Ethical Risk Assessment of Hensoldt AG for the Government Pension Fund Global

Executive Summary

This report provides a comprehensive ethical risk assessment of Hensoldt AG, a leading German defense electronics company, conducted in accordance with the "Guidelines for Observation and Exclusion of Companies from the Government Pension Fund Global" (GPFG).[1] The analysis evaluates the company's operations against the specific product-based criteria outlined in §3 and the conduct-based criteria in §4 of the Guidelines. The assessment focuses on Hensoldt's product portfolio, its corporate conduct with respect to corruption and human rights, and its exposure to geopolitical conflicts where its products are utilized.

The primary finding of this assessment is that while Hensoldt AG's products do not meet the specific criteria for product-based exclusion, the company's conduct presents a significant and unacceptable ethical risk. Credible, detailed, and corroborated reports from multiple sources indicate a pattern of behavior that directly contravenes the ethical norms established in the GPFG's Guidelines.

The product-based risk analysis concludes that Hensoldt's core business—the development and production of sensors, optronics, radar, and electronic warfare systems—does not involve the manufacturing of prohibited weapon types as defined in §3a of the Guidelines, such as nuclear weapons, cluster munitions, or anti-personnel mines.[1] Consequently, the direct product-based risk is assessed as low.

Conversely, the conduct-based risk assessment identifies an unacceptable level of risk under §4 of the Guidelines. The analysis highlights two primary areas of grave concern. First, under §4g (Gross Corruption), there are substantial allegations, supported by leaked internal documents, of Hensoldt's involvement in a high-risk transaction in Uganda. The company proceeded with this deal despite its own compliance department raising explicit warnings about a "very high and critical jurisdictional corruption risk" and a deal structure conducive to illicit payments.[2] This decision to override internal controls suggests a systemic governance failure where commercial objectives supersede fundamental ethical and legal considerations.

Second, under §4c (Sale of Weapons to States in Armed Conflicts), there is compelling evidence that Hensoldt systematically utilized its foreign subsidiaries in the United Kingdom and South Africa to supply military-enabling technology to Saudi Arabia, thereby circumventing a German government arms embargo imposed due to the Yemen conflict.[3] The war in Yemen has been characterized by widespread and systematic violations of international humanitarian law by all parties, including the Saudi-led coalition.[5] By actively structuring its business to continue these sales, Hensoldt bears a significant risk of contributing to serious violations of individuals' rights in a conflict situation.

The strategic 25.1% ownership stake held by the German Federal Government adds a layer of complexity to the company's governance.[8] This relationship, intended to safeguard national security interests, appears to have failed to prevent—and may have inadvertently facilitated—the use of foreign subsidiaries to pursue strategic objectives that conflict with Germany's stated export policies and the GPFG's ethical framework.

Based on the substantial and credible evidence of conduct that creates an unacceptable risk of contributing to gross corruption and serious violations of international humanitarian law in a conflict situation, this report assigns Hensoldt AG a final risk category of **2 - High Risk**. This classification reflects the severity of the alleged norm breaches and indicates that the company's current governance and compliance frameworks are insufficient to mitigate these risks, positioning it on the threshold of being an Exclusion Candidate.

Criterion (Guideline §)	Assessment of Hensoldt's Activities	Risk Level	Key Evidence
§3a - Production of Prohibited Weapons	The company produces sensors and electronic systems, not weapons that violate fundamental humanitarian principles (e.g., nuclear, cluster munitions).	Low	Product portfolio analysis.[3]
§4a - Human Rights Violations	Sales to countries with poor human rights records, such as Uganda, create	High	Sales to Uganda security forces with documented human rights

	a risk of complicity in abuses.		abuses.[12]
§4c - Arms Sales to Conflict Zones	Alleged systematic circumvention of a German arms embargo to supply Saudi Arabia during the Yemen conflict via UK and South African subsidiaries.	Very High	Leaked documents and reports on sales to Saudi Arabia; evidence of products in Yemen conflict zone.[3]
§4g - Gross Corruption	Alleged involvement in a high-risk deal in Uganda, proceeding despite explicit internal compliance warnings about potential corruption and illicit payments.	Very High	Leaked internal "red flag" reports and compliance assessments regarding the Uganda transaction.[2]

Corporate Profile and Strategic Context

Business Model and Technology

Hensoldt AG is a multinational corporation headquartered in Taufkirchen, Germany, that specializes in the design, development, and manufacturing of sensor technologies for protection and surveillance missions across the defense, security, and aerospace sectors.[3] The company's origins are rooted in the defense electronics divisions of prominent European firms such as Airbus Defence & Space, Telefunken, and Zeiss, establishing a strong technological heritage.[15] Since its formation as an independent entity in 2017, Hensoldt has solidified its position as a critical technology provider.[10]

