H&K AG

Group Management Report and Consolidated Financial Statements According to IFRS for the Financial Year 2025

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Group Management Report 2025

H&K AG, Oberndorf am Neckar

1. Business and overall situation

Business operation 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, Great Britain, France and Germany.

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.

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.

Through the acquisition of "Chrom-Müller Metallveredelung GmbH" (CMM) in November 2024, the Group not only secured the expertise of chrome-plating parts for defence products for the long term, but also used the opportunity to diversify into commercial, sustainable applications, since the chrome-plating of product parts can also be carried out to extend the life of products for companies in the automotive industry, mechanical and plant engineering and the aviation industry.

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 2025 was significantly higher than our calculated share value, due to the very low volume of trading.

The Group’s 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 military and governmental authority personnel with a complete and flexible product range, in the form of weapon families that is specifically tailored to suit a large number of user scenarios.

The H&K Group stands for technologically refined, well-developed and innovative products aligned with a very high level of quality. To ensure this, as of December 31, 2025, 12.3% (2024: 12.0%) of our employees work in Quality Management and 7.8% (2024: 7.5%) in Research and Development. HKO and its quality management system are certified according to 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 are certified according to ISO/IEC 27001:2022.

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 accordingly.

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).

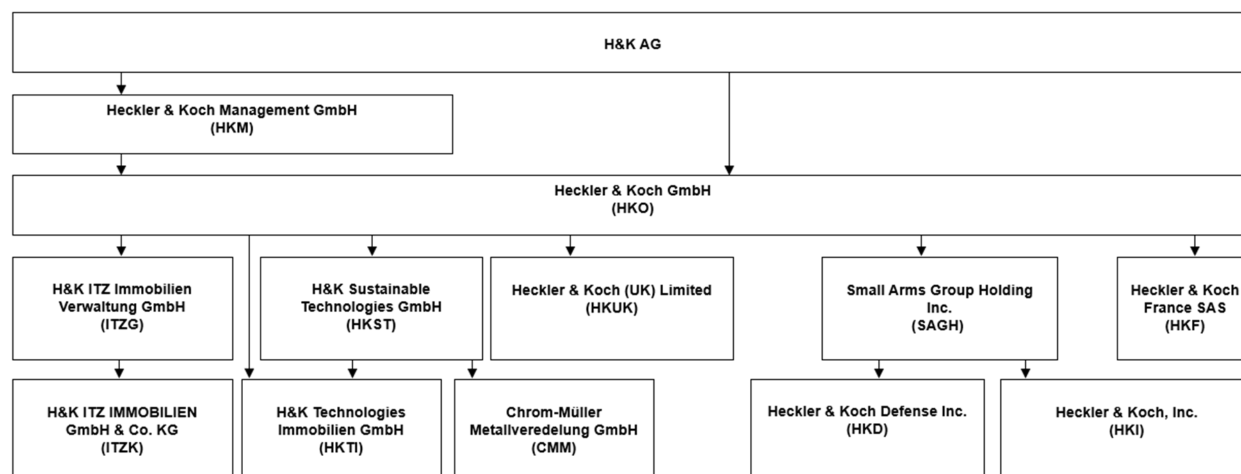
Corresponding US legal requirements such as the International Traffic in Arms Regulation (ITAR) and Export Administration Regulation (EAR) apply extraterritorially and therefore apply to the use of US technologies or the trade in US goods outside the US.

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 executive board has concentrated the Group’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 NATO-equivalent countries (Switzerland, New Zealand, Australia, Japan). In addition, there are countries such as South Korea and Ukraine, which are classified 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 current 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 detailed plan is prepared and reported at a monthly level, whereby 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, these reports include operating performance indicators used for the precise control of individual departments and processes on much shorter timescales, for example days or shifts.

Financial performance indicators

The main focus of the financial performance indicators is on the implementation of the planned revenue and earnings targets and the management of 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, in addition to revenue and operating performance (defined as revenues plus inventory movements and own work capitalised), the main key performance indicator used is earnings before depreciation, amortisation, financial result and taxes (EBITDA). The H&K Group also uses order intake and order book as operational performance measures for control purposes. These figures provide an indication of expected production capacity utilisation and revenue trends and form the basis of medium-term business management.

As part of the Group's liquidity management, in addition to the monthly cash flow data, a detailed forecast is prepared weekly so that any necessary mitigation measures can be identified in good time. The analysis and control of cash flows from 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 is the headcount.

In addition, the following performance indicators are used to aid decision-making for individual operating areas:

Area	Performance indicators
Operations	Total plant efficiency, scrap, output quantities, down-times etc.
Personnel	Illness rate, staff turnover etc.
Quality management	Number of weapons shot, scrap etc.
Purchasing	Delays, supplier scrap etc.

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

Research and development

Through the continuous development of its new and current products, the Group achieves a strong market position in many regions of Europe. 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 €12.6 million in 2025 (2024: €11.6 million). In 2025, of these expenses, development costs of €3.6 million were capitalised, which corresponds to a capitalisation rate of 29% and 0.9% of revenues (2024: €4.1 million; 36% capitalisation rate and 1.2% of revenues). See also the 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, both in Europe 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 requires the continuous development of correspondingly configured products. Overall, our aim is to offer our customers products of the greatest reliability, safety and utility. The H&K Group is therefore continuing to invest intensively 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 end of 2025, 7.8% (2024: 7.5%) 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

Macro-economic situation and business trends

According to the German Federal Statistical Office, in 2025, adjusted for price changes, gross domestic product (GDP) in Germany increased by 0.2% over the previous year. The drivers of this growth were primarily the higher levels of private and governmental consumption expenditure. In contrast, exports fell. Higher US customs duties, the strengthening of the euro, stronger competition from China and lower investment in equipment and buildings than in the previous year all negatively affected German exports. According to the “World Economic Outlook Update” published by the International Monetary Fund (IMF) in January 2026, economic growth in the US, an important sales market for us, was 2.1% in 2025 compared to 2.8% in 2024. Economic growth was also slower in France, falling from 1.1% in 2024 to 0.8% in 2025. In the United Kingdom however, economic growth increased from 1.1% in 2024 to 1.4% in 2025.

During 2025, according to the monthly report of German’s Federal Ministry of Finance of January 2026, the German Federal Republic’s defence spending increased by 17.4% (€9.9 billion) to €67.0 billion compared to the previous year. This increase is partly due to Germany’s increased support of Ukraine. In addition, during the reporting year, in accordance with individual plan 14 of the 2025 German federal budget, €24.1 billion from the German Army’s special fund were available to the German army.

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. Other geopolitical conflicts have not yet had a noticeable effect on our order book. Regarding the new Iran conflict, an effect on energy prices is possible, although we do not currently expect any significant effects on our results.

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 global market access is limited by our internal “Green Country Strategy” and by the governmental weapons export regulations.

Armed forces must 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 realign 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. Political developments in the recent past, such as the new US defence strategy published in January 2026 and the NATO summit held in the Hague in June 2025, during which NATO members agreed that, by 2035 at the latest, they would each invest 5% of their GDP in defence and security, indicate the opposite in fact, with significantly growing defence budgets in Europe.

Access to the US market in general, and the sale of weapons in the US in particular, are subject to both greater restrictions on export licences from Germany and changing legislation in the US and its individual states. The customs negotiation between the EU and the US also increases customs duties on the export of weapons to the US. 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. The company has taken first steps to compensate for potential developments. These include the first wholly local development and production by H&K USA of the VP9 CC, a pistol for the US market, and the establishment of the new brand H&K USA, with its own logo.

Business trend

The €393.0 million revenue generated in 2025 was, as forecast, an increase in the mid-double-digit million range over the €343.4 million revenues generated in 2024. While the US business only increased slightly, revenues with European customers were significantly higher than in the previous year.

Contrary to the forecast of significantly lower order intake and order book, both performance indicators increased exceptionally in the financial year 2025 compared to the previous year’s figures, order intake 2025: €802.0 million (2024: €426.2 million) and order book at the end of 2025: €695.5 million (2024: €289.3 million). Major contributors to this development were orders from military customers, some of which were for deliveries over multiple years.

The operating performance of €424.1 million (2024: €354.4 million) (defined as revenues (2025: €393.0 million) plus inventory movements (2025: €26.7 million) plus own work capitalised (2025: €4.4 million)) increased considerably more than forecast (increase in the low double-digit million range), in particular due to the significantly higher revenues and inventories.

The EBITDA of €67.9 million (2024: €63.1 million) was the second best in the company's history after the EBITDA of €82.0 million in 2022. The forecast of a slight increase over the previous year was achieved.

The result from operating activities (EBIT) increased to €50.1 million (2024: €49.5 million).

The profit / (loss) for the period (EAT) increased to €39.5 million (2024: €31.5 million).

Net working capital increased from the prior-year figure of €105.6 million to €128.6 million in the reporting period (forecast: significantly higher than the level on December 31, 2024). For further explanations see 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 €47.5 million at the end of 2025 and was therefore as forecast significantly lower than at the end of the previous year (€69.5 million).

Operating cash flow decreased from €100.5 million in the previous year to €20.4 million in the financial year 2025. This was in line with the forecast (significantly lower). For further explanations see sections "Cash and cash equivalents" and "Significant changes in net assets" in Chapter 2 "Business situation".

The number of employees (excluding agency workers but including trainees) as of the reporting date increased by 84 from 1,299 in the prior year to 1,383 in financial year 2025 and was therefore in line with the slight increase forecast. The number of employees at HKO (excluding agency workers but including trainees) increased to 1,110 employees at the end of 2025 (2024: 1,053 employees). Headcount in the US rose from 104 to 123 in the financial year 2025. During the reporting year, the number of agency workers in the Group increased to 27 (2024: 23 agency workers).

Financial performance

Overview

Overall, the trends for the H&K Group's 2025 earnings performance (EBITDA) met the expectations.

Trend in revenue and orders received

In 2025, the H&K Group achieved revenue, net of sales deductions, of €393.0 million (2024: €343.4 million).

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

Region		Revenues EUR '000	Percentage of sales
Germany (Domestic)	**2025**	**83,679**	**21%**
	2024	**70,215**	**20%**
US	2025	100,793	26%
	2024	95,802	28%
UK	2025	22,842	6%
	2024	31,373	9%
France	2025	29,051	7%
	2024	40,088	12%
Other "Green Countries"	2025	156,505	40%
	2024	105,788	31%
Rest of world	2025	88	0%
	2024	109	0%
Total export	**2025**	**309,278**	**79%**
	2024	**273,161**	**80%**
Total	**2025**	**392,957**	**100%**
	2024	**343,375**	**100%**
of which "Green Countries"	2025	392,869	100%
	2024	343,266	100%

Domestic revenue increased by approx. 19% over the prior year and was 21% of group revenue in the period under review (2024: 20%). The increase in domestic revenue was in part due to CMM, whose revenue in the prior year was only included in the Group's revenues for the period from its acquisition at the end of November 2024 to the reporting date (2025: €9.9 million; 2024: €0.6 million).

The market in the US, which is mainly served by our subsidiaries HKD and HKI, generated 26% (2024: 28%) of revenue. The increase in the US in the financial year 2025 (+€5.0 million or +5.2%) mainly related to the commercial business, while the military market showed a slight decrease.

The proportion of group total revenue generated in "Green Countries" was 99.98% and thereby minimally above the previous year's level (99.97%).

Of the €393.0 million (2024: €343.4 million) group revenue, 64.62% (2024: 61.71%) was attributable to the military market, 5.78% (2024: 6.36%) to the police and governmental agencies market and 29.60% (2024: 31.93%) to the commercial market.

The H&K Group's order intake in the financial year 2025 was €802.2 million (2024: €426.2 million). This development is partly due to our business model, through which in some years multi-year orders are placed by government authority customers. The resultant order book at the end of 2025 was €695.5 million (2024: €289.3 million) and the majority is scheduled for delivery in 2026 and 2027. Of the order book at the end of 2024, the majority was scheduled for delivery in 2025.

Trend in earnings, variances and significant changes

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

Revenue (net of sales deductions) increased by €49.6 million (+14.4%) to €393.0 million in the reporting year compared to €343.4 million in the prior year; the increase is mainly volume-related.

The cost of sales includes the costs of materials, direct labour costs, overheads and depreciation and amortisation incurred to achieve the revenue. The cost of sales increased from €229.3 million in the prior year to €261.1 million in the year under review. This was primarily due to higher revenues.

The research and development expenses comprise those personnel expenses, overheads and depreciation and amortisation relating to these activities together with the costs of test materials and tools, to the extent that these costs do not represent development costs that meet the criteria for capitalisation under IAS 38. The amortisation and any derecognition of capitalised development costs are also included. The development costs, prior to effects of capitalisation totalled €12.6 million (2024: €11.6 million). The amortisation of capitalised development costs was €2.3 million (2024: €1.8 million), less the capitalisation of development costs (€3.6 million; 2024: €4.1 million). In 2025, there was also a €0.3 million (2024: nil) derecognition of previously capitalised development costs relating to projects cancelled due to changed conditions. Resulting overall net research and development expenses (following the capitalisation of development costs) were €11.6 million (2024: €9.3 million).

Sales, marketing & distribution expenses include primarily personnel, material and marketing expenses as well as depreciation and amortisation relating to the sales, marketing & distribution function and project-related costs. They increased slightly to €30.6 million (2024: €30.3 million); the increase is primarily due to higher project-related expenses and personnel costs, offset by lower other overheads.

General administration expenses include personnel expenses and overheads as well as the depreciation and amortisation relating to the administration function. They increased by €15.2 million to €39.8 million (2024: €24.6 million). The increase in costs is primarily due to higher personnel expenses, including executive board remuneration (additional information is provided in Note 38 of the notes to the consolidated financial statements) and overheads, including consultancy fees for projects and support for litigation.

Consequently, the EBITDA of €67.9 million was higher than in the prior year (2024: €63.1 million). In the reporting year, EBIT increased to €50.1 million compared with €49.5 million in the prior year. The higher level of capital expenditure results in higher depreciation and amortisation, with a corresponding effect on EBIT.

The net financial expense in the year under review was €11.0 million (2024: €8.2 million). In 2025 interest expenses of €5.2 million (2024: €7.0 million) were incurred, primarily relating to interest-bearing loans (Term and Revolving Credit Facilities Agreement, "CFA-loan" and Vendor Loan). In

2025 we recognised expenses from accretion of €2.3 million (2024: €2.5 million); this relates primarily to provisions for defined benefit and other obligations and to the CFA-loan. The net effect of foreign exchange gains and losses was a loss of €4.4 million (2024: gain of €2.7 million).

In the year under review, earnings before income tax were a profit of €39.1 million (2024: €41.3 million).

Income from income taxes (including deferred taxes) amounted to €0.4 million in the year under review (2024: €9.8 million income tax expense). Deferred taxes are calculated on the basis of tax rates, which have been enacted as of the reporting date or will be enacted shortly in each country, that are expected to be in place on realisation. Deferred taxes were a net income of €8.9 million in the reporting year (2024: €1.3 million); deferred taxes on interest expense carry-forwards were the primary factor in this change. In 2025, interest expense carry-forwards were partially utilised and revalued due to deductions in corporation tax rates ("Körperschaftsteuersätze") and current five-year planning assumptions and their allowance was partially released. The overall effect was an income of €5.1 million (2024: €1.7 million).

Due to the above developments, the Group recorded a consolidated profit for the period of €39.5 million (2024: €31.5 million).

The development of the key performance indicators for the individual segments is illustrated by the following table (prior to consolidation):

	Germany		Sustainable Technologies		USA - Commercial		USA - Defence		Great Britain		France		Holding activities	
	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024
Net revenues	303.7	252.1	11.5	0.7	98.5	92.6	4.6	4.4	23.1	31.8	28.8	39.7	-	-
Order Intake (*)	700.9	354.6	11.9	0.7	112.0	103.4	4.3	2.9	19.4	18.6	20.0	22.9	-	-
Order book	676.4	279.9	0.4	-	30.4	19.0	1.0	1.4	27.0	30.7	14.9	23.7	-	-
EBITDA	61.3	59.5	1.6	(0.5)	4.3	(4.2)	0.0	0.1	2.9	5.1	0.8	2.3	(2.3)	(0.3)
EBT	27.1	35.9	1.2	(0.6)	2.1	(5.5)	(0.4)	(0.3)	2.8	4.6	0.8	2.2	47.7	61.8
Employees (+)	1,110	1,053	100	101	119	99	4	5	33	31	6	3	11	7

** including order book adjustments*

+ including trainees; year-end values

All figures in € million 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 at all times, taking into account the obligations and the regular interest payments due to the CFA-loan, and in the medium term to minimise leverage and maintain an adequate minimum of liquidity through unrestricted bank balances and credit lines. The Group's internal policies require that return on capital is reviewed on all investments and generally on 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, depending on negotiating position and requirements, performance and advance payment guarantees are issued to our customers, if possible as Group guarantees or alternatively by banks on our behalf.

