operating activities are calculated indirectly, based on the profit / (loss) for the period. The changes in balance sheet positions used in the indirect calculation are adjusted to exclude the effects of foreign exchange rate variances and, if relevant, any changes in the companies consolidated into the Group. The changes in the balance sheet positions shown in the cash flow are therefore different to the euro changes in the Group's statement of financial position.

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

Security deposits with original terms longer than three months are shown in the statement of financial position under deposits or non-current investments (Note 18); movements in these are therefore shown under net cash from / (used in) investing activities in the statement of cash flows. However, these deposits serve as security for bank guarantees etc. (Note 25), rather than being made for the

Group's investment purposes. The Group's net cash from / (used in) investing activities, adjusted to exclude these movements, would be as follows:

EUR '000	2023	2022
Net cash from / (used in) investing activities	(19,780)	(10,881)
Less amounts relating to the movement in security deposits with terms >3 months	(2,256)	(9,006)
<b>Adjusted net cash from / (used in) investing activities</b>	<b>(22,036)</b>	<b>(19,888)</b>

## (31) Segment reporting

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

The Defence division is organised around five (2022: five) operating companies, three of which serve customers in the defence and law enforcement sector, whilst the fourth (HKI) serves the US commercial market and the fifth (HKO) serves customers in the defence and law enforcement sector, the other group companies and the commercial markets in certain other countries. Correspondingly, the segments analysed are the site locations in Germany, Great Britain, France and the United States, split into Defence and Commercial. Since these segments mainly represent legal entities, the figures shown for each segment are the values for the companies as included in the H&K Group's consolidated figures.

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

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

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

## Operating segments

Site Location	Germany		USA - Commercial		USA - Defence		Great Britain		France		Holding activities		Total pre-consolidation		Consolidation transactions		H&K AG Group	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Net external revenues	134,808	118,561	107,087	116,261	3,679	15,670	24,691	23,224	31,161	31,390	-	-	301,426	305,107	-	-	301,426	305,107
Inter-segment revenue	113,294	119,931	509	319	160	156	400	384	-	-	-	-	114,362	120,790	(114,362)	(120,790)	-	-
Total output	258,975	253,497	120,336	123,959	4,403	14,125	25,338	22,727	31,154	31,384	-	-	440,206	445,692	(114,572)	(120,710)	325,634	324,982
Depreciation and amortisation	(10,363)	(10,059)	(1,154)	(1,364)	(73)	(90)	(161)	(121)	(5)	(17)	(55)	(56)	(11,811)	(11,708)	-	-	(11,811)	(11,708)
EBITDA	60,406	66,728	(317)	10,963	508	1,678	1,791	1,969	990	1,586	(934)	(957)	62,442	81,965	(208)	84	62,235	82,049
Interest income	515	251	-	-	-	0	71	10	-	0	4,821	4,098	5,407	4,358	(5,173)	(4,169)	234	190
Interest expense	(11,432)	(10,541)	(3)	(1)	(389)	(207)	(32)	(43)	(0)	(1)	(4,458)	(6,800)	(16,313)	(17,594)	5,173	4,165	(11,139)	(13,429)
Income tax expenses and / or income	16	(1)	528	(1,714)	19	71	(391)	(362)	(301)	(391)	(10,811)	(302)	(10,940)	(2,698)	46	(18)	(10,894)	(2,716)
Profit / (loss) after tax	41,591	47,089	(1,117)	7,676	61	5,154	1,279	1,549	685	1,177	(7,925)	44,969	34,573	107,614	(5,864)	(56,975)	28,709	50,639
Other material non-cash items																		
- Impairment of assets / creation of allowances	-	(191)	(280)	(120)	370	(152)	(43)	(76)	-	(2)	-	-	46	(542)	-	-	46	(542)
- Impairment losses reversed / release of allowances	4	48	-	13	-	-	11	70	11	-	(40,048)	15,379	(40,022)	15,510	40,048	(15,379)	26	131
Non-current assets other than deferred taxes and financial instruments	188,353	176,464	9,168	13,001	874	973	730	431	4	5	231	285	199,360	191,160	(74,653)	(74,653)	124,707	116,507
Acquisition of property, plant, equipment and intangibles, excluding capitalised development costs	(18,344)	(13,781)	(318)	(882)	(6)	(2)	(214)	(65)	(4)	(1)	-	-	(18,887)	(14,731)	-	-	(18,887)	(14,731)
Provisions and liabilities	242,403	210,511	41,651	30,791	8,768	7,453	3,123	3,974	6,096	7,356	96,051	91,606	398,092	351,691	(148,584)	(93,810)	249,508	257,881