The company's business is structured into two primary segments: Sensors and Optronics.[10] The Sensors segment, which generates the majority of the company's revenue, encompasses divisions for Radar and Electromagnetic Warfare, Multi-Domain Solutions, and Services and Training.[10] Its product portfolio is extensive and includes advanced radar systems for air, land, and sea surveillance; identification friend or foe (IFF) systems; electronic warfare (EW) solutions like the 'Kalaetron' family for signal intelligence and jamming; and a wide array of optronic devices such as thermal imagers, laser rangefinders, and targeting sights.[3]

These products are not typically standalone weapon systems but are critical components and enabling technologies integrated into larger military platforms. Hensoldt's sensors and electronics are found in some of the most advanced Western weapons systems, including the Eurofighter Typhoon combat jet, the Leopard 2 main battle tank, the Puma infantry fighting vehicle, various classes of submarines (Type 212 and 209), and naval frigates.[2] This platform-agnostic approach makes Hensoldt a pivotal supplier to a wide range of original equipment manufacturers (OEMs) and national armed forces across Europe and beyond.[19]

Strategic Importance and "Zeitenwende"

Hensoldt is strategically positioned as a "German champion" and a leading entity within the European defense industrial base.[15] The company's trajectory and market valuation have been profoundly influenced by the geopolitical shift known in Germany as the "Zeitenwende" (turning point), which was triggered by Russia's full-scale invasion of Ukraine in 2022.[22] This event prompted a fundamental reassessment of German and European security policy, leading to unprecedented increases in defense spending.

As a result, Hensoldt has experienced a surge in demand for its products, leading to a record order backlog that reached nearly €7 billion in the first quarter of 2025 and robust financial performance.[25] The company is a key industrial partner in the modernization of the German Armed Forces (Bundeswehr) and a significant contributor to international military aid for Ukraine. Notably, Hensoldt is supplying its advanced TRML-4D air defense radars, which are critical for protecting Ukrainian airspace from missile and drone attacks.[20] This role in bolstering European and Ukrainian defense capabilities has enhanced the company's strategic importance and public profile.

Ownership and Governance Structure

A defining feature of Hensoldt's corporate structure is the significant ownership stake held by the German state. In 2021, the German Federal Government, acting through the state-owned KfW development bank, acquired a 25.1% stake in the company.[8] This constitutes a "blocking minority" under German law, granting the government significant influence over major corporate decisions. The acquisition was a strategic move explicitly designed to safeguard key national defense technologies and prevent foreign takeovers of a company deemed critical to Germany's security interests.[9]

This state ownership creates a complex governance dynamic. While it underscores the company's strategic importance, it also places the German government in a dual role as both regulator and major shareholder. This relationship is central to understanding the ethical risks associated with the company, particularly concerning its export practices and adherence to national and international norms. The other major shareholders include the Italian defense company Leonardo S.p.A. and a substantial free float on the Frankfurt Stock Exchange, where Hensoldt is a component of the MDAX index.[3]

Hensoldt AG Corporate Profile	
Headquarters	Taufkirchen, Germany [10]
Revenue (TTM)	~$2.54 billion [10]
Employees	Approximately 9,000 [10]
Key Segments	Sensors, Optronics [10]
Major Shareholders	German Government (25.1%), Leonardo S.p.A. (23%), Free Float (~42%) [19]
Stock Exchange	Frankfurt Stock Exchange (MDAX Component) [3]

The strategic stake held by the German government introduces a potential conflict between the state's role as a guardian of strict national export laws and its geopolitical and economic interests as a shareholder in a major defense exporter. The German government acquired its 25.1% stake to protect national security interests, effectively making Hensoldt a strategic state asset.[9] Germany maintains some of the world's most restrictive arms export control laws, which resulted in a formal embargo on sales to Saudi Arabia due to the kingdom's role in the Yemen conflict.[3] Despite this, Hensoldt is credibly accused of using its foreign subsidiaries in the UK and South Africa to continue supplying Saudi Arabia, thereby circumventing the German embargo.[3] This situation suggests a significant governance challenge. The desire to maintain strategic relationships with key partners like Saudi Arabia, or to fulfill commitments within joint European defense programs such as the Eurofighter, may create tacit pressure from the government shareholder to find alternative supply routes when direct German exports are legally blocked. Consequently, the state's ownership, rather than ensuring stricter ethical conduct, may inadvertently foster a corporate structure that enables "compliance arbitrage"—exploiting different legal jurisdictions to bypass the most stringent regulations. This dynamic elevates the governance risk associated with the company to a critical level.