Funding sources and financing expenses

As of December 31, 2025, the H&K Group had the following three 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”)
- Unsecured shareholder loan (“Additional Mezzanine Loan”), (agreed but not utilised)

The funds relating to the H&K Group’s defined benefit obligations in the amount of €41.7 million (2024: €45.8 million) are available to the company in the long term.

CFA-loan (Facilities A, B and C)

This syndicated loan is a €140.0 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 second extension of a further year to August 2027 was requested and agreed in 2024. 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 three or six months). Initially the margin was 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 (35% of the applicable margin).

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

- **Facility A**, a secured financing loan to HKO (December 31, 2025: €25.0 million, of which €10.0 million are current; December 31, 2024: €35.0 million, of which €10.0 million were current);
- **Facility B**, a secured financing loan to H&K AG (December 31, 2025: €40.0 million; December 31, 2024: €40.0 million).

In addition, the CFA financing agreement includes:

- **Facility C**, a €50.0 million bank guarantee and overdraft facility; as of December 31, 2025, (and as of December 31, 2024) this was only utilised for bank guarantees by HKO and therefore, as a contingent liability, not recognised in the statement of financial position. In addition to guarantee costs, interest for the utilisation of the credit line is incurred, which are dependent upon other conditions included in additional ancillary agreements with the syndicate banks.

Under the CFA-loan, H&K AG and its subsidiaries are subject to strict limitations on certain transactions (in particular, distribution of dividends, acquisition or disposal of businesses, borrowing); 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.

As security for liabilities under the CFA-loan (nominal including accrued interest as of December 31, 2025: €65.2 million; as of December 31, 2024: €75.8 million; utilisation of bank guarantee facility as of December 31, 2025: €5.0 million; as of December 31, 2024: €4.0 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.

Loans from related parties

On August 18, 2022, one of H&K AG's main shareholders granted an unsecured loan (the Vendor Loan) of €20.0 million with a term of six years. The agreed interest rate is 6.5% and accrued interest is to be added to the loan annually or, under certain conditions, paid out. The loan was utilised on December 16, 2022. Due to the capitalisation of accrued interest in December 2023, the loan increased to €21.3 million. The interest accrued since is paid out annually during December. The loan balance at the end of 2025 was therefore €21.3 million (2024: €21.3 million). The associated interest liability was €0.1 million at the end of 2025 (2024: €0.1 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

The H&K Group's financing expenses are primarily interest expenses totalling €4.5 million (2024: €6.8 million) relating to the CFA-loan and the Vendor Loan, together with accretion amounting to €2.3 million (2024: €2.5 million) for the CFA-loan and long-term provisions.

Off-balance sheet financing

In the period under review, as in the previous period, the 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 consolidated 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 €19.1 million in the financial year 2025 (2024: €18.0 million). This was mainly for buildings, machines, other equipment, fixtures and fittings for the segment Germany. Capitalised development costs amounted to €3.6 million in 2025 (2024: €4.1 million). As of December 31, 2025, the H&K Group's contractual obligations amounted to €17.5 million (2024: €9.7 million) for the acquisition of property, plant and equipment and intangible assets.

Cash and cash equivalents

Cash inflows and outflows, including effects of particular factors

On December 31, 2025, the Group's cash and cash equivalents amounted to €47.5 million (2024: €69.5 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 the financial year 2025 (€20.4 million) but was €80.1 million below the prior-year figure (€100.5 million). This was mainly due to the higher net working capital (see "Significant changes in net assets").

Cash flows from investing activities were an outflow of €22.1 million in the financial year 2025 and therefore €8.7 million less than in the prior year. In the prior year, this position included the acquisition of CMM, which is the main factor in the reduction.

Cash flows from financing activities were an outflow of €19.6 million in the financial year 2025, in line with the prior year (€19.8 million). In both the reporting year and the prior year, cash flows from financing activities were mainly for repayments of Facility A and interest payments for the Vendor Loan and Facilities A and B.

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 the financial year 2025.

The unrestricted cash as of December 31, 2025 was €47.5 million (2024: €69.5 million). In addition, we had €45.0 million (2024: €46.0 million) available under Facility C for bank guarantees and overdrafts.

According to current plans, the CFA-loan is expected to be refinanced early and repaid during 2026; in doing so, the H&K Group is ensuring the financing of the five-year plan and the availability at all times of sufficient liquidity in the form of unrestricted bank balances and credit lines. For 2026 a negative operating cash flow in the low double-digit million range is expected, primarily due to the satisfaction of orders and the associated reduction in contract liabilities for which the cash inflows have already been received in the reporting year or prior periods. For 2027 and the following years, a positive net cashflow from operating activities is expected. During 2026 and 2027, significantly higher investments in property, plant and equipment are planned that will be covered inter alia by the operating cash flows and the early refinancing.

Net assets

Significant changes in net assets

Compared to December 31, 2024, the net assets on December 31, 2025 increased by €64.0 million to €521.7 million.

Non-current assets as of the reporting date increased to €180.9 million (2024: €170.4 million). This was primarily due to investments in buildings, machines, other equipment, fixtures and fittings for the location Germany. Deferred tax assets increased from €20.3 million in the prior year to €22.9 million at the end of 2025, primarily due to the revaluation of the deferred tax assets on interest expense carry-forwards (increase of €5.1 million including the effects of the future reductions in corporation tax rates (“Körperschaftsteuersätze”)).

Current assets increased to €340.9 million at the end of 2025 (2024: €287.3 million). Inventories and prepayments for inventories increased to €233.6 million (2024: €172.7 million) primarily to ensure delivery capabilities for the German Army in 2026 as well as for other large projects. As of the reporting date, trade accounts receivable increased by €13.7 million year-on-year to €51.1 million (2024: €37.4 million), in part due to the higher revenues. These positions in the statement of financial position depend on the date of delivery and different order-specific payment conditions and are therefore subject to significant fluctuations. Cash and cash equivalents decreased to €47.5 million at the end of 2025 (2024: €69.5 million). The significantly higher net working capital was a primary factor in this.

Group equity, including equity attributable to hybrid capital investors, of December 31, 2025 amounts to €170.0 million (2024: €133.4 million). In July 2025, the Annual General Meeting resolved to distribute a dividend of €2.1 million. This was almost entirely paid out in the same month and consequently the dividend liability recognised at the reporting date was €1.0 million (2024: €0.9 million); this could not yet be paid out due to missing evidence of shareholdings and bank details. The hybrid capital increased from €14.0 million at the end of 2024 to €15.4 million at the end of 2025 due to the addition of interest. Additional information on hybrid loans is provided in Notes 22 and 36 of the notes to the consolidated financial statements.

Facilities A and B of the CFA-loan (€64.4 million; 2024: €73.9 million) and the Vendor Loan (€21.3 million; 2024: €21.3 million) are recognised in the statement of financial position in non-current and current loans and borrowings at their net amortised costs. As of December 31, 2025 Facility C of the CFA-agreement was only utilised for bank guarantees and therefore not recognised in the statement of financial position but only shown within the contingent liabilities. The associated accrued interest is shown in other liabilities.

Non-current liabilities decreased to €148.7 million on December 31, 2025 (2024: €164.9 million). The reasons for this include the €10.0 million repayment of CFA-loan Facility A, the lower employee defined benefit obligations (2025: €41.7 million; 2024: €45.8 million) and the lower deferred tax liabilities (2025: €22.1 million; 2024: 26.9 million).

Current liabilities increased to €203.0 million (2024: €159.3 million), primarily due to the higher level of contract liabilities (2025: €140.3 million; 2024: €88.6 million). Tax liabilities had an opposite effect (2025: €0.5 million; 2024: €14.7 million).

Net working capital increased from €105.6 million in the prior year to €128.6 million on December 31, 2025. This was primarily due to an increase of €61.0 million in inventories and prepayments for inventories and an increase of €13.7 million in trade receivables affected by factors related to the reporting date, offset by an increase of €51.7 million in contract liabilities.

Non-financial performance indicators

Production and innovation

In order to improve business processes and reduce their complexity, it is important to Heckler & Koch to actively involve our current employees and obtain 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. In addition, projects for the digitalisation of processes in production and logistics, such as an MES system, are increasingly being planned and implemented. This ranges from the integration of automated robotic systems to the utilisation of automated driverless transport systems. Currently, measures to expand production capacities relating to production areas and machine resources are being planned and, in some cases, already being implemented.

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 locations 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 of our actions and commitment.

Summary statement on financial position, financial performance and net assets at the time the management report was prepared

Compared to the prior year, in 2025, revenue increased by €49.6 million (+14.4%), and EBITDA is the second best in the company's history, following the EBITDA in 2022. Net working capital increased by €23.0 million over the prior year and although the unrestricted cash is significantly lower than in the prior year, it is still at a very high level.

Debt under the CFA-loan and the Vendor Loan decreased to nominal €86.3 million at the end of 2025 (2024: €96.3 million). The associated interest expense decreased by €2.3 million compared to the prior year. At the end of 2025, equity including the hybrid loans amounted to €170.0 million (2024: €133.4 million).

Overall, the executive board regards business developments as being very good and the business as continuing to be on a good path.

3. Forecast and opportunities and risks report

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 the 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, market fluctuations, 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

In its report "World Economic Outlook Update" from January 2026, the IMF is projecting global economic growth rates of 3.3% for 2026 and 3.2% for 2027. Global inflation of 3.8% is forecast for 2026, reducing to 3.4% in the following year.

For Germany, the IMF is expecting GDP to grow by 1.1% in 2026, and by 1.5% in 2027. For the US, the IMF is projecting growth in economic performance of 2.4% in 2026, falling to 2.0% in 2027; in addition, an inflation rate of 2.2% is forecast for 2027, down from 2.4% in the year before. The IMF is projecting growth in economic performance for France of 1.0% in 2026, increasing to 1.2% in 2027. In the United Kingdom, the IMF is expecting economic growth of 1.3% in 2026 and 1.5% in the following year.

Although for many countries debt burdens have increased in the past few years, in part due to the energy crisis, in view of recent developments a potential reduction in budgets for defence and internal security is not to be expected. Although the US working on initiating peace talks is setting things in motion again, the US's current position is stimulating the opposite of cutbacks for the defence industry, and European countries must realign their defence capabilities and are planning large increases in defence spending. The current development of the security situation in European countries and NATO members presents a significant challenge for their governments to more than compensate for the US's decreasing interest in the European region. The increased military engagements of affected countries or the joint initiatives for the ARF (Allied Reaction Force) and the transfer of a German brigade to

Lithuania, in view of the current situation on the Eastern border of Europe, are examples of the increasing requirements. 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. The amendment to the German constitution ("Grundgesetzänderung") resolved in March 2025 by the 20th German government ("Bundestag"), under which amongst other things the debt limitation for the area of defence should be eased, makes it possible for the Federal Republic of Germany to significantly increase defence spending. In addition, at the NATO summit held in the Hague in June 2025, NATO members agreed that, by 2035 at the latest, they would each invest 5% of their GDP in defence and security.

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

Expected financial performance in 2026 and forecast for non-financial performance indicators

The following forecasts are based on plans from the end of 2025 and include the effects of the geopolitical tensions known to us at that time.

Order intake and order book

It is expected that, following the exceptionally high figure for 2025, order intake will return to the level of previous years. As a result of this, together with significantly higher revenues, we expect the order book at the year-end to be significantly lower, although still at an above-average level.

Revenue, operating performance and EBITDA

For 2026 we expect an increase in the mid-double-digit million range for revenues and operating performance, and an increase in the low double-digit million range for EBITDA. In this respect, we expect that the acquisition of a production building described in the Subsequent Events (Note 40 of the notes to the consolidated financial statements) (and included in the plans from the end of 2025) will have a slightly positive effect on operating performance and the acquisition of the Globe companies [also described in the Subsequent Events] will have a slightly positive effect on the financial performance.

Operating cash flow

According to the business plan for 2026, operating cash flow is expected to be negative in the low double-digit million range, due in part to a reduction in contract liabilities.

Net working capital

Net working capital as of December 31, 2026 is expected to be significantly higher than the level of the prior year, primarily due to the expected reduction of contract liabilities.

Number of employees

Triggered by the increase in economic performance, we expect a significantly higher number of employees at the end of 2026 compared with the prior year.

Overall assertion

In the 2025 financial year the Group's revenues, operating performance and EBITDA increased. Based on the current order book, the executive directors expect that, for 2026 with higher revenues and operating performance compared to 2025, EBITDA will also be higher. Heckler & Koch sees itself as well positioned for the future. The executive board is satisfied with both the Group's business development and its net assets, financial position and financial performance.

Opportunity Report

In 2024, for the first time in three decades, Germany invested 2% of its GDP in defence spending and therefore achieved the NATO target. In the following year, NATO forecast that in 2025 for the first time all NATO members would achieve the 2% target. The amendment to the German constitution ("Grundgesetzänderung") resolved in March 2025 by the 20th German government ("Bundestag"), under which amongst other things the debt limitation for the area of defence should be eased, makes it possible for the Federal Republic of Germany to significantly increase defence spending. In addition to Germany, it is highly likely that other NATO-members will increase their defence spending and invest more heavily in equipment for their armed forces. This is not only indicated by the new US defence strategy published in January 2026 but also shown by the ambitious new targets set at the NATO summit held in the Hague in June 2025, at which NATO members agreed that they would each invest 5% of their GDP in defence and security. This target should be reached annually by 2035 at the latest. The consequence for Heckler & Koch is that in the coming months and years there may be an increased demand for military and governmental authority 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 and governmental authority weapons in Europe and NATO. In the long term, this exceptional situation threatening peace in the EU includes the opportunity for the company 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 elements of the new security concept were described. The update of the national security strategy is a task of the national security advisory cabinet committee ("Nationaler Sicherheitsrat") that the Federal Cabinet resolved to set up in August 2025.

The strengthening of the security apparatus in Germany and the EU is the core element of this 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*."[1]

[1] National Security Strategy: Robust. Resilient. Sustainable. Integrated Security for Germany (National Security Strategy), published by the Federal Foreign Office of the Federal Government of the Federal Republic of Germany in June 2023, pdf pages 13 onwards [of English version].

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 […].*"[1]

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*." [1]

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 […]*"[1] 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.*"[1]

The H&K Group's market potential depends on the one hand on the military procurement plans and the procurement plans of the security forces 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, but also from the higher defence spending described above leading to increased procurement volumes. 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 past 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 one of the technological leaders 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. 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.

Heckler & Koch intends to further professionalise and strategically align its Project Management Office (PMO) so that it provides the best possible support to enable the Group to achieve its objectives. Building on the successes of the "HK2025" programme, the PMO should take on a central supporting role. The focus is on providing relevant data, analyses and information to enable informed decisions and to increase transparency in the project portfolio. In addition, the PMO should develop standards and methods which promote efficient collaboration and support the early recognition of risks. The reorientation of the PMO is planned in 2026, with the objective of generating long term added-value in the, providing optimal support for the Group's strategic priorities and professionalising project management.

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 is the early identification and assessment of developments that could hinder the achievement of the business objectives and the development and implementation of suitable mitigation measures and risk strategies. The H&K Group's risk management is an integral part of the group-wide governance architecture and includes the closely linked areas of Compliance Management, Corporate Governance, internal control system and internal audit for all group companies. The risk management policy applies to all H&K Group companies and governs responsibilities, workflows and assessment criteria for all units.

A central process of the system is the regular risk inventory, being a complete assessment of the current risk situation for the Group. Overall responsibility for the initiation, methodological control and supervision of this process lies with Group Risk Management. The operational risk owners in the group companies are responsible for registering and assessing the risks fully and accurately. Group Risk Management then carries out plausibility checks and consolidates and aggregates the risks registered. Any risk aggregation required is done in agreement with the Risk Committee so that a consistent overview of risks can be generated for the H&K Group. Responsibility for the complete and accurate collection and assessment of risks remains with the individual risk owners.

