The heart of things

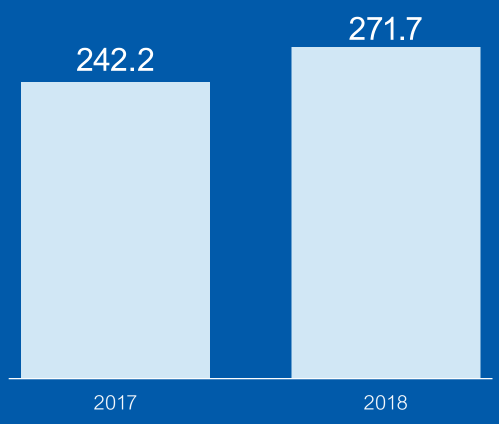
VARTA

Annual Report 2018
VARTA AG

We are growing profitably

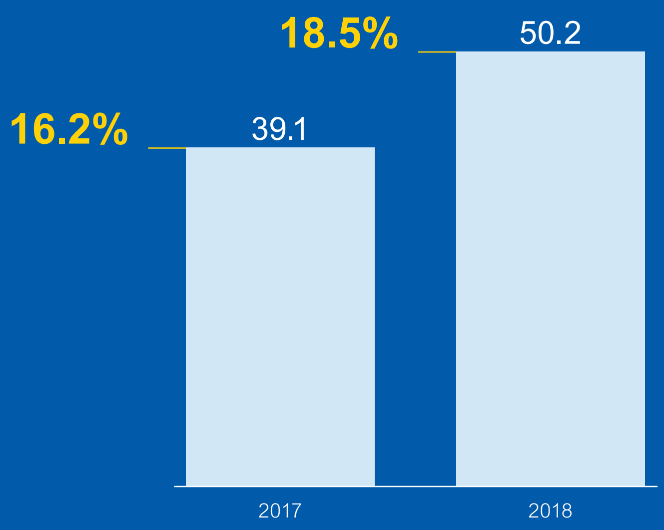
+ 12.2%

Net revenue
million €



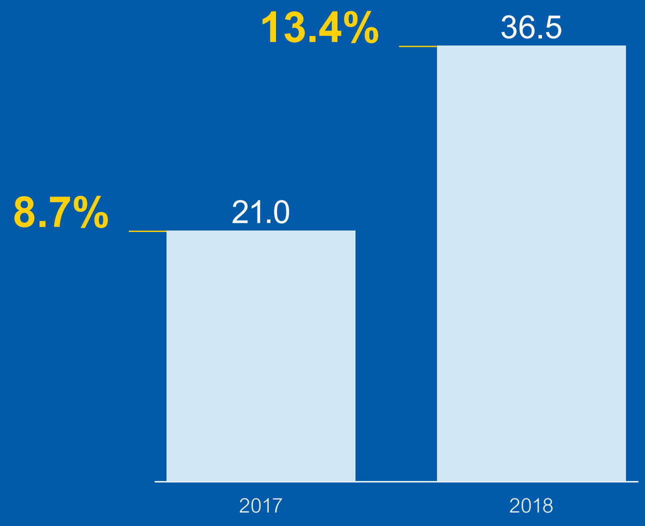
+ 28.3%

Adjusted EBITDA
million €



+ 73.5%

Result before taxes (EBT)
million €



Earnings numbers

5-YEAR OUTLOOK

(IN KEUR) SINCE 2016 AUDITED ACCORDING TO IFRS	2014	2015	2016	2017	2018
Net revenue	169,038	195,093	213,815	242,157	271,650
EBIT	13,440	22,480	14,845	23,643	36,871
Depreciation	-7,428	-8,511	-8,922	-9,446	-10,518
EBITDA	20,868	30,991	23,767	33,089	47,389
Adjusted EBITDA	19,368	22,857	26,099	39,132	50,219
EBT	12,083	19,371	12,073	21,025	36,482
Group result	7,886	11,596	9,410	13,544	25,703
Cash flow from operating activities	22,000	19,288	24,153	18,503	69,846
Cash flow from investment activities	7,119	-1,099	-21,613	-13,426	-58,982
Cash flow from financing activities	-13,729	-28,531	-1,210	121,577	-114
FTE employees as reference date December 31	1,792	1,879	2,012	2,112	2,256
Earnings per share (EPS) in EUR	1.3	16.5	0.59	0.36	0.66

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“We are shaping the future of battery technology.”

Herbert Schein, CEO **VARTA AG**

"Through robust investments in research and development, we want to be a market and innovation leader in our quality sensitive segments."