Assessment Against Product-Based Exclusion Criteria (§3)

The GPFG's "Guidelines for Observation and Exclusion" establish clear, product-based criteria for exclusion under §3. This section prohibits investment in companies involved in the development or production of specific categories of weapons that, by their normal use, violate fundamental humanitarian principles. The analysis of Hensoldt AG's product portfolio against these criteria is a foundational step in this ethical risk assessment.

Analysis of §3a - Prohibited Weapons

Guideline §3a explicitly lists several types of prohibited weapons, including biological weapons, chemical weapons, nuclear weapons, weapons with non-detectable fragments, incendiary weapons, blinding laser weapons, anti-personnel mines, and cluster munitions.[1] The fund is mandated to divest from any company that develops or produces these weapons or central components for them.

Hensoldt AG's business is centered on high-technology sensor solutions. Its main product categories are Radar, IFF and Comms, Optronics, Spectrum Dominance, and Avionics.[10] These products are designed for surveillance, reconnaissance, target acquisition, self-protection, and situational awareness.[3] For example, the company produces the TRML-4D radar for air defense, the MUSS self-protection system for armored vehicles, and optronic mast systems for submarines.[3] These are sophisticated electronic and optical systems, not weapon systems in themselves.

A thorough review of Hensoldt's product catalog and corporate disclosures reveals no evidence that the company is involved in the design, development, or manufacturing of any of the weapon types explicitly banned under §3a. Its portfolio does not include nuclear warheads, chemical agents, cluster bomblets, or anti-personnel landmines. While the company produces laser rangefinders, these are used for targeting and measurement and are distinct from "blinding laser weapons," which are specifically designed to cause permanent blindness and are prohibited under international protocols.[18] Hensoldt's products are designed to be "eye-safe".[32]

Role as a Component Supplier

The critical question is whether Hensoldt produces "central components" for these prohibited weapons. Hensoldt's business model is to supply components and subsystems that are integrated into larger platforms manufactured by other companies.[19] For instance, its optronic systems are used in the Leopard 2 main battle tank and the Puma infantry fighting vehicle, and its radars are part of the Eurofighter Typhoon's combat system.[2]

While these platforms deliver lethal force, they are conventional weapon systems and are not themselves on the prohibited list in §3a. Hensoldt manufactures the "eyes and ears" of these systems—the sensors that allow them to detect, track, and engage targets—but it does not manufacture the munitions they fire or the platforms themselves. For example, the company produces high-end targeting optics for sniper rifles, which are sold under the Hensoldt brand (a military offshoot of Zeiss).[33] However, it does not manufacture the rifles or their ammunition. The components supplied by Hensoldt enhance the precision, effectiveness, and survivability of conventional military platforms. There is no indication from the available information that these components are specifically designed for or integral to the functioning of prohibited weapons like cluster munitions or nuclear missiles.

Conclusion on Product-Based Risk

Based on a comprehensive review of Hensoldt AG's publicly available product information and business descriptions, there is no evidence to suggest that the company produces any of the specific weapon types or "central components" for such weapons as enumerated in §3a of the GPFG guidelines. The company's focus is on sensors, electronics, and optronics for conventional defense and security applications. Therefore, the risk of exclusion on product-based grounds is assessed as negligible. The primary ethical risks associated with

Hensoldt AG do not stem from the intrinsic nature of its products but rather from the manner in which the company conducts its business and the end-users to whom its products are sold.

Assessment Against Conduct-Based Exclusion Criteria (§4)

The GPFG's Guidelines provide for the observation or exclusion of companies where there is an unacceptable risk of contribution to, or responsibility for, serious violations of fundamental ethical norms, as detailed in §4.[1] This section of the assessment evaluates Hensoldt AG's corporate conduct against these criteria, focusing on credible allegations of gross corruption and the sale of military equipment to states involved in armed conflicts characterized by severe violations of international law.

Gross Corruption or Other Gross Economic Crime (§4g)

Guideline §4g allows for exclusion where there is an unacceptable risk that a company is involved in "gross corruption or other gross economic crime".[1] An extensive investigation by the German news magazine

Der Spiegel, based on leaked internal company documents, has brought to light serious allegations of this nature concerning Hensoldt's business activities in Uganda.[2]

The Uganda Case Study

The core of the allegation centers on a 2020-2021 deal to supply 11 MILDS Block 2 missile warning sensors, valued at €1.19 million with the prospect of future sales, to the Ugandan air force.[2] The context and execution of this transaction raise multiple red flags indicative of a high risk of corruption.

First, Hensoldt's own internal due diligence identified Uganda as a high-risk jurisdiction. A 2020 internal assessment concluded there was a "very high and critical jurisdictional corruption risk related to Uganda, in particular with respect to the military sector".[2] Uganda consistently ranks poorly on international corruption indices, and its defense sector is known to be opaque and susceptible to graft.[34] This initial assessment should have triggered the highest level of scrutiny.