To ensure comparability, a standard assessment framework with a risk horizon of two financial years is applied. For each individual risk, the associated potential damage amount and likelihood are assessed on a scenario basis (best case, expected case, worst case) and are recognized separately according to earnings and liquidity effects; i.e., both the EBIT effect (negative impact on Group EBIT) and the cash effect (negative impact on Group cash flow) are considered. Initially gross effects, prior to mitigation measures, are assessed, then the effects of mitigation measures are considered 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 with potential effects 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, mitigation measures are determined early. Moreover, regular checks are made as to whether and when such risks may fall within the short-term risk horizon.

Following the completion of each risk inventory, Group Risk Management prepares a meeting of the Risk Committee including the preparation of a presentation of the overall risk situation. This includes the main risks, the overall aggregated group risk and an assessment of the Group's risk tolerance, based on a comparison between overall risk and risk coverage potential. The Risk Committee considers and discusses the results of the risk inventory and decides on necessary adjustments where applicable. The executive board then 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. The supervisory board discusses the overall risk situation with the executive board and, as part of its supervisory function, considers the appropriateness and effectiveness of the risk management system.

We see Corporate Governance as being responsible and correct 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 structures and processes is the responsibility of the executive board in close cooperation with the supervisory board. The supervisory board monitors the appropriateness and functionality of Corporate Governance.

External risks and strategy risks

The H&K Group operates in a politically sensitive market, marked by geopolitical dynamics, developments in security policies and strict export regulations. Revenues are concentrated on NATO countries, EU members and NATO-equivalent countries, so market access is limited both geographically and politically but is easier to plan. Changes to policies for export licence approval and exports can have a significant effect on revenue possibilities. However, this risk in the above-mentioned core markets is judged to be low currently, at least in the short to medium term.

Export activities, particularly regarding small arms, continue to be subject to strict case-by-case assessments. For these we follow established European and international frameworks, including standards developed in the context of the Permanent Structured Cooperation (PESCO) and the European Defence Fund, and the requirements of the Arms Trade Treaty. Simultaneously this ensures that the company can react flexibly to future developments in regulations and international agreement processes.

Following Russia’s attack on Ukraine, certain restrictions were temporarily eased, to enable the provision of military support to Ukraine. Overall, the political principles largely correspond to the Group’s own Green Country Strategy and so support the executive board’s strategic focus on clearly defined, politically dependable markets. The Group’s strategy is a voluntary commitment and reflects both the company’s values and the security and foreign policy guidelines of the German government.

Heckler & Koch sees itself as a relevant part of the security architecture for the Federal Republic of Germany, many European countries, NATO members and NATO-equivalent countries. Accordingly, we only deliver to countries that meet these criteria or that the German government classifies as being of significant interest for German foreign and security policy. The remaining contractual order book for other countries will be fulfilled - provided applicable valid export licences are received - but for new tenders we are primarily seeking to increase cooperation with Green Countries.

We only complete transactions after transparent, verifiable and close coordination with the appropriate German authorities, and subject to their formal approval. This ensures the Group’s compliance with all regulatory requirements and also strengthens our position as a reliable compliance-oriented partner in the defined target markets.

At present it appears unlikely that regulations for the small arms market in the US will be tightened significantly. However, the risk remains that, following the current changes in trading priorities, the US government may increase import restrictions or charge additional customs duties on foreign defence products. For the H&K Group, there is currently no significant risk with regard to this. In Germany and other EU member states, discussions on the tightening of weapon laws and on stricter export controls are also continuing. These regulatory developments are continuously monitored by the Group. However, currently the potential effects on our primarily governmental authority and military market segment are classified as moderate.

To win invitations to tender and general order intakes, it is important for Heckler & Koch to maintain and build on its technological and quality level in the small arms field. Heckler & Koch counters the long-term risk of potentially losing its quality leadership position through various measures, such as regularly reviewing make-or-buy decisions, selecting the best suppliers from our point of view and employing highly qualified personnel. Consequently, this long-term risk is classified as low.

The strategic initiatives for the intensification of market presence, implementation of product innovations and optimisation of processes are subject to inherent project risks. Delays or lower than planned project results can lead to cost increases, loss of earnings or value impairments. To manage these risks, the Group uses several established control mechanisms including comprehensive due diligence checks, clearly defined milestone controls and an active project monitoring to enable early identification of variances and prompt introduction of mitigating measures. Taking into account present knowledge and the control measures implemented, the remaining risks are currently classified as low.

Being part of the security and defence industry, the H&K Group is particularly in the public eye. The comprehensive regulatory requirements that apply to this industry are often only partially known to large elements of the public, while articles about the defence industry in the media regularly attract a high level of interest. Due to its position as a defence business, with no significant activities in other fields, Heckler & Koch is a particular focal point of public interest.

Against this background, communication that is factual, professional, and above all based on transparency is indispensable for maintaining the Group’s reputation and the reliability and believability of our business values. It is to be expected that also in the future individual 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. The related reputational risk is therefore still classified as high.

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

Financial risks

Under the financing agreement concluded in 2022 (CFA-loan), H&K AG and its subsidiaries are subject to strict requirements for certain transactions; the Group must also comply with defined financial covenants, in particular minimum requirements for equity and ratios between net debt and the contractually defined EBITDA. In addition, there are qualitative Covenants, including turnover limits for certain groups of countries and specific documentation obligations. In case of contravention of the covenants, there is a risk of early termination of the financing agreement. On the basis of current financial plans and internal control measures implemented, the risk of contravention of the covenants by Heckler & Koch is considered to be very low at present. For more details on the form of the financial agreement, see explanations in section “Funding sources and financing expenses” in Chapter 2 “Business situation”.

As an internationally oriented group, the business is exposed to risks arising from fluctuations in foreign currency exchange rates. The main foreign currency risk in the company’s operating activities arises from USD-denominated invoices for sales to the US; an appreciation of the euro against the US dollar could have a negative effect on earnings from these sales. To partially hedge the expected receipts from these planned, but primarily not yet contracted, transactions in USD, Heckler & Koch uses derivative financial instruments with the objective of minimising risks from fluctuations in foreign currency exchange rates. The hedging activities only use generally accepted instruments to hedge existing transactions and planned sales, but never for speculative purposes. In addition, there are opportunities for the Group from a favourable development of the US-Dollar exchange rate.

Overall, the credit risk 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 organisations from NATO or the EU member states, that are classified as having a low risk of default. For trade receivables related to the US commercial business, dedicated receivables monitoring and management is established in order to minimise individual risks.

Taking into account the covenant requirements, the foreign currency hedging strategy and the structure and control of receivables, the overall financial risks for the Group 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 Group Risk Management is especially focused on the risks identified in this context.

Although a significant proportion of potential group revenues are contractually agreed beyond the short-term risk horizon, postponements in customers’ exercising of delivery options may lead to postponements in revenues. This is particularly applicable to large and complex projects with multiple different partners. To secure reliable realisation, the Group has professional, tightly led project management to identify potential delays at an early stage and actively manage them. If, in the course of a project, the recognised risks exceed the potential benefits, structured decision and exit processes are available to ensure an orderly, economically responsible project development.

In order to satisfy the current order situation and the expected exercising of delivery options by customers, it is necessary to expand associated production capacities. The investment measures required have already been determined and are being progressively implemented. The increase in capacity is being closely coordinated with the delivery obligations and medium-term sales plans to ensure a high level of timely deliveries and limit operational risks. Within the framework of strategic diversification, it is also necessary to reserve sufficient capacity to be able to serve new customers and meet additional requirements flexibly. The Group is meeting this challenge with forward-looking capacity and investment planning, and close coordination between sales, logistics, production and strategic business planning. This ensures not only reliable deliveries to current customers, but also that new market opportunities can be realised, in line with the long-term capacity utilisation strategy.

Overall, the project and capacity related risks are considered to be controllable. As a result of the early decision on investments, the structured expansion of production capacities and the systematic operational management, the Group considers itself to be well prepared to sustainably support the current order situation and the strategic growth objectives.

Procurement risks arise from the fact that the raw materials, parts and components needed to manufacture products may not be available, or not at sufficient quality at acceptable prices and in required quantities, 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.

To limit risks and hedge increasing demand, the Group consistently mitigates procurement risks by identifying alternative sources, systematic audits of supplier quality and reliability, holding suitable minimum inventory levels of raw materials and establishing a systematic monitoring of suppliers. Based on the measures implemented, procurement risks are currently considered to be low.

Another risk factor for the H&K Group is the budget security of our customers. Government agencies and public institutions are dependent upon political and economic framework conditions that can lead to budget cuts, changed procurement priorities or delayed project award processes at short notice. Such variances can directly affect the Group's order situation. To minimise risk, Heckler & Koch pursues a broad diversification of its governmental authority customer portfolio within the Green Country Strategy. This systematic market orientation contributes to the reduction of dependencies and limits the effects of individual customer countries' budget volatilities.

To ensure production as far as possible without interruptions, the Group's plant and machinery is regularly analysed. This forms the basis for the continuous development and systematic implementation of plans for maintenance and for replacement and expansion investments. Single-source machines are monitored closely, and risk mitigation measures are initiated for recognised dependencies, in particular the investment in additional machine capacities or alternatively the qualification of external suppliers.

In addition to the continuous replacement and maintenance measures, the Group has also undertaken investments to expand capacities. These comprise the targeted extension of critical production stages (including redundant systems in bottleneck areas), the expansion of peripheral and automation technologies and the adjustment of production layouts to increase throughput and reduce set-up and downtimes. The measures serve to increase resilience, secure delivery dates and enable predictable scaling for peak demands. Analogous to this, there is a systematic management of internal and external tooling, including assessment of condition, availability planning and determination of appropriate measures to ensure production capability. Taking into account the management, redundancy and expansion measures implemented, the risk of an interruption in production is considered to be moderate.

To reduce risks in infrastructure, the H&K Group has been building a new shooting and assembly centre at the site in Oberndorf since 2024. Functional, technically up-to-date shooting ranges are absolutely essential for the legally required ballistic testing and are therefore necessary for the delivery of all H&K products. The new building ensures that the test and production processes are state of the art for the long-term. The supply of energy and gas to this location is comprehensively secured by the technical and organisation measures already implemented. In addition, reliability of supply will be increased through the expansion of the photovoltaic plants, which will also contribute to H&K's sustainability orientation. The company's established process for the handling of hazardous substances is currently being systematically refined and is strengthened through regular training. This, together with the existing ISO certification of work safety and environmental management, and the measures implemented for emergency and crisis management, has already sustainably reduced the risk of causing environmental damage. Taking into account these measures, the risks in the area of infrastructure and for the environment are considered to be low.

IT and data protection risks

The H&K Group is particularly exposed to cyberattacks and risks of industrial espionage and sabotage due to its activities in the security and defence industry. The threat of cyberattacks has increased since the beginning of the Russian invasion of Ukraine. Consequently, comprehensive technical and organisational protective measures and safeguards are in place to protect the integrity, confidentiality and availability of our business data and significantly reduce the risk of a successful attack. A residual risk remains none the less, since security-related incidents can have negative effects on the Group's reputation, current customer relationships, business-specific know-how and financial situation.

Consequently, educating our employees to be careful with all business information and email correspondence, and maintaining an adequate level of protection are important issues for us. Given the current tense geopolitical situation, and the technical, organisational and insurance measures implemented, the remaining cyber risk is currently considered to be low.

Further IT and data protection risks result from potential network and server failures, potential unallowed or fraudulent data retrieval by employees, incorrect access rights to SAP and other software applications, and, in the longer term, also technological developments, including the increasing use of artificial intelligence. These risk categories are not the core risks of the Group and are mitigated by multiple technical measures – including redundancies of backbone connections and server systems, comprehensive data backup procedures, firewalls, data-loss prevention technologies and regular emergency tests – and organisational measures such as employee training, systematic file classifications and the close monitoring of the assignment of rights.

H&K AG also protects its IT infrastructure via a Security Operation Centre (SOC) that is operated in cooperation with BDO Cyber Security GmbH and ensures the continuous monitoring of the systems to protect against cyberattacks and data theft. The residual risks after taking into consideration these measures are considered to be low.

Legal and Compliance risks

The H&K Group's legal risks primarily arise in the areas of product liability, competition and anti-trust laws, foreign trade and weapons laws, anti-corruption law, criminal and misdemeanour laws, the supply chain act (LkSG) and patent, tax and labour laws. Any cases of damage and liability risks arising from ordinary activities are recognised in the statement of financial position.

The Group specialised in the development, manufacture and distribution of small arms, primarily for governmental customers such as the German federal and state police, the customs authorities and domestic and foreign armed forces. The export of small arms takes place based on the "Green Country Strategy" just to the member states of the European Union, NATO countries and NATO-equivalent countries. Deliveries to other countries only occur in narrowly defined exceptional cases, with explicit security policy interest of the German Federal Government and only after its authorisation. Supply to critical countries is excluded due to being prohibited by law.

For small arms exports to foreign countries for military use, before an export licence can be granted, the recipient countries are required to submit officially signed end-user certificates in which they pledge to the Federal Republic of Germany that the products delivered will not be re-exported to other countries. This ensures the legally required check of the final destination.

The manufacture and sale of small arms are subject to continuous monitoring by several governmental authorities, including the Federal Ministry for Economic Affairs and Energy ("BMWE"), the Federal Office for Economic Affairs and Export Control ("BAFA"), the Federal Office of Criminal Investigation ("Bundeskriminalamt"), the Karlsruhe Regional Finance Office and the Rottweil District Office. The reliability of our company is a primary prerequisite for obtaining weapons and export approvals. Consequently, compliance with and implementation of all legal requirements are a top priority.

To ensure compliance, the Group is establishing a compliance management system that is oriented to ISO 37301 and is being continuously refined. Elements of this include, among others, the careful selection of staff (professional competence), regular training, regular compliance risk analyses, internal management mechanisms, precise operating instructions, external audits and the use of an IT-supported control system, which is integrated into our working processes. Due to this structured governance and compliance architecture, the risk of the unauthorised export or unlawful transportation of small arms is considered to be very low. The primary objective of the compliance management system is to protect the company from misconduct and to promote compliance with laws and guidelines, as well as to avert damage from the company at an early stage.

Additional measures have been implemented for compliance with legal requirements and contractual obligations; these include recurring training, internal guidelines, an electronic contract management system and the implementation of a legal cadastral register. These measures contribute significantly to the reduction of the associated risks, after mitigation, to a low level.

Suitable provisions were recognised for current or potential legal disputes and other litigation for which utilisation for the resulting liabilities is probable, and the 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 affect the Group's results. However, at present these risks are considered to be low. As described in Note 24 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 2026.

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

Approval processes

To ensure compliance with laws and internal requirements, there are binding rules and guidelines within the Group, which allocate clear responsibilities to the business areas. Employee-related guidelines are posted centrally on the intranet. The aim of the established authorisation and monitoring process is to minimise risks in all individual companies and central functions, to ensure operational effectiveness and avoid misstatements or false statements in the accounting process.

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 therefore of great importance. 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 in management reporting format to Heckler & Koch's management.

Accounting organisation and policies

All group companies must comply with the applicable version 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 described above. 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 uniform 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

For the accounting process, the internal control and risk management system, together with the preparation of the H&K Group's financial statements, the main features of which are described above, aids the complete, proper and appropriate recording, processing and financial valuation of all business transactions and thereby ensures the reliability of financial reporting.

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 issuance of uniform accounting policies, form the basis for a sound, efficient and consistent accounting process.

The overall objective is to ensure that the assets and liabilities in the financial statements are completely and accurately recognised, measured and presented and thereby to provide a fair and true view of the company's net assets, financial position and financial performance.

Overall statement on the opportunities and risk situation

In the short term, the main potential risks for Heckler & Koch still result from operational processes, current infrastructure and financial influencing factors. In the medium to long term, however, external risks and strategic risks become of greater importance and materially affect the Group's risk environment.

Building on the successes of the HK2025 programme, in future the Project Management Office is to take on a central supporting role. This reorientation is planned in 2026, with the objective of generating added-value long-term and providing optimal support for the Group's strategic priorities.

With its innovative product portfolio, the H&K Group is well prepared for the future. The most recent political developments indicate opportunities due to a need for large increases in defence spending by European countries.

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

Based on the updated assessments of individual risks, the aggregated overall risk for the Group was determined using a consolidated simulation and compared to the available risk coverage potential. The results confirm that – measured against the defined level of safety and level of control - the Group's risk-bearing capacity is robust.