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



## Geographical and product group segments

The following tables show the proportions of sales (net of sales deductions) for customers in different regions of the world and the proportions of sales for the different product groups:

Region EUR '000		Revenues	Percentage of sales	Product group		Percentage of sales
<b>Germany</b>	<b>2023</b>	<b>69,307</b>	<b>23%</b>	Rifles	2023	38%
<b>(Domestic)</b>	<b>2022</b>	<b>64,171</b>	<b>21%</b>		2022	39%
USA	2023	110,767	37%	Sub-machine guns	2023	17%
	2022	131,938	43%	& machine guns	2022	18%
UK	2023	24,703	8%	Pistols	2023	31%
	2022	23,231	8%		2022	32%
France	2023	31,828	11%	Development services	2023	0%
	2022	32,129	11%		2022	
Other "Green Countries"	2023	64,821	22%	Other products &	2023	14%
	2022	52,993	17%	services	2022	12%
Rest of world	2023	-	0%	<b>Total</b>	<b>2023</b>	<b>100%</b>
	2022	644	0%		<b>2022</b>	<b>100%</b>
<b>Total export</b>	<b>2023</b>	<b>232,119</b>	<b>77%</b>			
	<b>2022</b>	<b>240,935</b>	<b>79%</b>			
<b>Total</b>	<b>2023</b>	<b>301,426</b>	<b>100%</b>			
	<b>2022</b>	<b>305,107</b>	<b>100%</b>			
of which "Green Countries"	2023	301,426	100%			
	2022	304,462	100%			

## Major customers

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

On this basis the H&K Group's major customers, to whom more than 10% of sales were made in 2023, are the German governmental authorities (2023: €58 million; 2022: €51 million) shown in the segment "Germany" and the French governmental authorities (2023: €31 million; 2022: €31 million) shown in the segment "France".

The following table shows that a large proportion of our revenues are generated with customers in the commercial market; the revenues to individual customers in this market segment are significantly lower than for military and governmental agency business.

Customer type	Percentage of sales		
<b>Military</b>	<b>2023</b>	<b>163,961</b>	<b>54%</b>
	<b>2022</b>	<b>164,670</b>	<b>54%</b>
Law enforcement & similar governmental agencies	2023	14,267	5%
	2022	11,718	4%
Commercial	2023	123,197	41%
	2022	128,719	42%
<b>Total</b>	<b>2023</b>	<b>301,426</b>	<b>100%</b>
	<b>2022</b>	<b>305,107</b>	<b>100%</b>

## (32) Contingent liabilities and pledged assets

As described in Notes 22 and 36, we have three hybrid loans in equity (“Equity attributable to hybrid capital investors”). Given the significant curtailment of the lenders’ rights as a result of the retrospective conversion to hybrid loans, these bear interest at 10% p.a., however this interest only arises in certain circumstances. The lenders’ entitlement to interest only applies if, in line with such a proposal from the executive directors, the Annual General Meeting (“AGM”) of H&K AG resolves to distribute dividends to ordinary shareholders relating to the corresponding financial year. These entitlements are therefore only recognised, if these prerequisites are satisfied, after the AGM takes place in the following year. The AGM in June 2023 resolved a dividend so in 2023 €9.5 million entitlements to hybrid interest were added to the hybrid loans. The corresponding contingent liabilities as of December 31, 2023, total €4.5 million. This position contains interest on the original nominal values of the hybrid loans until they were contributed in kind in May 2023, together with interest calculated retrospectively from January 1, 2023 on the hybrid interest from 2022 that was added to the loans following the AGM. If a dividend is resolved by the 2024 AGM, this accrued interest relating to the business year 2023 will be added to the corresponding hybrid loans and from then on also bear interest. Payment, according to the current contractual conditions, would only be permissible after termination of the CFA-loan.