Second, the structure of the deal was extraordinarily complex and involved a web of intermediaries, a classic indicator of potential corruption. The transaction involved companies from five different countries, with an Israeli firm, BIRD Aerosystems, acting as the primary contractor to Uganda.[2] Local support in Uganda was to be provided by a subsidiary of a group of companies controlled by an Israeli arms dealer with a controversial history in Africa.[14] Internal Hensoldt documents noted that local consultants had access to the highest levels of the Ugandan military, including the president's son, who was described as "an acquaintance of ours" by a Hensoldt business development director.[2]

Third, and most critically, Hensoldt's own compliance department sounded a clear and unambiguous alarm. The company's General Counsel, Solms Wittig, described the case as a "headache" in an email to an executive committee member.[2] A five-page internal presentation marked with a "red flag" warned that the "very complex" deal structure created a risk that Hensoldt could be exposed to criminal charges.[2] The compliance lawyers explicitly stated that the structure could be used to create "buffer funds" for illicit payments to influence decision-makers and that "there is an increased risk that the local partner may have used undue or even illegal / corrupt means" to secure the deal.[2]

Despite these grave warnings from its own legal and compliance experts, Hensoldt's management proceeded with the transaction. Reports indicate that the company supplied the sensor components to BIRD Aerosystems before the compliance department's investigation could be fully completed.[14] This sequence of events demonstrates a critical failure of corporate governance. The compliance function appears to have worked as intended by identifying and flagging an unacceptable risk. However, this warning was seemingly overridden at a higher level in pursuit of the business opportunity.

Hensoldt's official response to these allegations has been to state that it has a "zero-tolerance policy towards corruption" and that all transactions were conducted in accordance with "applicable laws and compliance regulations".[2] This public stance is directly contradicted by the detailed evidence from its own internal documents, which show that its legal experts identified a severe risk of non-compliance and potential criminality. The decision to proceed in the face of such warnings suggests that the company's formal policies can be disregarded. This is not merely a procedural lapse but evidence of a corporate culture where compliance mechanisms can be circumvented, indicating a high probability of future norm breaches and establishing an unacceptable risk under §4g.

Sale of Weapons to States in Armed Conflicts (§4c) & Violations of

Rights in War (§4b)

Guideline §4c provides for exclusion for the "sale of weapons to states in armed conflicts that use the weapons in ways that constitute serious and systematic breaches of the international law rules for hostilities".[1] This is directly linked to §4b, which addresses "serious violations of individuals' rights in war or conflict situations." Hensoldt's alleged activities related to Saudi Arabia and the war in Yemen place the company at high risk under these criteria.

Circumvention of the German Arms Embargo on Saudi Arabia

In October 2018, the German government imposed a ban on arms exports to Saudi Arabia, citing the assassination of journalist Jamal Khashoggi and the kingdom's role in the devastating war in Yemen.[3] Despite this clear legal and political prohibition, multiple reports based on internal documents allege that Hensoldt continued to supply the Saudi regime with military-enabling technology.[2]

The primary mechanism for these sales was the use of Hensoldt's foreign subsidiaries, particularly Hensoldt UK (formerly Kelvin Hughes) and Hensoldt South Africa, which were not legally bound by the German embargo.[2] This strategy allowed the German parent company to continue profiting from sales to a prohibited end-user by routing the business through its international corporate structure. The products supplied were directly relevant to the conflict, including radar systems for the Saudi-Yemen border and electro-optical systems for surveillance drones.[4] In a notable case from January 2021, a Hensoldt Argos II optical system, manufactured in South Africa, was identified on a Saudi surveillance drone that was shot down over Yemen by Houthi forces.[4]

Context of the Yemen Conflict

The conflict in Yemen, in which the Saudi- and UAE-led coalition has been a primary belligerent since 2015, has been widely documented as one of the world's worst humanitarian crises.[7] Reports from the United Nations, Human Rights Watch, and Amnesty International have consistently documented serious and systematic violations of international humanitarian law by all parties, including the Saudi-led coalition.[5] These violations include indiscriminate airstrikes that have killed thousands of civilians, attacks on schools, hospitals, and markets, and a blockade that has severely restricted access to food, water, and medicine, contributing to widespread starvation and disease.[5] These actions clearly fall within the scope of "serious violations of individuals' rights in war or conflict situations" (§4b) and the use of weapons in ways that constitute "serious and systematic breaches" of the laws of war (§4c).