VARTA success factors

External factors

DEMOGRAPHIC CHANGE

DIGITAL NETWORKING

TECHNOLOGICAL PROGRESS

RENEWABLE ENERGY

We are in excellently placed to exploit long-term growth trends.

Internal factors

MADE IN GERMANY

130 YEARS OF EXPERIENCE

THE TECHNOLOGY ECONOMY

STRONG FINANCIAL PROFILE

VARTA AG combines years of experience with pioneering technologies in a unique way and sets new standards in mass production.

Application overview

WEARABLES

IT / COMMUNICATIONS

HEARING AIDS

INDUSTRIAL / ROBOTICS

CONSUMER

MEDICAL

RESIDENTIAL STORAGE SYSTEMS

COMMERCIAL STORAGE SYSTEMS

AUTOMOTIVE

HOME & GARDEN

POWER TOOLS

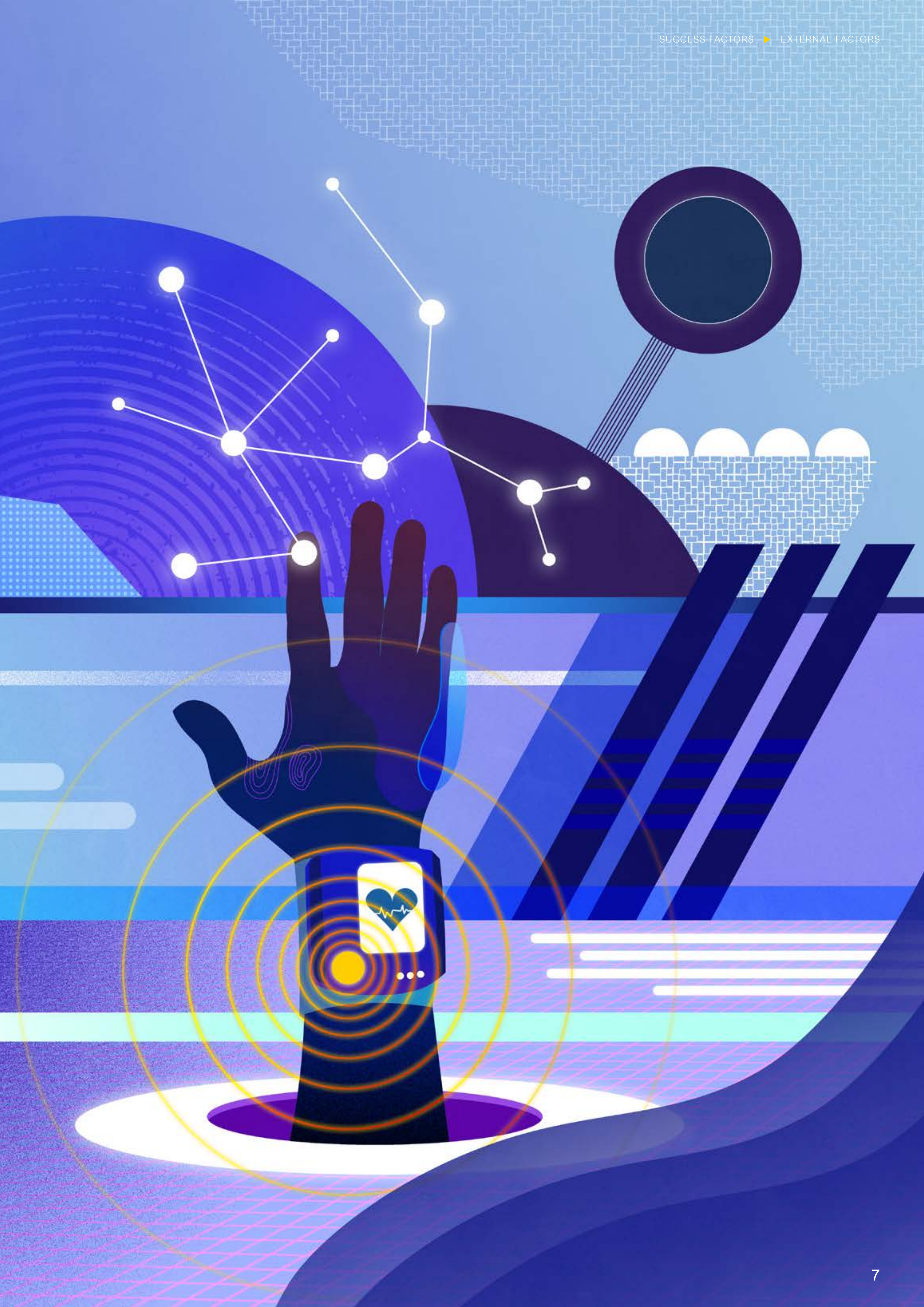
Batteries are the crucial components for twenty-first century applications.