Oberndorf am Neckar, March 17, 2026

H&K AG

The Executive Board

Dr Jens Bodo Koch Andreas Schnautz Marco Geißinger

Consolidated Statement of Financial Position

(€ thousands)	§	31.12.2025	31.12.2024
Property, plant & equipment	17	99,438	92,238
Intangible assets - goodwill	16	9,727	9,727
Intangible assets - other	16	46,067	45,301
Other investments	18	2,767	2,849
Deferred tax assets	15	22,868	20,288
Total non-current assets		**180,868**	**170,403**
Inventories	19	209,510	170,309
Prepayments for inventories	20	24,113	2,345
Prepayments for other current assets	20	2,023	2,292
Other loans, deposits and derivatives	18,29	210	230
Current tax assets		1,255	959
Trade receivables	20	51,109	37,403
Other receivables	20	5,182	4,257
Cash & cash equivalents	21	47,458	69,528
Total current assets		**340,861**	**287,322**
Total assets		**521,729**	**457,725**
Equity			
Share capital		35,483	35,483
Additional paid in capital		148,630	148,630
Other reserves		(12,017)	(11,264)
Consolidated retained earnings		(17,444)	(53,402)
Total equity attributable to H&K AG shareholders		**154,652**	**119,447**
Equity attributable to hybrid capital investors		15,389	13,990
Total equity	22	**170,041**	**133,437**
Liabilities			
Loans & borrowings	25	75,777	85,325
Lease liabilities	25	5,971	3,720
Employee defined benefit obligations	23	41,679	45,775
Provisions	24	2,540	2,243
Other payables	26	696	1,010
Deferred tax liabilities	15	22,062	26,871
Total non-current liabilities		**148,726**	**164,944**
Loans & borrowings	25	9,896	9,848
Trade payables	26	17,837	18,163
Other payables	26	14,466	13,324
Contract liabilities	27	140,330	88,590
Lease liabilities	25	2,057	1,232
Derivatives	26,29	128	547
Tax liabilities		493	14,708
Other provisions & accruals	24	17,755	12,931
Total current liabilities		**202,961**	**159,344**
Total liabilities		**351,687**	**324,288**
Total equity & liabilities		**521,729**	**457,725**

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

(€ thousands)	§	2025	2024
Revenue	6	392,957	343,375
Cost of sales	7	(261,072)	(229,291)
Gross profit		**131,885**	**114,084**
Research & development expenses	8	(11,616)	(9,250)
Sales, marketing & distribution expenses	9	(30,580)	(30,343)
Administration expenses	10	(39,804)	(24,612)
Other operating income	11	1,410	953
Other operating expenses	12	(988)	(1,181)
Impairment loss on trade receivables, net of reversals	12,20	(205)	(134)
Results from operating activities		**50,101**	**49,515**
Interest income		622	496
Gains on valuation of derivative financial instruments		419	-
Gains on translation of foreign currencies		1,928	3,215
Total financial income	14	**2,969**	**3,711**
Interest expense		(5,152)	(6,981)
Accretion of non-current liabilities		(2,303)	(2,488)
Losses on val'n of derivative financial instruments		-	(1,886)
Losses on translation of foreign currencies		(6,287)	(515)
Other financial expense		(235)	(74)
Total financial expense	14	**(13,977)**	**(11,943)**
Net financial result		**(11,008)**	**(8,232)**
Profit / (loss) before income tax		**39,093**	**41,283**
Income tax income / (expense)		393	(9,815)
Profit / (loss) for the period		**39,486**	**31,468**
Attributable to:			
H&K AG shareholders		**38,087**	**26,978**
H&K AG hybrid capital investors		**1,399**	**4,490**
Earnings per share (€)	22	**1.07**	**0.76**

Consolidated Statement of Other Comprehensive Income for the period from January 1 to December 31

(€ thousands)	2025	2024
Profit / (loss) for the period	**39,486**	**31,468**
Other comprehensive income		
DBO actuarial gains / (losses)	2,588	(2,097)
Related deferred tax	(1,341)	589
Items that will never be reclassified to profit or loss	**1,247**	**(1,508)**
Forex translation differences for foreign operations	(2,000)	1,169
Items that are or may be reclassified to profit or loss	**(2,000)**	**1,169**
Other comprehensive income / (expense), net of tax	**(753)**	**(339)**
Total comprehensive income for the period	**38,734**	**31,129**
Attributable to:		
H&K AG shareholders	**37,335**	**26,639**
H&K AG hybrid capital investors	**1,399**	**4,490**

Consolidated Statement of Changes in Equity for the period from January 1 to December 31, 2025

TEUR	Share capital	Additional paid in capital	Translation reserve	Reserve for defined benefit obligations	Consolidated retained earnings	Shareholders' equity	Equity attributable to hybrid capital investors	Total equity
As of 31.12.2023	**35,483**	**148,630**	**(214)**	**(10,712)**	**(78,251)**	**94,937**	**9,500**	**104,437**
Total recognised income & expense	-	-	1,169	(1,508)	26,978	26,639	4,490	31,129
Dividends declared	-	-	-	-	(2,129)	(2,129)	-	(2,129)
As of 31.12.2024	**35,483**	**148,630**	**956**	**(12,220)**	**(53,402)**	**119,447**	**13,990**	**133,437**
Total recognised income & expense	-	-	(2,000)	1,247	38,087	37,335	1,399	38,734
Dividends declared	-	-	-	-	(2,129)	(2,129)	-	(2,129)
As of 31.12.2025	**35,483**	**148,630**	**(1,044)**	**(10,973)**	**(17,444)**	**154,652**	**15,389**	**170,041**

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

(€ thousands)	2025	2024
Cash flows from operating activities		
Profit / (loss) for the period	39,486	31,468
Adjustments for:		
Depreciation of property, plant & equipment	14,515	10,830
Amortisation of intangible assets	3,282	2,755
(Reversal of) impairment losses on intangible assets	306	-
Revaluation of investments	150	-
Net interest expense	6,918	9,047
Change in fair value of derivatives	(419)	1,886
(Gain) / loss on disposal of property, plant & equipment	32	18
Income tax expense	(393)	9,815
	63,877	65,819
Change in inventories	(43,021)	(20,318)
Change in trade & other receivables	(16,547)	(1,740)
Change in prepayments	(21,621)	(2,692)
Change in trade & other payables	58,709	71,136
Change in provisions & employee defined benefit obligations	2,093	(5,503)
	43,491	106,703
Income tax paid	(23,126)	(6,188)
Net cash flows due to operating activities	**20,365**	**100,514**
Cash flows from investing activities		
Interest received	626	491
Proceeds from sale of property, plant & equipment	59	34
Acq'n of property, plant, equipment and intangibles	(19,110)	(17,998)
Investments in other financial assets	(236)	(9,046)
Movement in deposits with terms >3 months	184	(98)
Capitalised development expenditure	(3,616)	(4,142)
Net cash flows due to investing activities	**(22,093)**	**(30,759)**
Cash flows from financing activities	-	-
Repayment of loans	(10,000)	(10,118)
Interest paid	(5,839)	(7,700)
Repayment of lease liabilities	(1,667)	(722)
Dividends paid	(2,064)	(1,229)
Net cash flows due to financing activities	**(19,571)**	**(19,769)**
Net cashflows	**(21,299)**	**49,986**
Cash & cash equivalents January 1	69,528	19,081
Effect of exchange rate fluctuations on cash held	(770)	461
Cash & cash equivalents at December 31	**47,458**	**69,528**

Notes to the consolidated financial statements for the financial year 2025

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General disclosures

(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 2025 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 its subsidiary Heckler & Koch GmbH (HKO) and its subsidiaries in the US, Great Britain, France and Germany. 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 operating companies also provide services related to their products' technologies. For both sets of business activities, the companies are focussing more on the development and introduction of new products. The executive board has 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 NATO-equivalent countries (Switzerland, New Zealand, Australia, Japan). In addition, there are countries such as South Korea and Ukraine, which are classified 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 statement of financial position and in the income statement have been aggregated and described in more detail in the notes.

(2) Executive board approval

On March 17, 2026, the executive board of H&K AG finalised and approved the consolidated financial statements for publication.

(3) Statement of compliance with applicable law and IFRS

The consolidated financial statements of H&K AG (H&K Group / Group) as of December 31, 2025, were prepared in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union and the supplementary German commercial law regulations pursuant to § 315e (1) German Commercial Code (HGB). All mandatory requirements in accordance with IFRS and IFRIC which were to be applied for the financial year 2025 have been applied. The consolidated financial statements were prepared on a going concern basis.

Except for the changes below, which were mandatory in the EU for the first time in 2025, 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 2025 have no effects on the consolidated financial statements and are therefore not detailed here:

- Amendments to IAS 21 – Lack of Exchangeability(issued on August 15, 2023).

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. Currently the Group does not plan to adopt these standards early.

Endorsed by the EU

- Amendments to IFRS 9 and IFRS 7 – Amendments to the Classification and Measurement of Financial Instruments (issued on May 30, 2024).
  The amendments are effective for accounting periods beginning on or after January 1, 2026. The executive board expects that the implementation will not have any material effects on the consolidated financial statements.
- Amendments to IFRS 9 and IFRS 7 – Contracts Referencing Nature-dependent Electricity (issued on December 18, 2024).
  The amendments are effective for accounting periods beginning on or after January 1, 2026. The executive board expects that the implementation of the amendments could affect the consolidated financial statements in future periods, should such contracts be entered into.
- Annual improvements to IFRS, Volume 11 (issued on July 18, 2024).
  The amendments are effective for accounting periods beginning on or after January 1, 2026. The executive board expects that the implementation will not have any material effects on the consolidated financial statements.

- IFRS 18 Presentation and Disclosure in Financial Statements (issued on April 9, 2024) and the associated amendments to IAS 1, IAS 7, IAS 8, IAS 33 and IFRS 7.
  The new standard replaces and complements IAS 1 and is effective for accounting periods beginning on or after January 1, 2027, although earlier adoption would be permissible. The associated amendments to IAS 7, IAS 8, IAS 33 and IFRS 7 become effective when a company applies IFRS 18 for the first time, so all amendments must be applied simultaneously. IFRS 18 requires a retrospective implementation with specific transitional provisions. The executive board expects that the implementation will have material effects on the consolidated financial statements, in particular relating to the presentation of the income statement.

EU endorsement pending

- IFRS 19 Subsidiaries without Public Accountability: Disclosures (issued on May 9, 2024) and amendments (issued on August 21, 2025).
  The new standard and its amendment are effective for accounting periods beginning on or after January 1, 2027. The executive board expects that IFRS 19 will not be applicable to the consolidated financial statements.
- Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates: Translation to a Hyperinflationary Presentation Currency (issued on November 13, 2025).
  The amendments are effective for accounting periods beginning on or after January 1, 2027. The executive board expects that the implementation will not have any effects on the consolidated financial statements as the euro is not hyperinflationary.

(4) Group entities

Apart from the single entity statements of H&K AG, the consolidated financial statements of H&K AG as of December 31, 2025, include the annual financial statements of twelve (2024: twelve) foreign and domestic subsidiaries. Subsidiaries are companies which the parent company can control due to voting rights or other rights 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	2025			2024		
			% held	Equity	Profit	% held	Equity	Profit
Direct holdings								
Heckler & Koch Management GmbH Oberndorf am Neckar, Germany	HKM	EUR '000	100%	351,299	17,513	100%	351,299	27,838
Heckler & Koch GmbH Oberndorf am Neckar, Germany	HKO	EUR '000	5.1%	157,951	28,818	5.1%	152,448	36,148
Indirect holdings								
Heckler & Koch GmbH Oberndorf am Neckar, Germany	HKO	EUR '000	94.9%	157,951	28,818	94.9%	152,448	36,148
Heckler & Koch (UK) Limited Nottingham, Great Britain	HKUK	GBP '000	100.0%	8,681	1,751	100.0%	6,931	2,941
Heckler & Koch France S.A.S. St-Nom-la-Bretèche, France	HKF	EUR '000	100.0%	1,251	594	100.0%	1,857	1,676
Small Arms Group Holding Inc. Columbus, GA, USA	SAGH	USD '000	100.0%	20,919	-	100.0%	20,919	0
Heckler & Koch Defense Inc. Columbus, GA, USA	HKD	USD '000	100.0%	(4,268)	(316)	100.0%	(3,952)	(292)
Heckler & Koch, Inc. Columbus, GA, USA	HKI	USD '000	100.0%	19,211	1,818	100.0%	17,393	(5,159)
H&K ITZ IMMOBILIEN Verwaltung GmbH Oberndorf am Neckar, Germany	ITZG	EUR '000	100.0%	7	(6)	100.0%	12	(9)
H&K ITZ IMMOBILIEN GmbH & Co. KG Oberndorf am Neckar, Germany	ITZK	EUR '000	100.0%	(2,068)	(1,680)	100.0%	(387)	(222)
H&K Sustainable Technologies GmbH Oberndorf am Neckar, Germany	HKST	EUR '000	100.0%	(263)	145	100.0%	(408)	(433)
H&K Technologies Immobilien GmbH Oberndorf am Neckar, Germany	HKTI	EUR '000	100.0%	(64)	(40)	100.0%	(24)	(49)
Chrom-Müller Metallveredelung GmbH * Oberndorf am Neckar, Germany	CMM	EUR '000	100.0%	1,557	750	100.0%	1,307	(71)

* 2024 profit CMM only for period after acquisition at the end of November 2024

On March 3, 2023, “HK Greece Single Member Société Anonyme” (HKGR) was founded by HKO. This company is wholly owned but, as in the previous year, due to its lack of materiality it has been excluded from the consolidation for 2025; instead, it is included in the other non-current investments of €50k (2024: €200k) (Note 18). The articles of association for “Heckler & Koch Romania S.r.l.” (HKRO) were signed in 2024 and its formation was registered in the companies register on November 18, 2024; equity was paid in during 2025. This company is wholly owned but due to its lack of materiality it has been excluded from the consolidation for 2025 and is instead included in the other non-current investments of €20k (2024: nil) (Note 18). The formation certificate for H&K Suisse GmbH (HKCH) was signed in 2025, and the formation was entered into the commercial register on June 12, 2025. This company is wholly owned but due to its lack of materiality it has been excluded from the consolidation for 2025 and is instead included in the other non-current investments of €216k (2024: nil) (Note 18). These transactions had no material effect on these consolidated financial statements in terms of quantity.

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 of the reporting 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 of the reporting date, assets and liabilities in foreign currency are measured at the spot rate on the reporting 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 the reporting currency, 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 consolidated entities 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 reporting 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 reporting date 31.12.2025	Rate on reporting date 31.12.2024	Average exchange rate 2025	Average exchange rate 2024
US Dollar (USA)	USD	1.1750	1.0389	1.1300	1.0823
Pound (Great Britain)	GBP	0.8726	0.8292	0.8568	0.8465

Significant accounting policies

Goodwill

Goodwill is a separate asset representing the future economic benefits that cannot be individually identified and is 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 “Germany”), CMM (segment “Sustainable Technologies”) and HKF (segment “France”):

EUR '000	31.12.2025	31.12.2024
Segment: Germany	4,016	4,016
Segment: France	1,133	1,133
Segment: Sustainable Technologies	4,578	4,578
Total	**9,727**	**9,727**

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 reporting 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 a business combination prior to the IFRS transition on January 1, 2006 has been offset against reserves. On divestment of a consolidated company, any positive goodwill relating to it is included in the computation of the deconsolidation result. Any related negative goodwill that has been offset against reserves is excluded from 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 (2024: €8,393k) trademark is allocated to the cash-generating unit HKO (segment “Germany”) and is subject to impairment testing in line with that described for goodwill at least annually, as of the reporting date, but also 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. 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 uniformly for depreciation on own property, plant and equipment throughout the Group:

Category of property, plant and equipment	Years
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” sub-section “i. Leases in which the Group is a lessee”.

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 property, plant and equipment, intangible assets and right-of-use assets

If there are triggering events for impairment, property, plant and equipment, 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 the 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) 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 entity 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 issuance 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 the financial years 2025 and 2024, the financial assets are primarily cash and cash equivalents, trade receivables, other receivables and deposit accounts. The financial liabilities include trade payables and liabilities to lenders and lessors and derivatives relating to currency forward-cover contracts with negative fair values at the reporting date. 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 2025 and 2024 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:

- Provided 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 carrying amount (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 carrying amount (gross carrying amount 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 analyses, 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 transferred 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 offset 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 2024 and 2025 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 or amortised. 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 reporting 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 other 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 reporting date.

Other non-current and current provisions

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 reporting 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 is adjusted 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 2024 or 2025, 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 always relate to products produced 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.

Operating expenses

Operating 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 incurred.