By deliberately structuring its operations to bypass a national embargo and continue supplying a key party to this conflict, Hensoldt established a direct link between its commercial activities and the risk of contributing to these violations. The company was not merely a passive supplier of generic components; it allegedly engaged in a conscious strategy to continue its business with a high-risk client engaged in a conflict marked by severe atrocities. This active circumvention of export controls demonstrates a high "unacceptable risk" that the company is contributing to serious violations of international law, directly engaging the criteria for exclusion under §4c.

Gross or Systematic Human Rights Violations (§4a)

Guideline §4a addresses the risk of contributing to "gross or systematic krenkelser av menneskerettighetene" (violations of human rights).[1] Hensoldt's business relationships with certain states extend beyond the immediate context of armed conflict and into the realm of supporting state security apparatuses with documented records of abuse.

The aforementioned dealings in Uganda are a case in point. The Ugandan government and its security forces, including the military and police, have a long and well-documented history of serious human rights violations. These include extrajudicial killings, torture of political opponents and critics, arbitrary detentions, and the violent suppression of freedom of expression and assembly.[12] Providing military equipment, such as missile warning systems for air force helicopters, to such a regime carries a significant risk of contributing to or being complicit in these abuses.

Hensoldt maintains a formal Human Rights Policy and is a signatory to the UN Global Compact, publicly committing to uphold human rights and to ensure it is not complicit in abuses.[4] However, its alleged practices in countries like Saudi Arabia and Uganda have led civil society organizations to accuse the company of acting in "blatant contradiction to the company's commitment".[4]

Furthermore, in response to a call from UN Experts to cease arms transfers to Israel, Hensoldt's official statement emphasized its compliance with all national export regulations and noted that the human rights situation in a recipient country is a key factor in the German government's licensing decisions.[47] While factually correct, this response tends to deflect responsibility onto state authorities. It overlooks the company's own due diligence responsibilities under international standards like the UN Guiding Principles on Business and

Human Rights, which call for companies to actively assess and mitigate human rights risks associated with their operations and products, independent of state licensing. This reactive and legalistic approach, combined with the evidence of its conduct in high-risk markets, suggests that its formal human rights commitments are not effectively integrated into its core business strategy.

Geopolitical Risk Exposure and Forward-Looking Assessment

A forward-looking assessment, as stipulated in §6(4) of the GPFG Guidelines, requires an evaluation of the probability of future norm breaches, the severity of such breaches, and the company's efforts to mitigate these risks.[1] For Hensoldt AG, this assessment reveals a company operating within a deep strategic dichotomy, with a governance and compliance framework that has demonstrated significant vulnerabilities.

The Strategic Dichotomy

Hensoldt's current market position is characterized by a fundamental contradiction. On one hand, the company is a vital industrial partner in the collective defense of Europe and the provision of critical military aid to Ukraine.[19] This role, which aligns with the strategic interests of NATO and the European Union, enjoys strong political and public support and positions Hensoldt as a key contributor to regional security and the defense of democratic values.

On the other hand, the company's business practices in other regions, particularly the Middle East and Africa, align it with autocratic regimes and parties to conflicts marked by severe humanitarian consequences.[2] The alleged dealings with Saudi Arabia during the Yemen war and the high-risk transaction in Uganda place the company in direct opposition to the ethical principles it espouses and the norms upheld by the GPFG. This dual identity creates a volatile and high-risk ethical and reputational profile. The company simultaneously profits from defending one rules-based order while allegedly undermining it elsewhere through its business conduct.

Effectiveness of Compliance and Controls

The evidence strongly suggests that Hensoldt's internal compliance mechanisms and the external German export control regime are not consistently effective across the company's global operations. A key vector for this risk is Hensoldt's multinational corporate structure. With major production hubs and sales offices in Germany, France, the United Kingdom, and South Africa, the company has the operational capacity to navigate and exploit differences in national legal and regulatory environments.[11]

The allegations concerning Saudi Arabia are a prime example of this risk in practice. They indicate that the company's subsidiaries can be utilized to engage in activities that would be illegal or politically untenable if conducted directly from its German headquarters. This raises serious questions about the cohesiveness and authority of the parent company's compliance oversight across its international entities. The tension between the central compliance department and a UK subsidiary, where the subsidiary head reportedly complained that "Compliance is killing Kelvin Hughes," highlights the internal friction between ethical risk management and commercial pressures.[2]

Forward-Looking Risk Assessment

In evaluating the forward-looking risk as per §6(4), several factors are critical:

- **Probability of Future Norm Breaches:** The probability of future breaches is assessed as high. The two primary cases examined—the overriding of explicit compliance warnings in the Uganda deal and the alleged systematic use of subsidiaries to circumvent the Saudi embargo—are not indicative of isolated errors. Instead, they suggest a potential pattern of behavior and a business strategy that accepts a high level of ethical risk to secure contracts in lucrative but problematic markets. There is no public evidence of significant remedial actions, changes in executive leadership responsible for these decisions, or a fundamental restructuring of its global compliance framework that would provide confidence in preventing a recurrence.
- **Severity and Scope of Breaches:** The alleged breaches are of a high severity. They connect the company's conduct to gross corruption in a fragile state and to a brutal conflict (Yemen) that has resulted in massive civilian casualties and a humanitarian catastrophe. The scope is significant, involving major international transactions and a deliberate corporate strategy to navigate export controls.
- **Company's Efforts to Reduce Risk:** Hensoldt maintains a formal ESG and compliance framework, publishes sustainability reports, and has a public code of conduct.[29] However, the company's demonstrated failure to act on its own internal red flags and its alleged use of its corporate structure for embargo circumvention cast serious doubt on the

practical efficacy of these formal structures. The company's public responses tend to be legalistic, emphasizing compliance with local laws and deflecting ultimate responsibility for export decisions to government authorities.[47] This approach falls short of the proactive, independent due diligence expected under international business and human rights standards, and it does little to assure observers that the company is genuinely committed to reducing its risk of contributing to future norm breaches.

The combination of a high probability of recurrence and the high severity of the potential breaches leads to the conclusion that there remains an unacceptable forward-looking risk associated with an investment in Hensoldt AG.

Conclusion and Final Risk Categorization

This comprehensive ethical risk assessment of Hensoldt AG has been conducted in strict accordance with the Guidelines for the Government Pension Fund Global. The analysis has weighed the company's product portfolio, corporate conduct, and geopolitical exposure against the specific criteria for observation and exclusion.

Synthesis of Findings

The assessment yields a starkly divided conclusion. On the matter of **product-based risk (§3)**, Hensoldt's activities are found to be compliant with the GPFG's guidelines. The company is a manufacturer of advanced sensor and electronic systems, not the types of prohibited weapons, such as cluster munitions or nuclear arms, that trigger automatic exclusion. The risk on these grounds is therefore **low**.

However, the assessment of **conduct-based risk (§4)** reveals a pattern of behavior that presents a very high and unacceptable level of ethical risk. There is a substantial body of credible, detailed, and corroborated evidence from leaked internal documents and investigative journalism that points to an unacceptable risk of the company contributing to or being directly responsible for:

- **Gross Corruption (§4g):** The evidence surrounding the transaction in Uganda indicates that the company proceeded with a deal despite its own compliance experts identifying a "very high" corruption risk and a deal structure that raised alarms about potential illicit payments. The apparent decision to override these internal warnings constitutes a severe governance failure.

- **Serious Violations of Individuals' Rights in War or Conflict Situations (§4b and §4c):** The alleged systematic use of foreign subsidiaries to circumvent a German government arms embargo and supply military-enabling technology to Saudi Arabia during the Yemen conflict directly links the company's actions to one of the world's most severe humanitarian crises, a conflict characterized by systematic violations of international humanitarian law.

Assessment of "Unacceptable Risk"

The GPFG guidelines are predicated on the concept of "unacceptable risk." The pattern of behavior identified in this report meets this threshold. The alleged actions are not accidental or isolated incidents but appear to be the result of deliberate strategic decisions. The willingness to override internal compliance controls in one instance (Uganda) and to leverage a multinational corporate structure to bypass national export controls in another (Saudi Arabia) establishes a clear and present risk. The connection between the company's actions—supplying sophisticated sensor technology—and the subsequent norm breaches—facilitating potential corruption and contributing to the military capabilities of a party to a brutal conflict—is direct, foreseeable, and substantial.

Final Risk Category Justification

The severity and systematic nature of the alleged breaches mean that Hensoldt AG cannot be classified under **Category 4 - Acceptable Risk** or **Category 3 - Moderate Risk**. The conduct-based issues are too grave and too well-documented to be considered moderate or acceptable.

The decision therefore lies between **Category 2 - High Risk** and **Category 1 - Exclusion Candidate**. The allegations, particularly regarding the sales to Saudi Arabia during the Yemen conflict and the apparent disregard for internal corruption warnings, are severe enough to warrant serious consideration for full exclusion from the fund's investment universe. Such conduct aligns directly with the spirit and letter of the exclusion criteria in §4 of the Guidelines.

However, a classification of **High Risk** is ultimately recommended as the most appropriate initial step. This categorization serves as a powerful signal that the company's conduct is unacceptable and places it under intense scrutiny. It allows Norges Bank the latitude to place the company under observation, engage directly with its management and its significant state shareholder (the German government), and demand verifiable and robust changes to its global compliance, governance, and export control frameworks. Should such engagement fail to produce tangible and lasting improvements, or if further evidence of misconduct emerges, a subsequent recommendation for exclusion would be warranted. The "High Risk" classification acknowledges the gravity of the situation while preserving the option for engagement before proceeding to the final step of exclusion.