Our heart beats for freedom

Previously people were trapped in a tangled mess of cables. With hearables freedom of movement now knows no bounds. Fitness trackers increase efficiency when engaging in sport. The development of ever smaller batteries is akin to a freedom movement – particularly for recreational purposes and on holiday this team of little companions have long since captured our hearts.

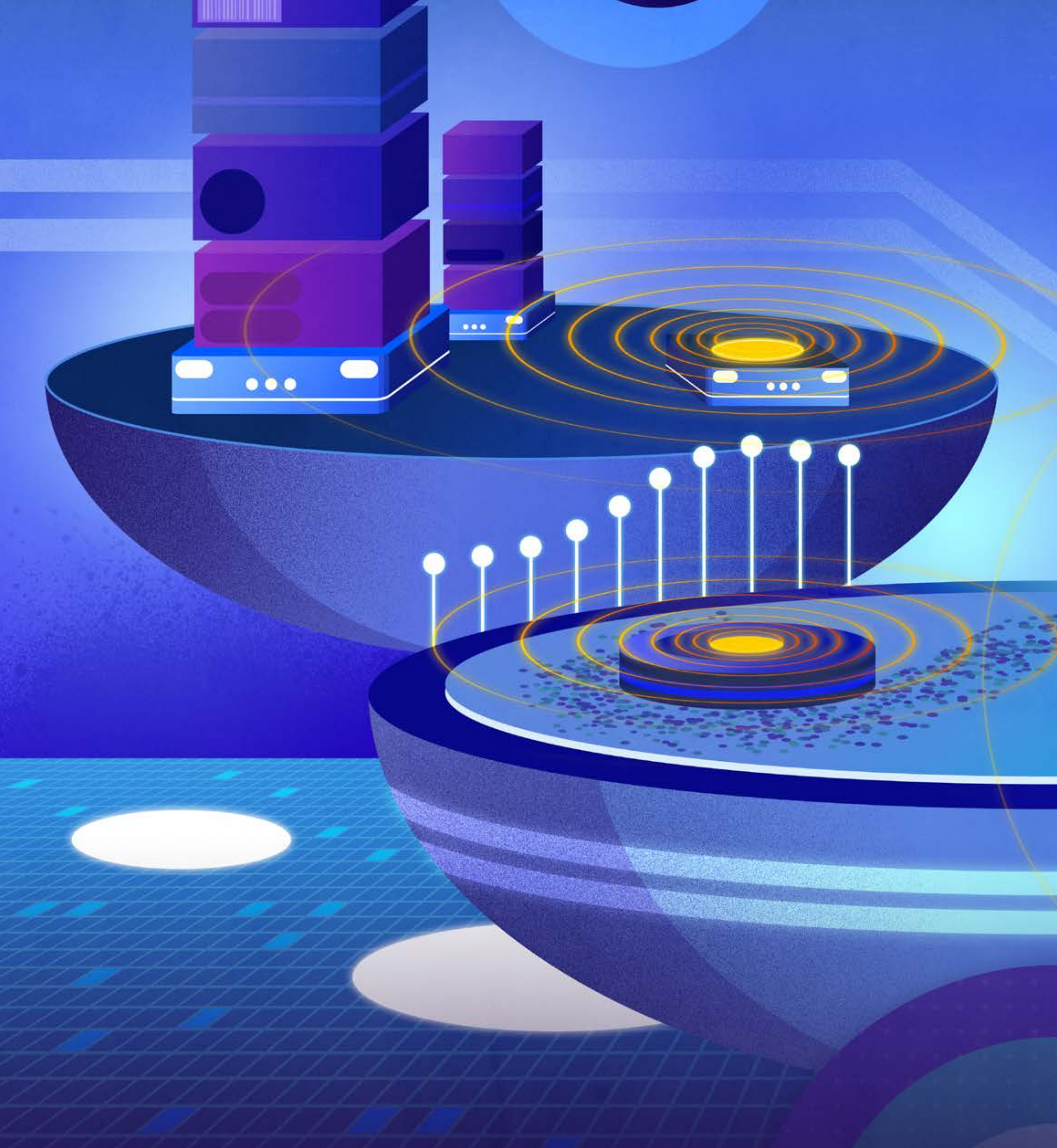
Because our hearts are beating for longer