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 financial 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 reporting 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 taxable profit / (loss) nor the profit / (loss) for the period. 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 reporting 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 reporting 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 statement of financial position, 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 is 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 property, plant and equipment 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 increased by €49,582k to €392,957k compared with revenue of €343,375k in 2024. 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	2025	2024
Sale of goods	374,324	339,026
Sale of services	21,478	7,880
Gross revenue	**395,801**	**346,906**
Discounts, bonuses, etc.	(2,844)	(3,531)
Revenue	**392,957**	**343,375**

Breakdown by geographical market:

EUR '000	2025	2024
Domestic (Germany)	84,262	70,558
Foreign - other "Green Countries"	311,452	276,239
Foreign - rest of the world	88	109
Gross revenue	**395,801**	**346,906**
Discounts, bonuses, etc.	(2,844)	(3,531)
Revenue	**392,957**	**343,375**

The Group’s revenues result entirely 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	31.12.2025	31.12.2024
Trade receivables	51,109	37,403
Contract liabilities	(140,330)	(88,590)
Total	**(89,222)**	**(51,187)**

Contract liabilities relate to advance payments received from customers. Of the €88,590k contract liabilities recognised at the beginning of the year (€12,909k at the beginning of 2024), €52,332k (2024: €12,627k) was recognised as revenue in the financial year. The amount of revenue recognised in the financial year relating to performance obligations satisfied (or partially satisfied) in previous periods was €655k (2024: €0k).

As permitted by IFRS 15, no information is provided about remaining performance obligations as of December 31, 2025 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 and amortisation relating to the revenue. The cost of sales increased by €31,781k to €261,072k compared with €229,291k in 2024; this was primarily due to higher revenue.

(8) Research and development expenses

The research and development expenses recorded as expenses comprise those personnel and overhead expenses and depreciation and amortisation relating to these activities, together with the costs of test materials and tools, which do not meet the criteria for capitalisation of development costs under IAS 38. In addition, the normal amortisation and the derecognition of capitalised development costs are included. The research and development expenses increased by €2,366k to €11,616k compared with €9,250k in 2024. The change compared to the prior year resulted from a €1,057k increase in development expenses, a €526k decrease in the capitalisation of development costs, a €477k increase in the amortisation of capitalised development costs and the derecognition of capitalised development costs relating to projects that were cancelled because of changed conditions (2025: €306k; 2024: nil).

(9) Sales, marketing & distribution expenses

The sales, marketing & distribution expenses mainly comprise personnel expenses, material and marketing costs as well as depreciation and amortisation relating to the sales, marketing & distribution function and project-related costs. They increased by €237k to €30,580k compared with €30,343k in 2024; the increase is primarily due to higher project-related expenses and personnel costs, offset by lower other overheads.

(10) Administration expenses

General administration expenses include personnel expenses and overheads as well as the depreciation and amortisation relating to the administration function. They increased by €15,192k to €39,804k compared with €24,612k in 2024. The increase was primarily due to higher personnel expenses and overheads, including for consultancy fees and support for litigation.

(11) Other operating income

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

EUR '000	2025	2024
Relief for energy and electricity taxes	280	77
Insurance benefits	22	-
Profit on disposal of non-current assets	22	31
Income from the disposal of scrap etc.	659	581
Other	427	264
Total	**1,410**	**953**

The other operating income includes out-of-period income of €395k (2024: €206k). This primarily relates to income from relief of other taxes (2025: €280k; 2024: €77k).

(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	2025	2024
Provision for the possible drawing of bank guarantees	259	(22)
Loss on disposal of non-current assets	(54)	(49)
Other taxes	(474)	(712)
Insurance for natural hazards and business interruption	(432)	(456)
Late delivery penalties, other periods	(439)	68
Other	152	(11)
Total	**(988)**	**(1,181)**

The other operating expenses include out-of-period net income of €199k (2024: €59k net income). In 2025 and in 2024, the out-of-period net income related primarily to the release of certain provisions for potential contractual penalties, offset by losses on the disposal of non-current assets.

In 2025, the position “impairment loss on trade receivables, net of reversals” relates primarily to expenses for the derecognition of irrecoverable receivables and an increase in general impairments determined in accordance with IFRS 9, partially offset by a reduction in specific impairment allowances. In 2024, this position related primarily to expenses for the derecognition of irrecoverable receivables and the utilisation of the specific impairment allowances. (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	2025	2024
Revenue	392,957	343,375
Material costs and movement in inventories	(159,473)	(145,326)
Capitalised costs	4,672	4,924
Losses from the derecognition of intangible assets	(306)	-
Other operating income	1,410	953
Personnel expenses	(118,225)	(97,463)
Other operating expenses	(52,931)	(43,227)
Impairment loss on trade receivables, net of reversals	(205)	(134)
EBITDA	**67,898**	**63,101**
Depreciation and amortisation	(17,797)	(13,585)
Results from operating activities	**50,101**	**49,515**

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

(14) Financial result

The interest income primarily includes interest on bank balances; currently no interest income results from using the effective interest method (Note 5). The gains and 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 the translation of foreign currencies include realised exchange variances together with unrealised variances on the translation of statement of financial position items held by group companies in currencies other than their own functional currency. The interest expenses are primarily due to long-term loans, 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. 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 solidarity 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% (2024: 28.1%) in the financial year 2025. Foreign taxation is calculated at the rates valid in each country; these vary between 22.0% and 25.0% (2024: between 22.0% 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 reporting date in each country, that are expected to be in place on realisation. The German corporation tax rate (“Körperschaftsteuersatz”) is currently 15% and from 2028 will be

reduced by 1% annually down to 10% from 2032 onwards. For the calculation of deferred taxes for the German group companies, correspondingly lower rates are used if the expected realisation dates of the respective deferred taxes are after 2027 (between 27.0% and 22.8%). Deferred taxes relating to interest expenses carried forward for taxation purposes are accordingly calculated using tax rates between 25.0% and 19.7% (2024: 25.0%).

The income taxes comprise:

EUR '000	2025	2024
Current tax expense	(8,523)	(11,084)
Deferred tax income / (expense)	8,916	1,268
Income tax income / (expense)	**393**	**(9,815)**

Current income taxes recognised decreased, primarily due to the lower profit before income tax of €39,093k (2024: €41,283k) in the financial year, together with the recognition of tax adjustments for prior years. Deferred tax changed from a net income of €1,268k in 2024 to a net income of €8,916k; this related primarily to changes to deferred taxes as a result of the corporation tax rate reductions and deferred taxes on interest expense carry-forwards. In 2025, the interest expense carry-forwards were partially utilised and revalued due to the corporation tax rate reductions and the current five-year plan so the associated allowance was partially reversed (net income: €5,140k); without the effect of the corporation tax rate reductions, this income would have been €1,261k higher. In 2024, the interest expense carry-forwards were partially utilised and the associated allowance partially reversed (net income: €1,700k).

The following table shows a reconciliation between the theoretical expected income tax expense for the Group using the current German statutory tax rate of 28.1% (2024: 28.1%) and the actual income tax expense recognised:

EUR '000	2025	2024
Profit / (loss) before income tax	**39,093**	**41,283**
Expected tax rate (current German statutory rate)	**28.1%**	**28.1%**
Expected tax (expense) / income	**(10,975)**	**(11,590)**
Adjustments to expected tax expense due to:		
- change in tax rates (incl. effects on interest carry-forwards)	(1)	(2)
- non-tax-deductible expenses	(1,371)	(587)
- non-taxable income	3,983	1,406
- taxes relating to other periods	127	(1,771)
- differences in foreign tax rates	146	(120)
- unrecognised tax assets for losses	(195)	(139)
- revaluation of interest carry-forwards (excl. tax rate changes)	8,746	1,700
- interest recognised for hybrid loans deductible for German GAAP but in IFRS interest is just a movement in equity	393	1,260
- other effects	(460)	28
Actual income tax income / (expense)	**393**	**(9,815)**
Effective tax rate	**-1.0%**	**23.8%**

Deferred tax relates to the following positions:

Statement of Financial Position Item EUR '000	Deferred tax assets 31.12.2025	Deferred tax assets 31.12.2024	Deferred tax liabilities 31.12.2025	Deferred tax liabilities 31.12.2024
Intangible non-current assets	-	-	16,052	18,654
Property, plant and equipment	130	167	5,034	5,647
Inventories	1,191	1,056	646	270
Trade accounts receivable	45	35	24	21
Other current assets	488	9	124	610
Employee defined benefit obligations	3,103	4,289	-	-
Other non-current provisions	543	563	-	-
Non-current financial liabilities	-	-	153	280
Other non-current liabilities	112	1,507	-	-
Current provisions	254	576	-	29
Trade accounts payable	43	59	1	1,317
Other current financial liabilities	-	-	29	43
Other current liabilities	323	438	-	-
Carryforward of unused tax losses	1,198	1,291	-	-
Carryforward of interest expenses not yet deductible	15,440	10,300	-	-
Total	**22,869**	**20,288**	**22,063**	**26,871**

During 2025, a net decrease in deferred tax assets of €1,341k (2024: net increase of €589k) was recognised through other comprehensive income into equity since it related to the actuarial variances on defined benefit schemes and the effects of the gradual reduction in tax rates (from 28,0% at present to 22,8% from 2032 onwards) on the actuarial gains and losses recognised in previous years . 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 (2025: €185k net decrease; 2024: €74k net increase). In 2024, a net increase in deferred tax assets was recognised due to the acquisition of CMM (2025: nil). Apart from these, all other changes in deferred tax assets and liabilities were recognised in the income statement.

Statement of Financial Position Item EUR '000	Deferred Tax 01.01.2024	Changes due to an acquisition	Recognised in profit or loss	Recognised in other comprehensive income	Deferred Tax 31.12.2024	Recognised in profit or loss	Recognised in other comprehensive income	Deferred Tax 31.12.2025
Intangible non-current assets	(17,998)	-	(656)	-	(18,654)	2,603	-	(16,052)
Property, plant and equipment	(5,135)	(14)	(270)	(61)	(5,480)	468	109	(4,904)
Inventories	1,084	26	(347)	22	785	(201)	(41)	544
Trade accounts receivable	138	-	(129)	5	14	12	(5)	21
Other current assets	(355)	-	(246)	0	(601)	966	(0)	364
Employee defined benefit obligations	4,200	-	(500)	588	4,289	140	(1,325)	3,103
Other non-current provisions	404	-	158	1	563	(5)	(16)	543
Non-current financial liabilities	(446)	-	166	-	(280)	127	-	(153)
Other non-current liabilities	365	7	1,130	5	1,507	(1,392)	(3)	112
Current provisions	412	(14)	117	32	546	(236)	(56)	254
Trade accounts payable	3	-	(1,262)	1	(1,258)	1,302	(3)	41
Other current financial liabilities	(57)	-	15	-	(43)	13	-	(29)
Other current liabilities	259	7	153	19	438	(81)	(35)	323
Carryforward of unused tax losses	-	-	1,240	52	1,291	58	(152)	1,198
Carryforward of interest expenses not yet deductible	8,600	-	1,700	-	10,300	5,140	-	15,440
Total	**(8,526)**	**12**	**1,268**	**662**	**(6,583)**	**8,916**	**(1,526)**	**806**

At the end of 2025, deferred tax assets of the parent company amounting to €15,440k (2023: €10,300k) 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 €10,040k (2024: €21,432k) 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 2025, income tax payments amounted to €23.1 million (2024: €6.2 million). Of these, €7.5 million (2024: €3.8 million) relate to advance payments for current year German income taxes, €13.9 million net payments (2024: €1.1 million net payments) relate to German income taxes for prior years, while foreign income taxes account for €1.7 million net payments (2024: €1.3 million net payments).

The Law to Ensure the Global Minimum Taxation of Business Groups (Minimum Tax Act, MinStG) came into effect on January 1, 2024, but there were no effects on the Group's consolidated financial statements from this law nor from other similar foreign minimum taxation laws as the applicable revenue level was not met.

Notes on the balance sheet

(16) Intangible assets

The following table shows the development of the Group's intangible assets:

EUR '000	Development costs (internally generated)	Goodwill (acquired)	Trade marks patents, licences, software (acquired)	Total
Net carrying value at 01.01.2024	**32,239**	**5,149**	**10,861**	**48,249**
Acquisition / manufacturing costs				
Balance at 01.01.2024	**59,723**	**6,649**	**26,536**	**92,909**
Additions on acquisition of CMM	-	-	144	144
Effect of movement in exchange rates	-	-	52	52
Additions	4,142	4,578	828	9,548
Disposals / derecognitions	-	-	(308)	(308)
Balance at 31.12.2024	**63,865**	**11,228**	**27,252**	**102,344**
Amortisation & depreciation				
Balance at 01.01.2024	**(27,484)**	**(1,500)**	**(15,675)**	**(44,659)**
Additions on acquisition of CMM	-	-	(140)	(140)
Effect of movement in exchange rates	-	-	(41)	(41)
Amortisation for the year	(1,817)	-	(938)	(2,755)
Accumulated amortisation on disposals / derecognitions	-	-	280	280
Balance at 31.12.2024	**(29,301)**	**(1,500)**	**(16,515)**	**(47,316)**
Net carrying value at 31.12.2024	**34,564**	**9,727**	**10,737**	**55,028**
Acquisition / manufacturing costs				
Balance at 01.01.2025	**63,865**	**11,228**	**27,252**	**102,344**
Effect of movement in exchange rates	-	-	(101)	(101)
Additions	3,616	-	747	4,363
Disposals / derecognitions	(1,091)	-	(7)	(1,098)
Balance at 31.12.2025	**66,390**	**11,228**	**27,891**	**105,509**
Amortisation & depreciation				
Balance at 01.01.2025	**(29,301)**	**(1,500)**	**(16,515)**	**(47,316)**
Effect of movement in exchange rates	-	-	85	85
Amortisation for the year	(2,294)	-	(988)	(3,282)
Accumulated amortisation on disposals / derecognitions	785	-	14	799
Balance at 31.12.2025	**(30,810)**	**(1,500)**	**(17,405)**	**(49,715)**
Net carrying value at 31.12.2025	**35,580**	**9,727**	**10,486**	**55,794**

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 of €9,727k (2024: €9,727k) is recognised. A goodwill balance of €4,578k relates to the acquisition of CMM in November 2024 and is therefore allocated to this CGU, which is the main constituent of the segment “Sustainable Technologies”. A 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 “France”. The balance of the goodwill 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 merged company, Heckler & Koch GmbH (HKO), a CGU that is the main constituent of the segment “Germany”.

On the acquisition of Heckler & Koch Gesellschaft mit beschränkter Haftung at the end of 2003, the trademark “Heckler & Koch” was recognised as an intangible asset (2025: €8,393k; 2024: €8,393k) and also allocated to the CGU HKO. Since the Group’s reputation is associated with this trademark, like goodwill, it is treated as having an 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), the CGU HKF (goodwill €1,133k) and the CGU CMM (goodwill €4,578k) 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 cash flows, 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, 2025 are pre-tax cost of capital rates determined using the CAPM.

	2025	2024
HKO	8.9%-13.8%; terminal value 8.1%	6.5%-11.3%; terminal value 5.7%
HKF	7.6%-8.3%; terminal value 7.3%	6.6%-7.8%; terminal value 6.3%
CMM	7.2%-7.4%; terminal value 5.9%	6.5%-7.0%; terminal value 5.6%

Changes within the reasonably possible interest range at the reporting 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 carrying amount 2025: €8,393k; 2024: €8,393k) (Note 25).

The amortisation (2025: €3,282k; 2024: €2,755k) and the impairment of intangible assets is included in the following income statement positions; the impairments relate to the derecognition of capitalised development costs for projects that have been cancelled due to changed conditions (2025: €306k2024: nil):

EUR '000	2025	2024
Cost of sales	376	345
Research and development expenses	2,913	2,112
Sales, marketing & distribution expenses	60	60
Administration expenses	239	238
Total	**3,588**	**2,755**

As of December 31, 2025, the Group had contractual obligations of €224k (2024: €140k) for the acquisition of intangible assets.