For Information on purchase order commitments for non-current assets see Notes 16 and 17.

For information on bank guarantees for customers and the related utilisation of Facility C or security deposits see Note 25. Some of the other group assets are pledged for the CFA-loan from August 17, 2022 under various floating charges and other security agreements. For details of pledged assets see Notes 16, 17, 18, 19, 20, 21 and 25. Based on the current business plan (covering five years), it is not expected that bank guarantees or pledges will be called in the planned periods, or sufficient provision have been recognised for such potential calling of bank guarantees.

For liabilities relating to certain short-term and / or low value leases, see Note 33.

There are no other material contingent liabilities as of December 31, 2023 or December 31, 2022.

## (33) Leases

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

### Material leases

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

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

#### *i. Right-of-use assets*

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

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	Land and buildings	Fixtures, fittings and other assets	Total
<b>EUR '000</b>			
<b>Net carrying value</b>			
<b>at 01.01.2022</b>	<b>551</b>	<b>359</b>	<b>910</b>
<b>Acquisition / manufacturing costs</b>			
<b>Balance at 01.01.2022</b>	<b>1,214</b>	<b>687</b>	<b>1,901</b>
Effect of movement in exchange rates	(51)	2	(49)
Additions	174	314	488
Disposals	-	(82)	(82)
<b>Balance at 31.12.2022</b>	<b>1,337</b>	<b>921</b>	<b>2,259</b>
<b>Amortisation &amp; depreciation</b>			
<b>Balance at 01.01.2022</b>	<b>(663)</b>	<b>(328)</b>	<b>(991)</b>
Effect of movement in exchange rates	31	(0)	31
Depreciation for the year	(146)	(212)	(358)
Accumulated amortisation & depreciation on disposals	-	82	82
<b>Balance at 31.12.2022</b>	<b>(777)</b>	<b>(458)</b>	<b>(1,235)</b>
<b>Net carrying value at 31.12.2022</b>	<b>560</b>	<b>463</b>	<b>1,023</b>
<b>Acquisition / manufacturing costs</b>			
<b>Balance at 01.01.2023</b>	<b>1,337</b>	<b>921</b>	<b>2,259</b>
Effect of movement in exchange rates	19	(2)	17
Additions	-	732	732
Disposals	-	(352)	(352)
<b>Balance at 31.12.2023</b>	<b>1,356</b>	<b>1,299</b>	<b>2,656</b>
<b>Amortisation &amp; depreciation</b>			
<b>Balance at 01.01.2023</b>	<b>(777)</b>	<b>(458)</b>	<b>(1,235)</b>
Effect of movement in exchange rates	(12)	1	(11)
Depreciation for the year	(144)	(299)	(444)
Accumulated amortisation & depreciation on disposals	-	352	352
<b>Balance at 31.12.2023</b>	<b>(934)</b>	<b>(405)</b>	<b>(1,339)</b>
<b>Net carrying value at 31.12.2023</b>	<b>422</b>	<b>895</b>	<b>1,317</b>

*ii. Amounts recognised in profit or loss*

Amortisation amounting to €444k (2022: €358k) for right-of-use assets and interest expenses amounting to €74k (2022: €65k) for lease liabilities were recognised in profit or loss. The associated deferred taxes were an income of €2k (2022: €8k expense).

*iii. Amounts recognised in the statement of cash flows*

The leasing payments were split between interest payments of €74k (2022: €65k), and repayment of lease liabilities amounting to €454k (2022: €351k); both figures are included within net cash flows from / (used in) financing activities.