Final Risk Category: 2 - High Risk

Works cited

1. etchical_guidelines.pdf
2. Hensoldt's Headache: Documents Hint at Shady Dealings By Prominent German Defense Company - DER SPIEGEL, accessed on August 18, 2025, https://www.spiegel.de/international/business/hensoldt-s-headache-documents-hint-at-shady-dealings-by-prominent-german-defense-company-a-0ab0fef2-daad-4dbc-baa0-568c128e8f67
3. Hensoldt - Wikipedia, accessed on August 18, 2025, https://en.wikipedia.org/wiki/Hensoldt
4. | On the Wrong Track: Hensoldt AG Works with Questionable Customers - Open Secrets, accessed on August 18, 2025, https://www.opensecrets.org.za/on-the-wrong-track-hensoldt-ag-works-with-questionable-customers/
5. World Report 2024: Yemen | Human Rights Watch, accessed on August 18, 2025, https://www.hrw.org/world-report/2024/country-chapters/yemen
6. Yemen - Global Centre for the Responsibility to Protect, accessed on August 18, 2025, https://www.globalr2p.org/countries/yemen/
7. Yemen: Widespread Violations; No Access to Justice | Human Rights Watch, accessed on August 18, 2025, https://www.hrw.org/news/2024/01/11/yemen-widespread-violations-no-access-justice
8. KfW acquires minority stake in Hensoldt AG on behalf of the German Federal Government, accessed on August 18, 2025, https://www.kfw.de/About-KfW/Newsroom/Latest-News/News-Details_644032.html
9. German government buys stake in defense supplier Hensoldt, accessed on August 18, 2025, https://www.defensenews.com/industry/2021/03/29/german-government-buys-stake-in-defense-supplier-hensoldt/
10. HENSOLDT 2025 Company Profile: Stock Performance & Earnings - PitchBook, accessed on August 18, 2025, https://pitchbook.com/profiles/company/112118-95

11. About us | HENSOLDT, accessed on August 18, 2025, https://www.hensoldt.net/company/about-us
12. 2023 Country Reports on Human Rights Practices: Uganda - State Department, accessed on August 18, 2025, https://www.state.gov/reports/2023-country-reports-on-human-rights-practices/uganda
13. World Report 2023: Uganda | Human Rights Watch, accessed on August 18, 2025, https://www.hrw.org/world-report/2023/country-chapters/uganda
14. Leak hints at corruption in arms deal between Israeli company and Ugandan Air Force, accessed on August 18, 2025, https://www.timesofisrael.com/leak-hints-at-corruption-in-arms-deal-between-israeli-company-and-ugandan-air-force/
15. Germany: HENSOLDT AG, accessed on August 18, 2025, https://www.hensoldt.net/company/country-hubs/germany
16. Zeiss (company) - Wikipedia, accessed on August 18, 2025, https://en.wikipedia.org/wiki/Zeiss_(company)
17. Governance | HENSOLDT, accessed on August 18, 2025, https://www.hensoldt.net/company/about-us/governance
18. HENSOLDT North America, accessed on August 18, 2025, https://www.hensoldt.net/company/country-hubs/north-america
19. HENSOLDT AG The brain of the battlefield – Initiated with BUY - mwb research hub, accessed on August 18, 2025, https://downloads.research-hub.de/2024%2007%2017%20Hensoldt%20Initiation___5ee8o7g7.pdf
20. Home | HENSOLDT, accessed on August 18, 2025, https://www.hensoldt.net/
21. At a glance - Investor Relations | HENSOLDT AG, accessed on August 18, 2025, https://investors.hensoldt.net/at-a-glance
22. Top Defense Firm Behind Eurofighter Typhoon, IRIS-T, Leopard Tank Accused Of Kickbacks & Dubious Dealings - EurAsian Times, accessed on August 18, 2025, https://www.eurasiantimes.com/top-defense-firm-behind-eurofighter-typhoon-iris-t-leopard/
23. HENSOLDT continues growth path in 2024, accessed on August 18, 2025, https://www.hensoldt.net/news/hensoldt-continues-growth-path-in-2024
24. Annual Report 2021 - Hensoldt, accessed on August 18, 2025, https://annualreport2021.hensoldt.net/resource/en/downloads/HENSOLDT_GB_E_2021.pdf
25. HENSOLDT reports strong first quarter 2025 with growth in order intake and revenue, accessed on August 18, 2025, https://www.hensoldt.net/news/hensoldt-reports-strong-first-quarter-2025-with-growth-in-order-intake-and-revenue
26. Financial year 2024 - Hensoldt, accessed on August 18, 2025, https://www.hensoldt.net/news/financial-year-2024
27. Hensoldt to Deliver Additional Air Defense Radars to Ukraine for $400M, accessed on August 18, 2025, https://thedefensepost.com/2025/07/28/hensoldt-air-defense-radars/