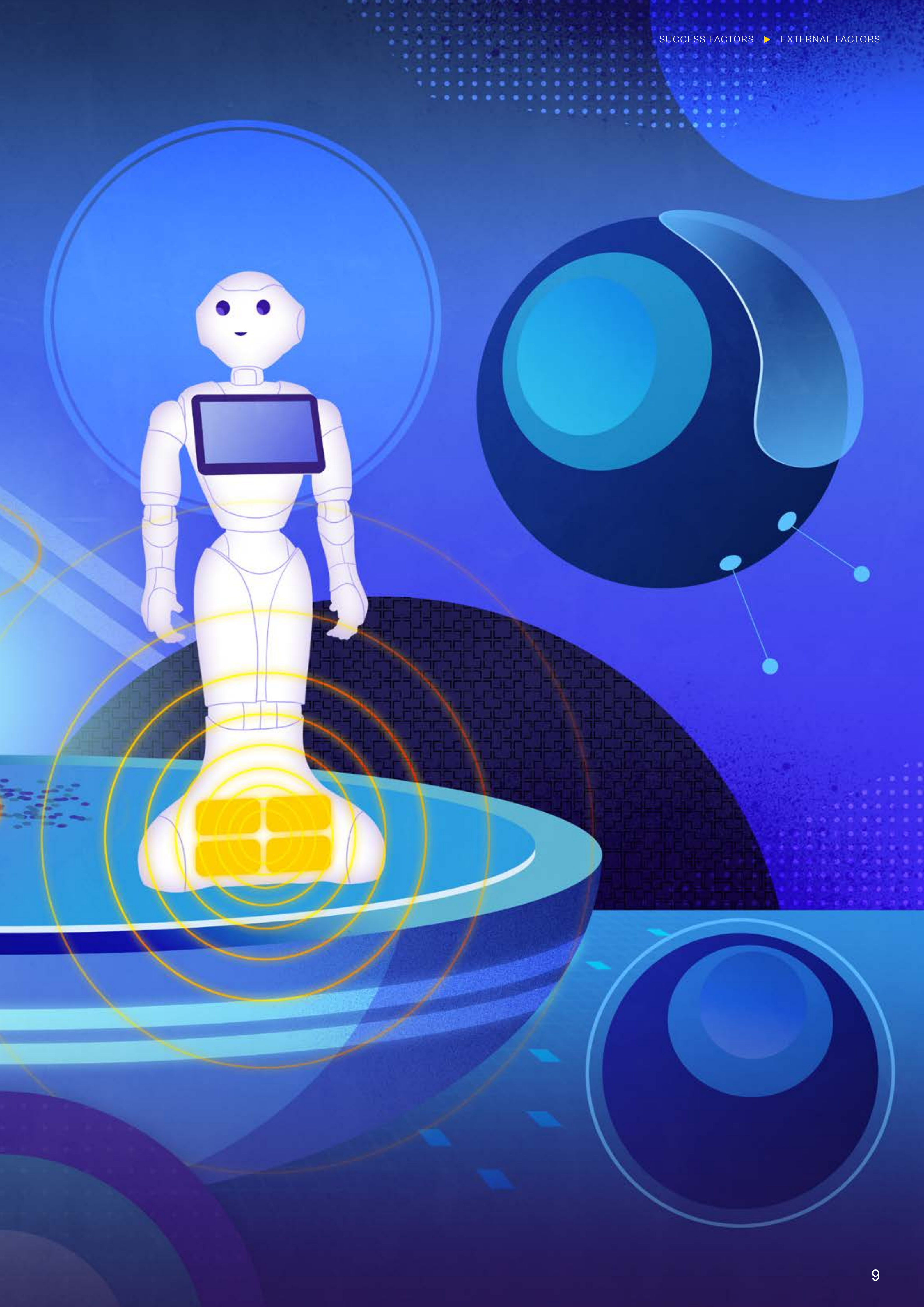
Modern medicine is prolonging lives. As a market leader in hearing aid batteries, we benefit from demographic change. Medical products such as insulin pumps, blood pressure gauges, thermometers and dosage systems need specific energy solutions. Health is also a growing topic for the younger generation. Ever more physical values can be measured by wearables.