## Other leases

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

The Group recognised expenses of €228k (2022: €297k) for short-term leases and €22k (2022: €24k) for leases for which the associated assets are of low value. As at the balance sheet date, the Group had outstanding obligations arising from these leases that fall due as follows:

EUR '000	31.12.2023	31.12.2022
Up to one year	68	55
More than one and up to five years	48	13
More than five years	0	0
<b>Total</b>	<b>116</b>	<b>68</b>

## (34) Number of employees

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

	2023	2022
Germany	972	939
France	2	2
Great Britain	17	16
USA - Defence	5	5
USA - Commercial	92	88
Holding activities	4	5
<b>Average employees</b>	<b>1,092</b>	<b>1,055</b>

These numbers for 2023 and 2022 exclude directors, people on national service, apprentices and trainees; part-time employees are fully included.

## (35) Personnel expenses

Personnel expenses in 2023 were €90,410k (2022: €89,406k). Of these expenses, €6,090k (2022: €5,828k) relate to employer's contributions to social security pension funds and similar defined contribution plans for pensions.

## (36) Related party disclosures

### Parent and ultimate controlling party

H&K AG is the parent of the H&K Group and is owned by private investors. It holds 94.9% of HKO indirectly and the 5.1% balance directly.

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as of December 31, 2023

From July 2020 onwards, the company assumed that the majority of H&K AG's shares were held directly by COMPAGNIE DE DEVELOPPEMENT DE L'EAU S.A., Luxembourg, Luxembourg ("CDE") and indirectly by Sofi Kapital Ltd., Christ Church, Barbados ("Sofi Kapital Ltd."). This understanding was based on the fact that in August 2020 CDE informed H&K AG with the notifications in accordance with § 20 AktG listed below under points 1. and 2. and gave prior notice of this in July 2020. In addition, when registering for all subsequent annual general meetings of H&K AG, CDE was able to provide corresponding proof of shareholdings as evidence of its majority holding. Due to CDE's (indirect) possession of global share certificates in which 15,000,787 H&K AG shares are certified, in particular the irrefutable presumption of § 123 (4) sentence 5 AktG in relation to H&K AG argues in favour of CDE being entitled to take part in the annual general meeting and to exercise voting rights.

There is a dispute between CDE and Mr Andreas Heeschen (Cologne, Germany) regarding to whom the 15,000,787 H&K AG shares belong and whether CDE has a majority holding in H&K AG. CDE and Mr Heeschen are disputing this legal issue in court. Whereas in its verdict from February 25, 2022, the Frankfurt Regional Court judged mainly in favour of CDE, in its verdict from December 15, 2023, the Frankfurt Higher Regional Court judged on appeal that ownership of the 15,000,787 H&K AG shares is still with Mr Heeschen, but simultaneously ruled that Mr Heeschen has an obligation to transfer 13,925,498 of the 15,000,787 H&K AG shares to CDE as the future owner. The judgment of the Frankfurt am Main Higher Regional Court from December 15, 2023 is not yet legally binding as Mr Heeschen has raised a complaint of non-admission to the Federal Court of Justice. The question of ownership of the 15,000,787 H&K AG shares has therefore not yet been definitively determined.

The capital increase in 2023 became effective with its registration on May 17, 2023. The above-mentioned shareholder dispute, and in particular the judgement of the Frankfurt am Main Higher Regional Court from December 15, 2023, has no effect on the capital increase.

Notifications in accordance with §20 AktG:

1. CDE informed us on August 20, 2020 (date of receipt of the original letter) with a notification in accordance with § 20 (1) and (4) AktG, that it holds more than a quarter of the shares in H&K AG and simultaneously holds a majority interest in H&K AG.
2. Sofi Kapital Ltd. informed us on August 20, 2020 (date of receipt of the original letter) with a notification in accordance with § 20 (1) and (4) AktG, that, due to attribution pursuant to § 16 (4) AktG via CDE, it indirectly holds more than a quarter of the shares in H&K AG and simultaneously indirectly holds a majority interest in H&K AG.
3. Mr Nicolas René Walewski, London, United Kingdom, informed us on June 23, 2022 (date of receipt of the original letter) with a notification in accordance with § 20 (1) and (4) AktG, that, due to attribution pursuant to § 16 (4) AktG via Sofi Kapital Ltd. and CDE, as trust settlor he (i) indirectly holds more than a quarter of the shares in H&K AG (notification in accordance with § 20 (1) AktG) and simultaneously (ii) indirectly holds a majority interest in H&K AG (notification in accordance with § 20 (4) AktG).
4. Mr Gérard Philippe Emile Claude Lussan, Christ Church, Barbados, informed us on June 24, 2022 (date of receipt of the original letter) with a notification in accordance with § 20 (1) and (4) AktG, that, pursuant to § 16 (4) AktG via Sofi Kapital Ltd. and CDE, due to attribution, he indirectly holds more than a quarter of the shares in H&K AG (notification in accordance with § 20 (1) AktG) and

simultaneously indirectly holds a majority interest in H&K AG (notification in accordance with § 20 (4) AktG).

5. Concorde Bank Limited, Bridgetown, Barbados, informed us on June 24, 2022 (date of receipt of the original letter) with a notification in accordance with § 20 (1) and (4) AktG that, due to attribution pursuant to § 16 (4) AktG via Sofi Kapital Ltd. and CDE, it is the case that Concorde Bank Limited, as trustee, indirectly holds more than a quarter of the shares in H&K AG (notification in accordance with § 20 (1) AktG) and simultaneously indirectly holds a majority interest in H&K AG (notification in accordance with § 20 (4) AktG).

## Other related party transactions

Transactions between the parent company and related parties that are its subsidiaries were eliminated in the course of consolidation and are not described in these disclosures in the Notes. Transactions with members of the governing bodies are covered in Note 38.

In addition, there are arm's-length business relationships between H&K Group companies and related parties as defined by IAS 24, as follows:

- There are hybrid loan liabilities from a main shareholder (CDE), which are recognised in equity. CDE's hybrid capital as of December 31, 2023 was €8.0 million (December 31, 2022: €80.0 million). In May 2023, almost all of the original nominal values of these hybrid loans were contributed as contributions in kind for the 2023 capital increase (Note 22). In principle these hybrid loans bear interest at 10% p.a., however this interest only arises in certain circumstances. The lender's entitlement to interest only applies if, in line with such a proposal from the executive directors, the AGM of H&K AG resolves to distribute dividends to ordinary shareholders relating to the corresponding financial year. These entitlements are therefore only recognised, if these prerequisites are satisfied, after the AGM takes place in the following year. According to the agreement of April 2023, compound interest is not only calculated from 5 days after the AGM but from the beginning of the year in which the AGM takes place. The AGM in June 2023 resolved a dividend so in 2023 €8.0 million entitlements to hybrid interest were added to these hybrid loans. The corresponding contingent liabilities as of December 31, 2023 total €3.8 million (Note 32).
- There is a hybrid loan liability from another main shareholder, which is recognised in equity. The hybrid capital attributable to this main shareholder as of December 31, 2023 was €1.5 million (December 31, 2022: €15.0 million). In May 2023 almost all of the original nominal value of this hybrid loan was contributed as contributions in kind for the 2023 capital increase (Note 22). In principle this hybrid loan bears interest at 10% p.a., however this interest only arises in certain circumstances. The lender's entitlement to interest only applies if, in line with such a proposal from the executive directors, the AGM of H&K AG resolves to distribute dividends to ordinary shareholders relating to the corresponding financial year. These entitlements are therefore only recognised, if these prerequisites are satisfied, after the AGM takes place in the following year. According to the agreement of April 2023, compound interest is not only calculated from 5 days after the AGM but from the beginning of the year in which the AGM takes place. The AGM in June 2023 resolved a dividend so in 2023 €1.5 million entitlements to hybrid interest were added to this hybrid loan. The corresponding contingent liabilities as of December 31, 2023 total €0.7 million (Note 32).
- On August 18, 2022, one of H&K AG's main shareholders granted an unsecured loan (the "Vendor Loan") of €20 million with a term of six years. The interest rate is 6.5% and accrued

interest is to be added to the loan annually, but it may be paid out under certain circumstances. The loan was utilised on December 16, 2022. Due to the capitalisation of interest in December 2023, the loan increased to €21.3 million (2022: €20.0 million) (Note 25).