(17) Property, plant and equipment

The following table shows the development of the Group's property, plant and equipment, including right-of-use assets for leasing transactions under IFRS 16:

EUR '000	Land and buildings	Plant and machinery	Fixtures, fittings and other assets	Assets under construction	Total
Net carrying value at 01.01.2024	**23,381**	**29,390**	**11,854**	**11,833**	**76,458**
Acquisition / manufacturing costs					
Balance at 01.01.2024	**41,814**	**85,148**	**76,017**	**11,893**	**214,872**
Additions on acquisition of CMM	3,700	2,794	1,282	-	7,776
Effect of movement in exchange rates	559	471	369	26	1,425
Additions	3,466	7,064	6,612	4,239	21,382
Reclassifications	3,699	4,215	901	(8,815)	-
Disposals	(12)	(3,325)	(1,022)	-	(4,359)
Balance at 31.12.2024	**53,227**	**96,368**	**84,158**	**7,343**	**241,095**
Amortisation & depreciation					
Balance at 01.01.2024	**(18,433)**	**(55,759)**	**(64,163)**	**(60)**	**(138,414)**
Additions on acquisition of CMM	-	(2,362)	(855)	-	(3,217)
Effect of movement in exchange rates	(200)	(221)	(306)	(4)	(730)
Depreciation for the year	(1,202)	(5,105)	(4,523)	-	(10,830)
Accumulated amortisation & depreciation on disposals	11	3,325	999	-	4,335
Balance at 31.12.2024	**(19,823)**	**(60,122)**	**(68,847)**	**(64)**	**(148,857)**
Net carrying value at 31.12.2024	**33,403**	**36,245**	**15,311**	**7,279**	**92,238**
Acquisition / manufacturing costs					
Balance at 01.01.2025	**53,227**	**96,368**	**84,158**	**7,343**	**241,095**
Effect of movement in exchange rates	(1,038)	(947)	(725)	(61)	(2,771)
Additions	330	5,656	5,127	12,016	23,129
Reclassifications	34	2,507	802	(3,343)	-
Disposals	(11)	(2,046)	(164)	(66)	(2,287)
Balance at 31.12.2025	**52,542**	**101,537**	**89,199**	**15,889**	**259,166**
Amortisation & depreciation					
Balance at 01.01.2025	**(19,823)**	**(60,122)**	**(68,847)**	**(64)**	**(148,857)**
Effect of movement in exchange rates	367	483	599	5	1,455
Depreciation for the year	(1,430)	(6,010)	(5,641)	-	(13,081)
Impairment	(1,054)	-	-	(380)	(1,434)
Accumulated amortisation & depreciation on disposals	0	2,037	93	59	2,189
Balance at 31.12.2025	**(21,940)**	**(63,612)**	**(73,796)**	**(380)**	**(159,728)**
Net carrying value at 31.12.2025	**30,602**	**37,924**	**15,403**	**15,509**	**99,438**

Right-of-use assets for leasing agreements are recognised for land and buildings, for plant and machinery and for fixtures, fittings and other assets. At the end of 2025, right-of-use assets were included in land and buildings at net carrying values of €189k (2024: €295k), plant and machinery at net carrying values of €7,353k (2024: €3,658k) and fixtures, fittings and other assets at net carrying values of €797k (2024: €963k); these right-of-use assets are allocated to the applicable CGUs and segments and increase their carrying amounts 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 reporting 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 of December 31, 2025, the H&K Group had contractual obligations of €17,258k (2024: €9,552k) for the acquisition of property, plant and equipment. The figure as of December 31, 2025 includes the contract described in Subsequent Events for the acquisition of a building near the Oberndorf location (Note 40).

(18) Non-current investments and current other loans, deposits and derivatives

The non-current "Other investments" and the current "Other loans, deposits and derivatives" include bank deposits of €2,481k (2024: €2,649k) recognised as non-current assets and bank deposits of €125k (2024: €141k) recognised as current assets since they have terms of less than twelve months. These deposits serve as security for certain bank guarantees and similar.

HKGR was founded in 2023 and is wholly owned but, as in previous years, due to its lack of materiality it has been excluded from the consolidation for 2025; instead, it is included in the other investments (Note 4). In 2025, a partial impairment was recognised against the asset reducing its carrying amount compared to the prior year to €50k (2024: €200k). A short-term loan from HKO to HKGR is also recognised in the position "Other loans, deposits and derivatives" at €85k (2024: €88k) including accrued interest.

The other investments include 100% participations in two further companies (HKRO and HKCH) that are also excluded from the consolidation for 2025 due to their lack of materiality; HKRO is recognised at €20k (2024: nil) and HKCH at €216k (2024: nil) (Note 4).

(19) Inventories

The following table shows an analysis of the Group's inventories:

EUR '000	31.12.2025	31.12.2024
Raw materials, consumables and supplies	68,248	53,501
Work in progress	108,583	89,117
Finished goods and merchandise	32,680	27,692
Total	**209,510**	**170,309**

Within inventories, allowances of €22,893k (2024: €16,486k) 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 of December 31, 2025 of €9,242k (2024: €10,439k). Impairment losses of €6,786k (2024: €826k) were recognised as an expense within cost of sales. Due to the sale or scrapping of related items and to improved inventory movements, impairment losses recorded in prior years of €237k (2024: €574k) have been reversed, reducing cost of sales. In addition, due to exchange rate effects, the allowances increased by €141k (2024: increased by €101k); these value adjustments are recognised in other comprehensive income.

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

The following table shows these assets:

EUR '000	31.12.2025	31.12.2024
Trade receivables	51,109	37,403
Prepayments for inventories	24,113	2,345
Prepayments for other current assets	2,023	2,292
Other assets	5,182	4,257
Total	**82,427**	**46,296**

Trade receivables are not interest-bearing and 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 pledgeable trade receivables of the Group have been pledged as security for the CFA-loan (Note 25).

The other assets comprise mainly VAT and other tax claims arising in the normal course of business; in addition, this position includes the remaining carrying amount 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 2025 and 2024, 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 primarily to trade receivables from our US commercial market customers, since our other trade receivables are mainly against governmental authorities with very good credit-standing and therefore a minimal risk of credit losses is expected. Consequently, allowances have been created 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 allowances developed as follows:

EUR '000	2025	2024
Opening balance January 1	913	1,447
Additions	115	-
(Release) / (utilisation)	(46)	(560)
Effects of foreign currency conversion	(21)	25
Closing balance December 31	**961**	**913**

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). In the financial year, this position primarily relates to expenses from the derecognition of irrecoverable trade receivables together with an increase in general allowances for expected credit losses recognised in accordance with IFRS 9, offset by a reduction in specific allowances.

Trade receivables with specific impairment allowances at the end of 2025 are still subject to collection procedures.

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

EUR '000	31.12.2025	31.12.2024
Neither overdue nor impaired:	**35,531**	**31,614**
Overdue but not impaired:		
- within 30 days	12,927	2,791
- between 30 and 60 days	568	997
- between 60 and 90 days	725	820
- between 90 and 180 days	710	382
- after more than 180 days	855	908
Total:	**15,785**	**5,899**
Expected 12-month loss	(210)	(113)
Impaired (gross)	**753**	**802**
Specific allowance(s)	(751)	(800)
Carrying amount	**51,109**	**37,403**

As of the reporting 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 (2025: €39.1 million; 2024: €61.5 million) (Note 25).

(22) Shareholders’ equity and earnings per share

H&K AG has a share capital of €35.5 million (2024: €35.5 million), divided into €35.5 million (2024: €35.5 million) no-par bearer shares.

The calculation of the undiluted basic earnings per share of €1.07 profit (2024: €0.76) is based on the following earnings attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

EUR '000	2025	2024
Profit / (loss) for the year attributable to the owners of the parent company	39,486	31,468
of which not attributable to ordinary shareholders	(1,399)	(4,490)
Profit / (loss) attributable to ordinary shareholders	**38,087**	**26,978**

Thousands of shares	2025	2024
Issued ordinary shares at 01.01.	35,483	35,483
Issued ordinary shares at 31.12.	**35,483**	**35,483**
Weighted average number of ordinary shares at 31.12.	**35,483**	**35,483**

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 gains of €2,588k (2024: losses of €2,097k) net of €1,341k (2024: €589k) deferred taxes (including the effects of future German corporation tax rate reductions; Note 15).

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) from German Commercial Law accounting principles 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 board of H&K AG (after corresponding presentation to the supervisory board) will propose to the Annual General Meeting ("AGM") that, out of the company's €254.2 million cumulative profits recognised in its annual financial statements as of December 31, 2025, a dividend of €0.06 per share, totalling €2.1 million, 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. This conversion of hybrid capital in 2023 resulted in an increase in share capital of €7.1 million with the €87.9 million balance posted to capital reserves. The current hybrid loans relate almost entirely to interest added after the conversion. Interest only arises in certain circumstances. The lenders' entitlement to interest only applies if the AGM of H&K AG resolves to distribute dividends to ordinary shareholders relating to the corresponding financial year, which are in line with the proposal from the executive board. These entitlements are therefore only recognised if these prerequisites are satisfied, after the AGM takes place in the following year. The AGM in July 2025 (prior year: October 2024) resolved such a dividend so in 2025 €1.4 million (2024: €4.5 million) entitlements to hybrid interest were added to the hybrid loans. The corresponding contingent liabilities as of December 31, 2025 total €1.5 million (2024: €1.4 million) (Note 32). The equity attributable to hybrid capital investors as of December 31, 2025 was €15.4 million (December 31, 2024: €14.0 million).

Including equity attributable to hybrid capital investors, the H&K Group has equity of €170.0 million (2024: €133.4 million) at the reporting 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 personnel expenses for the relevant year; they amounted to a total of €7,559k (2024: €6,538k) for the Group.

The defined benefit plans are accounted for in the Group by setting up provisions for pensions 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 reporting 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 (Heubeck-Richttafeln-GmbH'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.

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 present value of the defined benefit liability for asset-backed and non-asset-backed obligations:

	Defined benefit obligation		Fair value of plan assets		Net obligation for defined benefit plans	
EUR '000	**2025**	**2024**	**2025**	**2024**	**2025**	**2024**
Balance at January 1	**46,965**	**46,460**	**(1,190)**	**(1,198)**	**45,775**	**45,261**
Included in profit or loss						
Current service cost	235	246	-	-	235	246
Interest expense (income)	1,538	1,524	(40)	(40)	1,499	1,484
Total recognised in profit or loss	**1,773**	**1,769**	**(40)**	**(40)**	**1,733**	**1,729**
Included in other comprehensive income						
Actuarial loss (gain) arising from:						
- demographic assumptions	-	-	-	-	-	-
- financial assumptions	(166)	-	-	-	(166)	-
- experience adjustments	(2,385)	2,093	-	-	(2,385)	2,093
Return on plan assets excluding interest income	-	-	1	2	1	2
Total recognised in OCI	**(2,551)**	**2,093**	**1**	**2**	**(2,549)**	**2,095**
Other						
Benefits paid	(3,328)	(3,357)	48	47	(3,280)	(3,310)
Total other	**(3,328)**	**(3,357)**	**48**	**47**	**(3,280)**	**(3,310)**
Balance at December 31	**42,859**	**46,965**	**(1,180)**	**(1,190)**	**41,679**	**45,775**
Attributable to:						
Net defined benefit obligation for funded plan	1,180	1,190	(1,180)	(1,190)	-	-
Defined benefit obligation for unfunded plans	41,679	45,775	-	-	41,679	45,775
Balance at December 31	**42,859**	**46,965**	**(1,180)**	**(1,190)**	**41,679**	**45,775**

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 2025 were calculated at 3.40% (2024: 3.40%). This is based on the discount rate for the associated pension obligations. The actual earnings from the plan assets were €38k (2024: €38k). Since the investment phase is over, no further contributions will be paid in.

The calculated average duration of the pensions schemes is 10.3 years (2024: 10.9 years). The following table shows the principle actuarial assumptions at the reporting date:

	31.12.2025	31.12.2024
Discount rate	3.95%	3.40%
Future salary growth for active plan members	0.00%	0.00%
Future pension growth	2.00%	3.6% for 2025, 2.0% thereafter
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:

31.12.2025	Defined benefit obligation	
Effect in EUR '000	**Increase**	**Decrease**
Discount rate (0.5% movement)	(1,966)	2,158
Future pension growth (0.5% movement)	1,936	(1,801)

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	31.12.2025	31.12.2024
Current provisions & accruals	17,755	12,931
Non-current provisions	2,540	2,243
Total	**20,295**	**15,174**

The provisions comprise:

EUR '000	Personnel obligations	Warranty obligations	Other obligations relating to sales	Other risks	Total
Balance at 01.01.2025	**4,073**	**903**	**4,072**	**6,126**	**15,174**
Exchange rate difference / reclassification	-	-	(328)	-	(328)
Utilisation	(3,411)	(669)	(383)	(1,085)	(5,549)
Release	(140)	(234)	(449)	(29)	(852)
Addition	6,542	1,237	2,087	1,985	11,850
Balance at 31.12.2025	**7,063**	**1,237**	**4,999**	**6,996**	**20,295**

Provisions for the German early retirement scheme (“Altersteilzeit”) are included in the personnel obligations (€505k; 2024: €448k). 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 provisions are based on the present value of the associated contractual obligations and are obtained from actuarial reports; these use biometric actuarial assumptions from Heubeck-Richttafeln-GmbH’s 2018 G guideline tables and are discounted at 2.5% (2024: 2.6%). There are no material uncertainties with regard to the value of these provisions. These obligations are secured by certain securities; these assets are offset against the associated provisions. The current early retirement scheme agreements have terms of two to four 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 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 (€607k; 2024: €653k) could occur 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 for other obligations 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 of December 31, 2025, the majority of the litigation risks are dependent on associated legal proceedings and accordingly, the provision for these is subject to particular 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 3rd Criminal Division dismissed the balance of the appeal as well. Therefore, the verdict of the district court is final; however, the clarification of related tax effects is still pending. On January 27, 2026 Stuttgart District Court, the court of first instance now responsible for the execution, rejected HKO's legal arguments; HKO made an immediate further complaint ("sofortige weiteren Beschwerde") to the Stuttgart Higher Regional Court; a decision on this cannot be realistically expected before the second half of 2026. The confiscations could be executed in 2026.

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 €42k expense (2024: €42k) 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 of December 31, 2025, the H&K Group has the following material financing agreements:

- Secured financing agreement with a syndicate of banks (Term and Revolving Credit Facilities Agreement, "CFA-loan")
- Unsecured shareholder loan ("Vendor Loan")
- Unsecured shareholder loan ("Additional Mezzanine Loan") (agreed but not utilised).

CFA-loan (Facilities A, B and C)

This syndicated loan is a €140.0 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 until 2026 was requested and agreed in 2023; the second extension of one additional year until August 17, 2027was requested and agreed in 2024. 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 three or six months). Initially the margin was set at 3.5% and from 2024 onwards, dependent upon certain key figures, it 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, 2025: €25.0 million; of which €10.0 million are current; December 31, 2024: €35.0 million; of which €10.0 million were current);
- **Facility B**, a secured financing loan to H&K AG (December 31, 2025: €40.0 million; December 31, 2024: €40.0 million).

In addition, the CFA financing agreement includes:

- **Facility C**, a €50.0 million bank guarantee and overdraft facility; as of December 31, 2025 (and as of December 31, 2024), this was only utilised by HKO for bank guarantees and therefore, as a contingent liability, not recognised in the statement of financial position. In addition to guarantee costs, interest for the utilisation of the credit line is incurred, which are dependent upon other conditions included in 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 (in particular, distribution of dividends, acquisition or disposal of businesses, borrowing); 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 of December 31, 2025: €65.2 million; December 31, 2024: €75.8 million; utilisation of bank guarantee facility as of December 31, 2025: €5.0 million; December 31, 2024: €4.0 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 €20.0 million with a term of six years. The agreed interest rate is 6.5% and accrued interest is to be added to the loan annually or, under certain conditions, paid. The loan was utilised on December 16, 2022. Due to the capitalisation of accrued interest in December 2023, the loan increased to €21.3 million. The accrued interest from that time was paid annually in December. Consequently, the loan balance at the end of 2025 was €21.3 million (2024: €21.3 million) and the associated interest liability at the end of 2025 was €0.1 million (2024: €0.1 million).

On August 18, 2022, one of H&K AG's main shareholders granted an unsecured loan (the "Additional Mezzanine Loan") of €40.0 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 €64,352k (2024: €73,852k). As of the reporting 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 €195k (2024: €797k) 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 (2024: €21,322k), is identical to the nominal value.

EUR '000	2025 Nominal	2025 Carrying amount	2025 Associated interest liabilities	2024 Nominal	2024 Carrying amount	2024 Associated interest liabilities
Balance at 01.01.	**96,322**	**95,173**	**855**	**106,322**	**104,529**	**1,495**
Accretion of CFA Facilities A, B & C	-	771	-	-	979	-
Element of accretion relating to Facility C (other assets)	-	(270)	-	-	(334)	-
Interest expense for CFA	-	-	3,110	-	-	5,409
Interest payments for CFA	-	-	(3,712)	-	-	(6,050)
Repayment of CFA-loan	(10,000)	(10,000)	-	(10,000)	(10,000)	-
Interest expense for Vendor Loan	-	-	1,405	-	-	1,409
Transfer of interest to principal for Vendor Loan	-	-	-	-	-	-
Interest payments for Vendor Loan	-	-	(1,405)	-	-	(1,409)
Balance at 31.12.	**86,322**	**85,674**	**253**	**96,322**	**95,173**	**855**

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 (2025: €0.1 million; 2024: €0.1 million) (Note 18), and within other non-current investments (2025: €2.5 million; 2024: €2.6 million) (Note 18).