We have a heart for robots

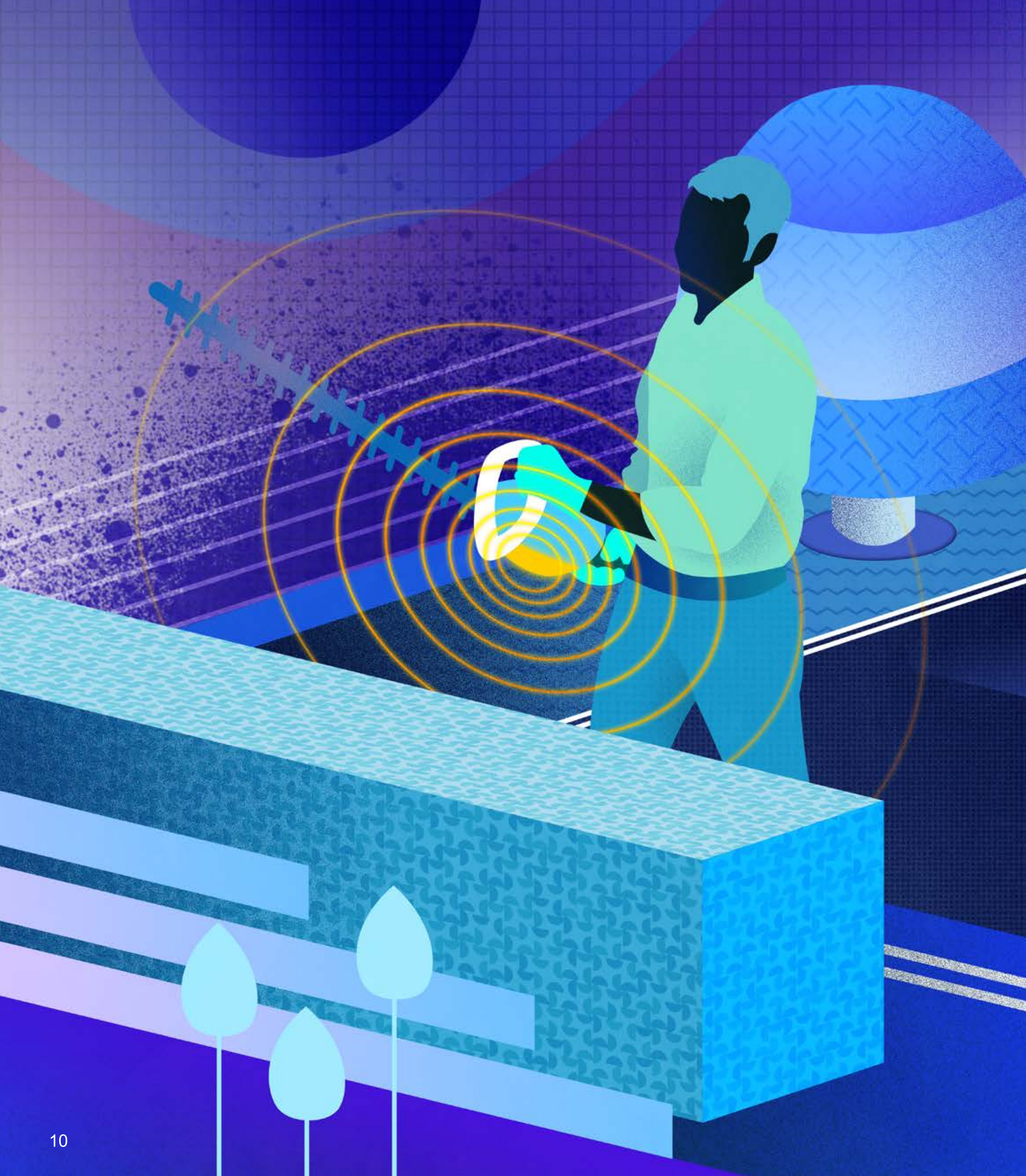
Do robots have a heart? Yes, and no matter whether they look humanoid or not, we are the ones who provide the “juice” that pulses through their wiry veins. They need plenty of energy, but do not want any cables. They want to be free, like a bird or a drone that will soon be delivering pizza straight to our front door.





The heart of the home

Domestic energy storage systems will soon be the energetic heart of every home. Their size and efficiency will grow because more and more devices will become wireless, providing convenient mobile access independent of the mains. When mowing the lawn or vacuuming you no longer have to keep an eye on the leads.



Power sources for industry

Industrial digitization will bring a whole host of new energy storage applications in electronic appliances that need off-grid electricity. Microbatteries constantly and reliably supply energy to sensors, data acquisition modules, alarm and camera systems, automatic lubrication and timer systems, measuring and counting devices. interimediate energy storage systems safeguard the power supply to commercial enterprises and industry 4.0.

The heartbeat of the future

New applications need innovative energy solutions. The connectivity of the world generates new areas that require high research and development. Wearables and hearables require energy solutions with highest energy density at small volume.