- On August 18, 2022, one of H&K AG's main shareholders granted an unsecured loan (the "Additional Mezzanine Loan") of €40 million with a term of six years and an interest rate of 6.5% p.a. However the loan will only be utilised should certain prerequisites defined in the CFA-loan occur; if the loan were to be utilised, H&K AG would be obliged to use these funds to repay Facility B of the CFA-loan in full. During the term of the CFA-loan, no repayments or interest payments may be made on this loan, so any accrued interest is to be added to the loan at the end of each interest period.

Transactions with related parties are generally carried out as if between willing, informed and independent third parties.

## (37) Governing bodies of the Group

### Executive Board of H&K AG

Dr-Ing. Jens Bodo Koch	CEO
Andreas Schnautz	CFO (since October 1, 2023)
Marco Geißinger	CSO (since October 1, 2023)
Dr Björn Krönert	CFO (until September 30, 2023)

### Supervisory Board of H&K AG

Dr Rainer Runte	Chairman
Nicolaus P. Bocklandt	Deputy Chairman
Dr Regina Engelstädter	Member

## (38) Total remuneration for the executive and supervisory boards in the financial year

EUR '000	2023	2022
Short-term benefits for the supervisory board	180	182
Short-term benefits for the executive board	1,197	1,242
<b>Gesamt</b>	<b>1,377</b>	<b>1,424</b>



## (39) Auditor's remuneration

EUR '000	2023	2022
Financial statement audit services	287	271
Other confirmation services	220	6
Tax services	17	30
Other services	178	71
<b>Total</b>	<b>702</b>	<b>378</b>

The other confirmation services and other services primarily include services relating to the capital increase in May 2023 which, being corresponding transaction costs, were recognised against capital reserves, in accordance with IAS 32.35.

## (40) Subsequent events

As described in Note 24, following the oral hearing of the Federal Court of Justice on March 19, 2024 the district court's verdict to confiscate €3.7 million is final. The confiscation is expected to take place in 2024, the amount was provided for in previous years.

No further material operating or structural changes or transactions have occurred in the H&K Group between December 31, 2023 and the approval of these consolidated financial statements.

Oberndorf am Neckar, Germany, March 25, 2024

The Executive Board

Dr Jens Bodo Koch

Andreas Schnautz

Marco Geißinger

**INDEPENDENT AUDITOR'S REPORT**

To H&K AG, Oberndorf am Neckar/Germany

**Audit Opinions**

We have audited the consolidated financial statements of H&K AG, Oberndorf am Neckar/Germany, and its subsidiaries (the Group) which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated income statement, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the financial year from 1 January to 31 December 2023, and the notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of H&K AG, Oberndorf am Neckar/Germany, for the financial year from 1 January to 31 December 2023.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) German Commercial Code (HGB) and, in compliance with these requirements, give a true and fair view of the assets, liabilities and financial position of the Group as at 31 December 2023 and of its financial performance for the financial year from 1 January to 31 December 2023, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

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

**Basis for the Audit Opinions**

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 German Commercial Code (HGB) and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW). Our responsibilities under those requirements and principles are further described in the “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

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

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB, and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position and financial performance of the Group. In addition, the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (i.e. fraudulent financial reporting and misappropriation of assets) or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that as a whole provides an appropriate view of the Group’s position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group’s financial reporting process for the preparation of the consolidated financial statements and of the group management report.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report**

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS as adopted by the EU and with the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

Stuttgart/Germany, 25 March 2024

**Deloitte GmbH**  
Wirtschaftsprüfungsgesellschaft

Signed:  
Franz Klinger  
Wirtschaftsprüfer  
(German Public Auditor)

Signed:  
Stephan Sick  
Wirtschaftsprüfer  
(German Public Auditor)

<p><b>TRANSLATION</b> – German version prevails –</p>
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