Group lease liabilities

As described in Notes 17 and 33, the Group uses certain leased assets (in particular, offices, machinery 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:

EUR '000	Contractual cashflows 31.12.2025	Contractual cashflows 31.12.2024
Less than one year	2,392	1,724
Between one and five years	6,423	5,070
More than five years	-	6
Total lease payments	**8,816**	**6,799**
Effects of discounting and options	(788)	(1,848)
Lease liabilities recognised	**8,027**	**4,952**

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 and derivatives for forward-cover contracts.

EUR '000	31.12.2025	31.12.2024
Trade payables	17,837	18,163
Interest payables	253	855
Other liabilities	14,910	13,480
Derivatives	128	547
Total	**33,127**	**33,044**

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 (Notes 16, 17, 19, 20, 21, 25), these payables are not secured.

(27) Contract liabilities

The €140,330k (2024: €88,590k) 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 price 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 pounds 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. The H&K Group's 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 of December 31, 2025, there were forward cover contracts in place for a total of $42.0 million (as of December 31, 2024: $42.0 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 (2024: four) consolidated subsidiaries of H&K AG are outside the Euro zone. Since the H&K Group's 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 in equity.

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

Currency	Abbr.	Rate on reporting date 31.12.2025	Rate on reporting date 31.12.2024	Average exchange rate 2025	Average exchange rate 2024
US Dollar (USA)	USD	1.1750	1.0389	1.1300	1.0823
Pound (Great Britain)	GBP	0.8726	0.8292	0.8568	0.8465

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 2025 consolidation, (i.e., had been an average rate of €1 = $1.0735 and a spot rate of €1 = $1.1163), then in 2025 sales would have been approximately €5.3 million higher, EBITDA would have been approximately €3.0 million higher, and equity and reserves would have been approximately €4.1 million higher.

If the euro had been 5% stronger against the US dollar compared to the rates used for the 2025 consolidation, (i.e., had been an average rate of €1 = $1.1865 and a spot rate of €1 = $1.2338), then in 2025 sales would have been approximately €4.8 million lower, EBITDA would have been approximately €2.7 million lower, and equity and reserves would have been approximately €3.7 million lower.

If the euro had been 5% weaker against the pound sterling compared to the rates used for the 2025 consolidation, (i.e., had been an average rate of €1 = £0.8140 and a spot rate of €1 = £0.8290), then in 2025 sales would have been approximately €0.5 million higher, EBITDA would have been roughly €0.1 million higher, and equity and reserves would have been approximately €0.3 million higher.

If the euro had been 5% stronger against the pound sterling compared to the rates used for the 2025 consolidation, (i.e., had been an average rate of €1 = £0.8996 and a spot rate of €1 = £0.9162), then in 2025 sales would have been approximately €0.4 million lower, EBITDA would have been roughly €0.1 million lower, and equity and reserves would have been approximately €0.3 million lower.

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 of December 31, 2025, the Group's interest profile of its interest-bearing financial instruments consisted of variable rate instruments with a total nominal value of €65.0 million (2024: €75.0 million) and fixed-rate instruments (including hybrid capital) with a total nominal value of €36.7 million (2024: €35.3 million).

Under the CFA-loan's Facilities A and B, the Group has nominal €65.0 million loans with a variable interest rate in 2025 of a margin (between 1.60% and 1.75%) plus EURIBOR (if positive); the applicable rate is set at the beginning of each interest period (three or six monthly). A 100 basis-point (Bp) reduction in EURIBOR at each of the interest-fixing dates would have increased equity and profit by approx. €0.7 million. A 100 basis-point (Bp) increase in EURIBOR at each of the interest-fixing dates would have reduced equity and profit by approx. €0.7 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 €15.4 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 board, 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 reporting 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 outstanding trade receivables at the reporting date relates 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 the executive board 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, allowances are held for doubtful debts and general expected credit losses in accordance with IFRS 9 (Note 20). The maximum risk exposure of trade receivables corresponds to their carrying amounts at the reporting date. The carrying amounts of trade receivables, including a separate 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 on non-current assets, together with servicing the interest payment obligations from the CFA-loan and the payment of dividends.

According to current plans, the CFA-loan is expected to be refinanced early and repaid during 2026; in doing so, the H&K Group is ensuring the financing of the five-year plan and the availability at all times of sufficient liquidity in the form of unrestricted bank balances and credit lines. For 2026 a negative operating cash flow in the low double-digit million range is expected, primarily due to the satisfaction of orders and the associated reduction in contract liabilities for which the cash inflows have already been received in the reporting year or in prior periods. For 2027 and the following years, a positive net cashflow from operating activities is expected. During 2026 and 2027, significantly higher investments in property, plant and equipment are planned that will be covered inter alia by the operating cash flows and the early refinancing.

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

EUR '000	Trade payables	Loans including interest
Balance at 31.12.2025		
Carrying amount	17,837	85,926
Related payments	17,837	86,574
Payments due:		
- within one month	13,383	-
- between one and three months	2,155	136
- between three and twelve months	2,299	10,116
- between one and five years	-	76,322
- after more than five years	-	-
Balance at 31.12.2024		
Carrying amount	18,163	96,028
Related payments	18,163	97,176
Payments due:		
- within one month	14,240	-
- between one and three months	2,926	725
- between three and twelve months	996	10,130
- between one and five years	-	86,322
- after more than five years	-	-

Variances between carrying amounts 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 at all times, taking into account the obligations and the regular interest payments due to the CFA-loan, and in the medium-term minimise leverage and maintain an adequate minimum of liquidity through unrestricted bank balances and credit lines. 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, depending on negotiating position and requirements, performance and advance payment guarantees are issued to our customers, if possible as Group guarantees or alternatively by banks on our behalf.

The Group's capital structure is as follows:

EUR '000	31.12.2025	31.12.2024
Total equity attributable to H&K AG shareholders	154,652	119,447
Equity attributable to hybrid capital investors	15,389	13,990
Equity	**170,041**	**133,437**
as a percentage of total financing	33%	29%
Long-term liabilities	148,726	164,944
Short-term liabilities	202,961	159,344
Debt	**351,688**	**324,288**
as a percentage of total financing	67%	71%
Total equity & liabilities	**521,729**	**457,725**

(29) Additional disclosures on financial instruments

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

EUR '000	31.12.2025	31.12.2024
Non-current assets		
Other investments	2,767	2,849
Current assets		
Other loans, deposits & derivatives	210	230
Trade receivables	51,109	37,403
Other receivables	5,182	4,257
Cash and cash equivalents	47,458	69,528
Asset positions containing financial instruments	**106,725**	**114,265**
of which non-financial instruments	4,910	4,063
of which financial instruments	**101,815**	**110,203**

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

EUR '000	Cash and cash equivalents BV	Cash and cash equivalents FV	Trade accounts receivable BV	Trade accounts receivable FV	Other financial instruments BV	Other financial instruments FV
Balance at 31.12.2025						
Recognised at amortised cost	47,458	47,458	51,109	51,109	3,163	3,163
Recognised at fair value through profit or loss	-	-	-	-	-	-
Total financial assets	**47,458**	**47,458**	**51,109**	**51,109**	**3,163**	**3,163**
Balance at 31.12.2024						
Recognised at amortised cost	69,528	69,528	37,403	37,403	3,184	3,184
Recognised at fair value through profit or loss	-	-	-	-	-	-
Total financial assets	**69,528**	**69,528**	**37,403**	**37,403**	**3,184**	**3,184**

The fair values of accounts receivable are in line with their carrying amounts. This is mainly due to the short terms of these instruments. The other financial instruments relate primarily to short and long-term bank deposits as security for certain bank guarantee lines etc. (2025: €2,606k; 2024: €2,790k) (Notes 18, 25); their ageing is as follows:

EUR '000	Other financial instruments 31.12.2025	Other financial instruments 31.12.2024
Neither overdue nor impaired:	3,113	3,184
Impaired (gross)	200	-
Specific allowance(s)	(150)	-
Carrying amount	**3,163**	**3,184**

As of the reporting 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	31.12.2025	31.12.2024
Non-current liabilities		
Loans & borrowings	75,777	85,325
Lease liabilities	5,971	3,720
Other payables	696	1,010
Current liabilities		
Loans & borrowings	9,896	9,848
Trade payables	17,837	18,163
Lease liabilities	2,057	1,232
Derivatives	128	547
Other liabilities	14,466	13,324
Liability positions containing financial instruments	**126,828**	**133,170**
of which non-financial instruments	12,934	12,263
of which financial instruments	**113,894**	**120,906**

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

EUR '000	Trade payables		Short- and long-term loans		Derivatives		Other financial liabilities	
	BV	FV	BV	FV	BV	FV	BV	FV
Balance at 31.12.2025								
Held at amortised cost	17,837	17,837	85,674	86,322	-	-	2,228	2,228
Held at fair value through profit or loss	-	-	-	-	128	128	-	-
Financial liabilities	**17,837**	**17,837**	**85,674**	**86,322**	**128**	**128**	**2,228**	**2,228**
Balance at 31.12.2024								
Held at amortised cost	18,163	18,163	95,173	96,322	-	-	2,072	2,072
Held at fair value through profit or loss	-	-	-	-	547	547	-	-
Financial liabilities	**18,163**	**18,163**	**95,173**	**96,322**	**547**	**547**	**2,072**	**2,072**

The fair values of the trade payables are in line with the carrying amounts. This is mainly due to the short terms of these instruments. The CFA-loan is held at amortised cost in the statement of financial position; its fair value at the reporting 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 (2025: €253k; 2024: €855k) and to dividends that could not be paid out yet (2025: €965k; 2024: €900k).

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 valuation of the asset or liability that are not based on observable market data (unobservable inputs).

31.12.2025 EUR '000	Level 1	Level 2	Level 3
Derivative financial assets	-	-	-
Derivative financial liabilities	-	128	-

31.12.2024 EUR '000	Level 1	Level 2	Level 3
Derivative financial assets	-	-	-
Derivative financial liabilities	-	547	-

Net income / (expenses) due to financial instruments:

EUR '000	2025	2024
Recognised at amortised cost	(4,744)	2,566
Held at fair value through profit or loss	419	(1,886)

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	2025	2024
Interest income	622	496
Accretion of non-current financial liabilities	(771)	(979)
Other interest expenses	(4,891)	(6,973)

(30) Statement of cash flows

The consolidated statement of cash flows shows the change in the H&K Group's cash and cash equivalents due to cash inflows and outflows during the financial 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 the statement of financial position items 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 statement of financial position items shown in the cash flow are therefore different to the euro changes in the consolidated 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 serving 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	2025	2024
Net cash from / (used in) investing activities	(22,093)	(30,759)
Less amounts relating to the movement in security deposits with terms >3 months	(184)	98
Adjusted net cash from / (used in) investing activities	**(22,277)**	**(30,661)**

(31) Segment reporting

Internal reporting for Group management is segmented by legal entity. The organisation and reporting structure of the H&K Group is marked by its operating activities in the defence technology line of business. In November 2024, a new segment "Sustainable Technologies" was added, strengthening the commercial business area in Germany.

The Defence division is organised around five (2024: 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 US, 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; if several companies are contained in one segment, the figures include certain consolidation adjustments within the segment.

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 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 operational reporting segments "Great Britain", "France" and "USA", split into defence and commercial, all include sales and distribution activities for defence and security products and provide related services in their respective countries.

The German segment "Sustainable Technologies" includes the operational business CMM, acquired in November 2024, whose expertise is particularly in surface coating and treatment, making it an important supplier for the H&K value-generation chain. As this reporting segment contains three companies, the figures reflect the amounts recognised for individual companies as included in the consolidated figures of the Group as well as certain consolidation adjustments within the segment.

The reporting segment "Holding" 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

Segment	Germany		Sustainable Technologies		USA - Commercial		USA - Defence		Great Britain		France		Holding		Total pre-consolidation		Consolidation transactions		H&K AG Group	
EUR '000	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024
Net external revenues	230,710	175,897	9,854	599	96,350	91,743	4,446	4,059	22,806	31,334	28,794	39,743	-	-	392,960	343,375	(2)	-	392,957	343,375
Inter-segment revenue	73,006	76,172	1,625	99	2,151	854	152	298	303	448	-	-	-	-	77,237	77,870	(77,237)	(77,870)	-	-
Total output	330,387	271,942	11,409	698	103,527	82,282	5,108	3,637	22,784	32,791	28,894	39,840	-	-	502,109	431,190	(78,040)	(76,790)	424,069	354,401
Depreciation and amortisation	(15,541)	(11,801)	(375)	(43)	(1,316)	(1,301)	(94)	(74)	(388)	(303)	(29)	(9)	(55)	(55)	(17,797)	(13,585)	-	-	(17,797)	(13,585)
EBITDA	61,292	59,472	1,630	(477)	4,304	(4,183)	19	98	2,920	5,137	839	2,260	(2,277)	(283)	68,726	62,024	(828)	1,077	67,898	63,101
Interest income	1,422	842	5	3	-	-	0	1	38	63	-	-	11,653	9,069	13,117	9,978	(12,495)	(9,482)	622	496
Interest expense (incl. accretion and guarantee costs)	(15,637)	(14,341)	(584)	(63)	(1)	(2)	(263)	(351)	(24)	(33)	(2)	(1)	(3,523)	(4,233)	(20,035)	(19,024)	12,494	9,482	(7,540)	(9,543)
Income tax expenses and / or income	-	-	(321)	28	(530)	727	79	58	(743)	(1,173)	(214)	(573)	1,947	(8,644)	217	(9,578)	176	(238)	393	(9,815)
Profit / (loss) after tax	27,132	35,917	855	(553)	1,608	(4,767)	(280)	(270)	2,043	3,474	594	1,676	49,671	53,161	81,623	88,638	(42,137)	(57,171)	39,486	31,468
Other material non-cash items																				
- Impairment of assets / creation of allowances	(150)	-	-	-	(152)	(91)	(5)	(79)	(151)	(159)	(7)	-	-	-	(465)	(329)	-	-	(465)	(329)
- Impairment losses reversed / release of allowances	-	-	1	-	-	-	45	204	237	327	-	14	16,012	24,035	16,295	24,580	(16,012)	(24,035)	283	545
Non-current assets other than deferred taxes and financial instruments	209,029	199,457	4,602	4,532	8,001	9,669	781	856	2,693	2,621	81	30	121	176	225,307	217,341	(70,075)	(70,075)	155,232	147,266
Acquisition of property, plant, equipment and intangibles, excluding capitalised development costs	(17,357)	(14,724)	(373)	(13)	(713)	(1,198)	(119)	(4)	(523)	(2,047)	(26)	(12)	-	-	(19,110)	(17,998)	-	-	(19,110)	(17,998)
Provisions and liabilities	397,803	344,250	11,858	11,273	42,318	41,144	8,360	8,667	2,286	4,240	5,987	892	87,315	103,699	555,926	514,165	(204,239)	(189,877)	351,688	324,288

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 segment “Germany” 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 €70.1 million (2024: €70.1 million) for non-current assets shown in the column “consolidation transactions” relate primarily 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. In 2024, the amount was reduced by the goodwill relating to the acquisition of CMM (Notes 4, 16).

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		Revenues	Percentage of sales
Germany (Domestic)	**2025**	**83,679**	**21%**
	2024	**70,215**	**20%**
US	2025	100,793	26%
	2024	95,802	28%
UK	2025	22,842	6%
	2024	31,373	9%
France	2025	29,051	7%
	2024	40,088	12%
Other "Green Countries"	2025	156,505	40%
	2024	105,788	31%
Rest of world	2025	88	0%
	2024	109	0%
Total export	**2025**	**309,278**	**79%**
	2024	**273,161**	**80%**
Total	**2025**	**392,957**	**100%**
	2024	**343,375**	**100%**
of which "Green Countries"	2025	392,869	100%
	2024	343,266	100%

Product group		Percentage of sales
Rifles	2025	43%
	2024	35%
Sub-machine guns & machine guns	2025	16%
	2024	21%
Pistols	2025	19%
	2024	22%
Development services	2025	0%
	2024	0%
Other products & services	2025	22%
	2024	22%
Total	**2025**	**100%**
	2024	**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 2025, are the German governmental authorities (2025: €62 million; 2024: €52 million) and Ukraine (2025: €54 million; 2024: €34 million) shown in the segment “Germany”.