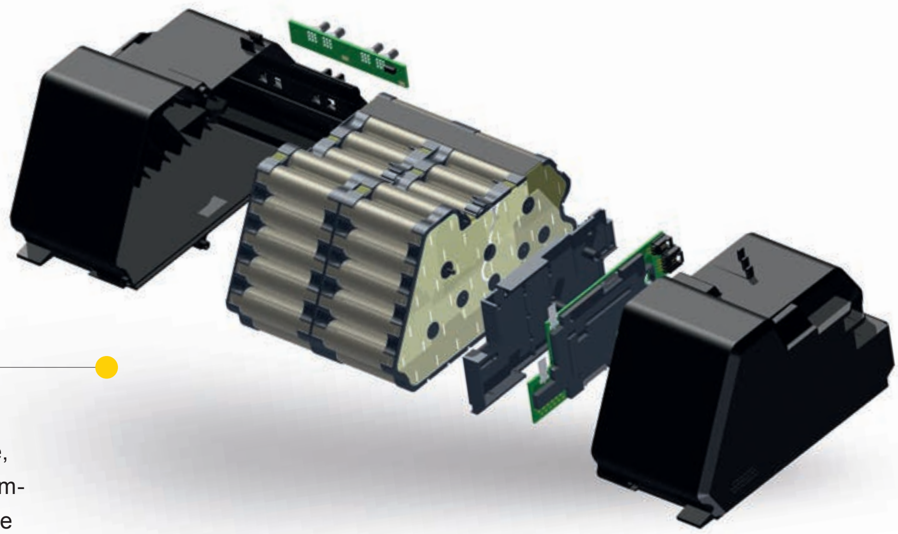
Product overview

HEARING AID BATTERIES

With our „power one“ brand, we are an international leader in manufacturing microbatteries for hearing aids. In 2018 we extended our product range. The new „EVOLUTION“ will increase capacity by up to 15 %.

LITHIUM-ION BUTTON CELL BATTERIES

Rechargeable batteries are the future of mobile power supply. CoinPower microbatteries with lithium-ion technology combine maximum energy density with high cycle stability and durability. The new types of **VARTA** enable even smaller devices with a longer running time.



LITHIUM-ION BATTERY PACKS

VARTA is developing rechargeable, standardized and customized lithium-ion battery packs. Regardless of the respective technology or complexity of the tasks, our team offers a complete service from design through to production for OEM clients.

ENERGY STORAGE SYSTEMS

Modern houses generate their own energy. The energy storage systems from **VARTA** Power & Engergy make it available round the clock – from private households to an industrial plant.

Highlights 2018

Green light for new battery research project

In November 2018 the Chairman of Executive Board at **VARTA AG,** Herbert Schein, announced at a press conference that the DigiBattPro4.0 research project had been given the green light. We will be collaborating with Land Baden-Württemberg, the German government and the Fraunhofer Institut IPA. The aim is to increase efficiency and flexibility in lithiumion cell production through digitization.

Presentation of new CoinPower cells at Electronica 2018

Batteries for networked mobile devices must become smaller and smaller, but their energy density must also increase. Our newest rechargeable button cells are only four millimeters high. We presented them at the leading international trade fair Electronica 2018. **VARTA** CoinPower perfectly fitted its motto „Connecting Everything – smart, safe & secure“.

Medical technology: From fitness tracker to insulin pump

The medical technology industry has one of the largest number of patent applications. We set benchmarks here too with our strong R&D department. In addition to microbatteries for insulin gauges, clinical thermometers, blood pressure gauges and insulin pumps, we also produce mercury-free hydrogen gas generating batteries for infusion systems and sensor applications. Since lifestyle also plays a part in our health, the markets for self-tracking technologies are growing.

VARTA AG receives accolades

Our achievements were also recognized with international prizes in 2018. At the “Global Capital Awards” in London, we landed first prize in the category “IPO of the year under USD 300 million”. We won in the category “International Star” at the European Small and Mid-Cap Awards 2018 in Brussels.

Frost & Sullivan Award

The London-based global market research and consultancy company Frost & Sullivan annually awards the “Product Line Strategy Leadership Award”. In 2018 Power & Energy was recognized for its intelligently structured range in the energy storage systems category.

Power & Energy named “Top Brand PV Storage 2018”

The Bonn-based market and public opinion research institute EuPD Research measures the achievements of companies according to market perception, recommendation rates and sales. It awards the „European PV Installer Monitor” seal every year. In 2018, **VARTA** Power & Energy was awarded the “Top Brand PV Storage” seal for the third time in succession.