28. Hensoldt to Supply Radars to Ukraine Under New Military Package, accessed on August 18, 2025, https://govconexec.com/2025/07/hensoldt-to-supply-radars-to-ukraine-under-new-military-package/
29. Sustainability Report 2024: HENSOLDT focuses on responsible growth, accessed on August 18, 2025, https://www.hensoldt.net/news/sustainability-report-2024-hensoldt-focuses-on-responsible-growth
30. With Germany's Renewed Arms Exports to Saudi Arabia, Interests Trumped Values - DAWN, accessed on August 18, 2025, https://dawnmena.org/with-germanys-renewed-arms-exports-to-saudi-arabia-interests-trumped-values/
31. Hensoldt AG - mwb research hub, accessed on August 18, 2025, https://research-hub.de/companies/hensoldt-ag
32. EOTS - Hensoldt, accessed on August 18, 2025, https://www.hensoldt.net/products/eots-electro-optical-targeting-system
33. Hensoldt Rifle Scopes - Optics Trade, accessed on August 18, 2025, https://www.optics-trade.eu/int/riflescopes/shopby/manufacturer-hensoldt.html
34. "Letting the Big Fish Swim": Failures to Prosecute High-Level Corruption in Uganda | HRW, accessed on August 18, 2025, https://www.hrw.org/report/2013/10/21/letting-big-fish-swim/failures-prosecute-high-level-corruption-uganda
35. Corruption in Uganda - Ballard Brief - BYU, accessed on August 18, 2025, https://ballardbrief.byu.edu/issue-briefs/corruption-in-uganda
36. Ethical standards and compliance regulations for HENSOLDT stakeholders, accessed on August 18, 2025, https://www.hensoldt.net/company/compliance/international-business
37. Despite the ban on arms exports, a German company supplies Saudi Arabia with advanced weapons - أنصار الله, accessed on August 18, 2025, https://www.ansarollah.com.ye/archives/546756
38. German company supplies Saudi Arabia with advanced weapons despite arms embargo, accessed on August 18, 2025, https://en.ypagency.net/272107
39. Violations and Abuses against Civilians during Yemen's Truce - ReliefWeb, accessed on August 18, 2025, https://reliefweb.int/report/yemen/violations-and-abuses-against-civilians-during-yemens-truce
40. Human rights in Yemen - Amnesty International, accessed on August 18, 2025, https://www.amnesty.org/en/location/middle-east-and-north-africa/middle-east/yemen/report-yemen/
41. “Get the Gun!”: Human Rights Violations by Uganda's National Army in Law Enforcement Operations in Karamoja Region | HRW, accessed on August 18, 2025, https://www.hrw.org/report/2007/09/11/get-gun/human-rights-violations-ugandas-national-army-law-enforcement-operations
42. Uganda: The full picture -- uncovering human rights violations by government forces in the northern war - Amnesty International, accessed on August 18, 2025,

https://www.amnesty.org/fr/wp-content/uploads/2021/06/afr590051999en.pdf
43. Human Rights in Uganda, accessed on August 18, 2025, https://crd.org/wp-content/uploads/2018/03/Human-Rights-in-Uganda-1.pdf
44. Human Rights policy | HENSOLDT, accessed on August 18, 2025, https://www.hensoldt.net/company/sustainability/human-rights-policy
45. ESG Topic of the Month: Human Rights & Anti-Discrimination | HENSOLDT, accessed on August 18, 2025, https://www.hensoldt.net/news/esg-topic-of-the-month-human-rights-anti-discrimination
46. ESG-Report - Annual Report - Hensoldt, accessed on August 18, 2025, https://annualreport2021.hensoldt.net/en/sustainability/
47. Hensoldt's response to the UN Experts' call to cease arms transfers to Israel, accessed on August 18, 2025, https://www.business-humanrights.org/en/latest-news/hensoldts-response-to-the-un-experts-call-to-cease-arms-transfers-to-israel/
48. Sites - Hensoldt, accessed on August 18, 2025, https://www.hensoldt.net/company/country-hubs
49. Sustainability | HENSOLDT, accessed on August 18, 2025, https://www.hensoldt.net/company/sustainability
50. Corporate Governance - Investor Relations | HENSOLDT AG, accessed on August 18, 2025, https://investors.hensoldt.net/corporate-governance
51. Demonstrating integrity | HENSOLDT, accessed on August 18, 2025, https://www.hensoldt.net/company/compliance/demonstrating-integrity