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
Military	**2025**	**253,923**	**65%**
	2024	**211,885**	**62%**
Law enforcement & similar	2025	22,714	6%
governmental agencies	2024	21,845	6%
Commercial	2025	116,319	30%
	2024	109,646	32%
Total	**2025**	**392,957**	**100%**
	2024	**343,375**	**100%**

(32) Contingent liabilities and pledged assets

As described in Notes 22 and 36, we have three hybrid loans recognised 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 the Annual General Meeting ("AGM") of H&K AG resolves to distribute dividends to ordinary shareholders relating to the corresponding financial year in line with such a proposal from the executive board. These entitlements are therefore only recognised if these prerequisites are satisfied, after the AGM takes place in the following year. The AGM in July 2025 (prior year: October 2024) resolved such a dividend so in 2025 €1.4 million (2024: €4.5 million) entitlements to hybrid interest were added to the hybrid loans. The corresponding contingent liabilities as of December 31, 2025, total €1.5 million (2024: €1.4 million) (Note 22).

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 drawn in the planned periods, or sufficient provision has been recognised for such potential drawing 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, 2025 or December 31, 2024.

(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.

Since 2024, the Group is acquiring certain machines under hire-purchase agreements, which must be treated as lease agreements under IFRS 16. These contracts have terms of five years, after which – assuming that we have satisfied all obligations under these contracts – according to civil law the ownership of the associated machine is transferred to us. At this time, the right-of-use assets together with the associated cumulative amortisation will be reclassified to property, plant and equipment and accounted for under IAS 16 thereafter. The machines have expected lives of between eight and ten years and the right-of-use assets are being amortised over corresponding periods.

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 machines, vehicles and certain items of IT equipment.

EUR '000	Land and buildings	Plant and machinery	Fixtures, fittings and other assets	Total
Net carrying value at 01.01.2024	**422**	**-**	**895**	**1,317**
Acquisition / manufacturing costs				
Balance at 01.01.2024	**1,356**	**-**	**1,299**	**2,656**
Additions on acquisition of CMM	-	-	56	56
Effect of movement in exchange rates	45	-	17	63
Additions	-	3,782	429	4,211
Disposals	-	-	(230)	(230)
Balance at 31.12.2024	**1,402**	**3,782**	**1,572**	**6,755**
Amortisation & depreciation				
Balance at 01.01.2024	**(934)**	**-**	**(405)**	**(1,339)**
Additions on acquisition of CMM	-	-	(8)	(8)
Effect of movement in exchange rates	(26)	-	(15)	(41)
Depreciation for the year	(147)	(124)	(412)	(682)
Accumulated amortisation & depreciation on disposals	-	-	230	230
Balance at 31.12.2024	**(1,106)**	**(124)**	**(609)**	**(1,839)**
Net carrying value at 31.12.2024	**295**	**3,658**	**963**	**4,916**
Acquisition / manufacturing costs				
Balance at 01.01.2025	**1,402**	**3,782**	**1,572**	**6,755**
Effect of movement in exchange rates	(49)	-	(26)	(75)
Additions	76	4,329	362	4,766
Disposals	-	-	(137)	(137)
Balance at 31.12.2025	**1,428**	**8,111**	**1,771**	**11,309**
Amortisation & depreciation				
Balance at 01.01.2025	**(1,106)**	**(124)**	**(609)**	**(1,839)**
Effect of movement in exchange rates	32	-	22	54
Depreciation for the year	(165)	(634)	(524)	(1,323)
Accumulated amortisation & depreciation on disposals	-	-	137	137
Balance at 31.12.2025	**(1,239)**	**(758)**	**(974)**	**(2,971)**
Net carrying value at 31.12.2025	**189**	**7,353**	**797**	**8,338**

ii. Amounts recognised in profit or loss

Amortisation amounting to €1,323k (2024: €682k) for right-of-use assets and interest expenses amounting to €267k (2024: €115k) for lease liabilities were recognised in profit or loss. The associated deferred taxes show a net expense of €3k (2024: €0k).

iii. Amounts recognised in the statement of cash flows

The leasing payments were split between interest payments of €267k (2024: €115k), and repayment of lease liabilities amounting to €1,667k (2024: €722k); 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) a 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 €253k (2024: €210k) for short-term leases and €11k (2024: €26k) for leases for which the associated assets are of low value. As of the reporting date, the Group had outstanding obligations arising from these leases that fall due as follows:

EUR '000	31.12.2025	31.12.2024
Up to one year	58	79
More than one and up to five years	27	17
More than five years	0	0
Total	**84**	**96**

(34) Number of employees

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

	2025	2024
Germany	1,013	977
Sustainable Technologies	98	16
France	3	1
Great Britain	32	25
USA - Defence	5	5
USA - Commercial	108	94
Holding	7	5
Average employees	**1,265**	**1,123**

These numbers for 2025 and 2024 exclude executive boards, people on national service, apprentices and trainees; part-time employees are included as full heads. The employees for the segment "Sustainable Technologies" have only been included in this statistic from the acquisition at the end of November 2024; as of December 31, 2024, there were 95 employees.

(35) Personnel expenses

Personnel expenses in 2025 were €118,225k (2024: €97,463k). Of these expenses, €100,051k (2024: €82,156k) relate to wages and salaries, €16,907k (2024: €14,206k) relate to social security contributions and €1,268k (2024: €1,101k) relate to pension schemes.

(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.

From July 2020 onwards, the company assumed that the majority of H&K AG's shares were held by CDE S.A., Luxembourg, Luxembourg (formerly trading as COMPAGNIE DE DEVELOPPEMENT DE L'EAU) ("CDE") (directly) and by Sofi Kapital Ltd., Christ Church, Barbados ("Sofi Kapital") (indirectly). 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.

There was a dispute between CDE and Mr Andreas Heeschen (Cologne, Germany) regarding to whom 15,000,787 H&K AG shares belonged and whether CDE has a majority holding in H&K AG. CDE and Mr Heeschen disputed 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 was still with Mr Heeschen, but simultaneously ruled that Mr Heeschen was obliged to transfer 13,925,498 of the 15,000,787 H&K AG shares to CDE as the future owner. Initially the judgment of the Frankfurt am Main Higher Regional Court from December 15, 2023 was not legally binding as Mr Heeschen had raised a complaint of non-admission to the Federal Court of Justice. In its ruling on February 11, 2025, the Federal Court of Justice rejected Mr Heeschen's complaint of non-admission thereby making the judgment of the Frankfurt am Main Higher Regional Court from December 15, 2023 legally binding. Accordingly, the ownership of the disputed 13,925,498 shares transferred to CDE on February 11, 2025.

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 and the Federal Court of Justice's ruling on February 11, 2025, had and have 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 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 holds a majority interest in H&K AG.

3. Mr Nicolas René Walewski, London, United Kingdom, (in the following "Nicolas Walewski") 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 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 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 Ltd., Bridgetown, Barbados (in the following, "Concorde Bank"), 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 and CDE, Concorde Bank, 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).

6. In a letter from September 19, 2024, Concorde Bank also informed us with a notification in accordance with § 20 (1) and (4) AktG that, due to attribution pursuant to § 16 (4) AktG via (i) Sofi Kapital and (ii) CDE, Concorde Bank 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).

7. Concorde Holding Ltd., Bridgetown, Barbados (in the following, "Concorde Holding"), informed us on September 19, 2024, with a notification in accordance with § 20 (1) and (4) AktG that, due to attribution pursuant to § 16 (4) AktG via (i) Concorde Bank, (ii) Sofi Kapital and (iii) CDE, Concorde Holding 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).

8. KEPRON Limited, Tortola, British Virgin Islands (in the following, "KEPRON"), informed us on September 19, 2024, with a notification in accordance with § 20 (1) and (4) AktG that, due to attribution pursuant to § 16 (4) AktG via (i) Concorde Holding, (ii) Concorde Bank, (iii) Sofi Kapital and (iv) CDE, KEPRON 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).

9. EREL LLC, Jackson, Wyoming, USA (in the following, "EREL"), informed us with a notification dated June 19, 2025 in accordance with § 20 (1) and (4) AktG that, due to attribution pursuant to § 16 (4) AktG via (i) KEPRON, (ii) Concorde Holding, (iii) Concorde Bank, (iv) Sofi Kapital and (v) CDE, EREL 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).

10. Mr Philippe de Lavenère Lussan, Christ Church, Barbados, (in the following, "Philippe Lussan") informed us with a notification dated June 19, 2025 in accordance with § 20 (1) and (4) AktG, that, due to attribution pursuant to § 16 (4) AktG via (i) EREL, (ii) KEPRON, (iii) Concorde Holding, (iv) Concorde Bank, (v) Sofi Kapital and (vi) CDE, 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).

11. Finally on February 4, 2026 we received the following shareholding notifications:

- Concorde Bank informed us with a notification dated February 3, 2026 in accordance with § 20 (5) AktG that it no longer indirectly holds a majority interest in H&K AG or more than a quarter of the shares in H&K AG due to attribution pursuant to § 16 (4) AktG.
- Concorde Holding informed us with a notification dated February 3, 2026 in accordance with § 20 (5) AktG that it no longer indirectly holds a majority interest in H&K AG or more than a quarter of the shares in H&K AG due to attribution pursuant to § 16 (4) AktG.
- KEPRON informed us with a notification dated February 3, 2026 in accordance with § 20 (5) AktG that it no longer indirectly holds a majority interest in H&K AG or more than a quarter of the shares in H&K AG due to attribution pursuant to § 16 (4) AktG.
- EREL informed us with a notification dated February 3, 2026 in accordance with § 20 (5) AktG that it no longer indirectly holds a majority interest in H&K AG or more than a quarter of the shares in H&K AG due to attribution pursuant to § 16 (4) AktG.
- Philippe Lussan informed us with a notification dated February 3, 2026 in accordance with § 20 (5) AktG that he no longer indirectly holds a majority interest in H&K AG or more than a quarter of the shares in H&K AG due to attribution pursuant to § 16 (4) AktG.
- Mr Nicolas Walewski informed us with a notification dated January 30, 2026 in accordance with § 20 (1) and (4) AktG, that, due to attribution pursuant to § 16 (4) AktG via (i) Sofi Kapital Ltd., Christ Church, Barbados and (ii) CDE S.A., Luxembourg, Luxembourg, 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).

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 (Note 22). CDE's hybrid capital as of December 31, 2025 was €13.0 million (December 31, 2024: €11.8 million). 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 board, 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 five days after the AGM but from the beginning of the year in which the AGM takes place. The AGM in July 2025 resolved a dividend in line with the executive board's proposal so in 2025 €1.2 million entitlements to hybrid interest were added to these hybrid loans. The corresponding contingent liabilities as of December 31, 2025 total €1.3 million (Note 32).
- There is a hybrid loan liability from another main shareholder, which is recognised in equity (Note 22). The hybrid capital attributable to this main shareholder as of December 31, 2025 was €2.4 million (December 31, 2024: €2.2 million). 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 board, 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 five days after the AGM but from the beginning of the year in which the AGM takes place. The AGM in July 2025 resolved a dividend in line with the executive board's proposal so in 2025 €0.2 million entitlements to hybrid interest were added to this hybrid loan. The corresponding contingent liability as of December 31, 2025 was €0.2 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 agreed 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 accrued interest in December 2023, the loan increased to €21.3 million. The accrued interest from that time was paid annually in mid-December and the interest accrued since then is recognised as a liability. Consequently, the loan balance at the end of 2025 was €21.3 million (2024: €21.3 million) and the associated interest liability at the end of 2025 was €0.1 million (2024: €0.1 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
Marco Geißinger	CSO

Supervisory Board of H&K AG

Dr Rainer Runte	Chairman
Nicolaus P. Bocklandt	Deputy Chairman
Dr Regina Engelstädter	Member (until the end of the AGM on July 9, 2025)
Julian Whitehead	Member (from the end of the AGM on July 9, 2025)

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

EUR '000	2025	2024
Short-term benefits for the supervisory board	270	180
Short-term benefits for the executive board	6,273	1,800
Gesamt	**6,543**	**1,980**

Within the total remuneration for the executive board in the financial year 2025 was the payment of €2.8 million variable remuneration elements that were not recognised as liabilities on December 31, 2024 and apply to previous periods. In addition, provisions of €1.7 million were recognised for another success component.

(39) Auditor's remuneration

EUR '000	2025	2024
Financial statement audit services	321	325
Other confirmation services	22	7
Tax services	2	-
Other services	164	290
Total	**509**	**622**

In 2025, the other services relate primarily to services relating to various projects. In 2024, the other services relate primarily to services relating to the acquisition of CMM.

(40) Subsequent events

Acquisition of a building

In the financial year 2025, the Group signed a contract in the mid-single digit million range for the acquisition of a property near the Oberndorf location with a production building on it (Note 17), intended to be used as a production location. The recognition within property, plant and equipment in accordance with IAS 16 will take place when the rights and obligations are transferred in financial year 2026.

Acquisition of Globe

With a contractual purchase deed dated December 15, 2025 Heckler & Koch (UK) Limited, an indirect subsidiary of H&K AG, acquired 100% of the shares in Globe Engineering Holdings Limited and its wholly owned subsidiary Globe Engineering Limited by way of a share deal and so gained control over these companies. The business acquisition was carried out to expand the Group's production capacities in the United Kingdom.

The acquisition is not an adjusting event under IAS 10 as the control was obtained via material transfer of shares on February 3, 2026 and so after the reporting date. Accordingly, the assets, liabilities, income and expenses of the businesses acquired are not included in these consolidated financial statements.

The following table shows the assets and liabilities recognised as of the acquisition date (February 3, 2026) in the statement of financial position:

EUR '000	
Property, plant & equipment & intangible assets	3,663
Inventories	553
Trade receivables	772
Trade receivables - H&K Group	2
Cash & cash equivalents	1,524
Prepayments & other receivables	199
Trade payables	(31)
Other payables, provisions, accruals & taxes	(629)
Net identifiable assets and liabilities acquired	**6,054**
Goodwill	1,737
Total acquisition price	**7,791**
Cash paid	(7,791)
Less cash and cash equivalents acquired	1,524
Net cash outflow due to the acquisition	**(6,267)**

These figures are based on the preliminary financial information of the acquired companies, not prepared according to IFRS.

The consideration for the acquisition is £7.3 million and will be transferred in three cash payments. The fair value of the consideration shown in the above table was determined using the HKUK pre-tax cost of capital rates determined using the CAPM (7.3% and 7.5%) and translated with the spot rate from December 31, 2025 of €1 = £0.8726. As of the date of preparation of the consolidated financial statements, the purchase price allocation had not yet been finalised.

Based on the currently available information, the preliminary difference on initial consolidation would be €1.7 million. After taking account of deferred taxes, it is expected that goodwill will remain. This will be fully allocated to the Segment England and not be relevant for income taxes.

A reliable quantification of the effects of this business combination on the Group's net assets, financial position and financial performance as of the reporting date is not yet possible as in particular the valuation of the identifiable assets, liabilities and contingent liabilities is still pending.

The business combination will be included in accordance with IFRS 3 in the consolidated financial statements for the periods following the acquisition.

Other

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No other material operating or structural changes or adjusting or non-adjusting events occurred in the H&K Group between December 31, 2025 and the approval of these consolidated financial statements.

Oberndorf am Neckar, Germany, March 17, 2026

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 2025, 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 2025, and the notes to the consolidated financial statements, including material accounting policy information. 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 2025.

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® Accounting Standards issued by the International Accounting Standards Board (IASB) (hereinafter "IFRS Accounting Standards") 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 2025 and of its financial performance for the financial year from 1 January to 31 December 2025, 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 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 Accounting Standards 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 control.
- 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 internal control or these arrangements and measures of the Group.

- 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 Accounting Standards as adopted by the EU and with the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- plan and perform the audit of the consolidated financial statements in order to obtain sufficient appropriate audit evidence regarding the financial information of the entities or of the business activities within the Group, which serves as a basis for forming audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and review of the audit procedures performed for the purposes 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, 17 March 2026

Deloitte GmbH
Wirtschaftsprüfungsgesellschaft

Signed:
Franz Klinger
Wirtschaftsprüfer
(German Public Auditor)

Signed:
Stephan Sick
Wirtschaftsprüfer
(German Public Auditor)

TRANSLATION
– German version prevails –