New performance dimension for hearing aid batteries

Our 10 and 312 hearing aid batteries were selected as test winners by the German consumer watchdog Stiftung Warentest in 2018. As we are not ones to rest on our laurels, we presented our newly developed power one EVOLUTION with up to 15% more power at the International Congress of Hearing Aid Acousticians in 2018.

Power & Energy cooperates with important partners at energy cloud solutions

Owners of solar panels can now form energy communities. The excess generated in the summer can be used in the winter. Since October 2018 **VARTA** has been cooperating with the electricity producer EWE. Households can now achieve full self-sufficiency with the jointly developed myEnergyCloud app and an energy storage system from **VARTA** Power & Energy.

VARTA in space

The most reliable and powerful battery pack was sought for the “Orbit” space mission to the International Space Station ISS. Power & Energy’s lithium-ion polymer battery came out on top in 2018 against all the other manufacturers. It was the third time that **VARTA** had conquered space. In 1969 we provided the energy for the camera Neil Armstrong used to take the legendary photos of the first moon landing.

Share performance

The most important global stock markets performed disappointingly in 2018. In Germany, the most important indices all closed the year down. The Dax declined by 18.3%, the TecDAX fell by 3.1% and the S-DAX was well down on the level from the start of the year, falling by 20%. For **VARTA AG**, 2018 was the company's first full year as a listed company. The shares performed far better than the benchmark indices over this period. **VARTA AG** shares gained 16.8% year on year (Year end 2017: EUR 21.29; Year end 2017: EUR 24.88).

While the indices outperformed our share price development in the first quarter of the year, **VARTA AG** shares began to perform far better from April onwards, with the gap to the indices continually widening up to the end of the year. The low for the year amounted to EUR 18.00, with the annual high standing at EUR 30.00.

Substantial increase in market capitalization

Based on an unchanged number of shares in comparison with the previous year (38.2 million), **VARTA AG**'s market capitalization amounted to EUR 950m as of year-end 2018. It therefore rose by approximately EUR 137m year on year (December 31, 2017: approximately EUR 813m). The average Xetra trading volume in 2018 stood at around 30,000 shares. Daily share turnover on the stock exchange therefore fluctuated between around 3,000 to a maximum of 350,000. In order to minimize the volatility of shares and further improve the trade offer, the company has enlisted the services of two designated sponsors.

International shareholder structure

At year-end 2018, **VARTA AG's** shareholder structure was of an international nature. In addition to the anchor investor Montana Tech Components AG , which account for a stake of approximately 64%, shareholders also hail from countries such as the UK, USA and Germany, in addition to other European nations. Shares are held by investors with long-term outlooks in particular. The proportion of free float **VARTA AG** shares was just under 36% as at year-end, unchanged against the prior year.

Global orientation: Capital market communications targeting all corners of the world

In the first full year as a listed company since the IPO in 2017, the **VARTA AG** Investor Relations team continued and further intensified the global focus of its capital market communications. Overall, the company took part in 35 roadshows and capital market conferences in 11 countries, some of which were held over several days. The focus was on Germany (11), the UK (9), the USA and France (4 each) and Austria and Switzerland (2 each).

VARTA AG's investor relations work was distinguished several times during 2018. The renowned trade journal Global Capital awarded **VARTA AG** first prize in the category "IPO of the year below USD 300m". At the European Small and Mid-Cap Awards 2018, **VARTA** was the winner in the category "International Star". Here, international sales, profit and increased market shares were all praised.

Constant coverage

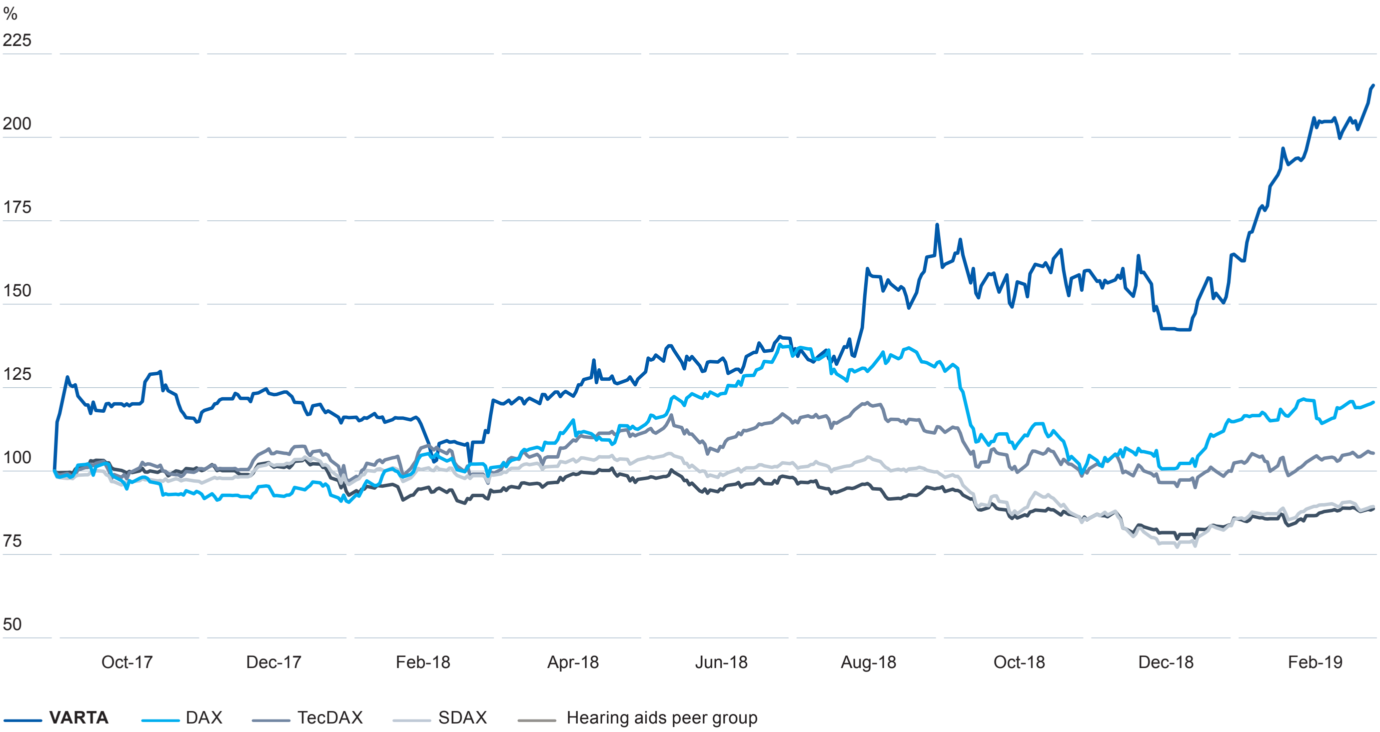
In comparison with 2017, **VARTA AG**'s coverage remains unchanged. It continues to include two bank analysts who supported the company during the IPO process. In 2018, a focus was placed on extending coverage with the aim of attracting international and global securities analysts to begin analyzing securities for **VARTA AG.**

We are aiming to have between four and six analysts on board by the end of 2019. **VARTA AG**'s objective here is to provide a wide range of research opinions for the stock market..

Annual General Meeting ratifies all agenda items with huge majority

On June 19, 2018, around 200 shareholders convened at the town hall in Ellwangen for **VARTA AG's** first Annual General Meeting. With 86.1% of the share capital represented at the meeting, all four agenda items were approved with a majority of at least 86.5%.

VARTA AG SIGNIFICANTLY OUTPERFORMED INDICES AND PEER GROUP



Based on **VARTA AG** IPO, 19. Oktober 2017
Hearing aids peer group contains: Amplifon, GN Store Nord, Sonova, William Deman

The core of our success

We have summarized **VARTA**'s recipe for success across the following seven pages.

Training

Loyalty to the company

Anyone starting at **VARTA** plans their career here and remains loyal to us. We choose our professional newcomers carefully and they receive their training from us. We further their qualification as industrial mechanics, operators, mechanical engineers and electronics technicians. **VARTA** employees absorb our expertise and carry our operating secrets for our future innovations. Commitment and enthusiasm are contagious. They lead to a community of people who not only wear our logo across their chest on their working uniform, but also carry the **VARTA** spirit deep in their hearts.

Production

We build our machinery ourselves.

The manufacturing facilities for our products are not only physical capital. They are also our intellectual property, since we developed and built the critical machinery ourselves. Our machine park is the treasure trove of our knowledge and the result of our latest research. We consider it as a priority to constantly improve it and regard it as being at the heart of our growing success.

Research and development

We do not leave innovation to chance.

In the global competitive landscape for energy storage technology of the future, investment in research and development will be crucial to our success. The rechargeable **VARTA** lithium-ion CoinPower button cell is the best example of this. Our lithium-ion technology stands for highest energy density at small volume. Other outstanding features are its long service life, excellent charging and discharging characteristics and high environmental compatibility. It is the result of years of research by **VARTA Microbattery,** successfully managing to condense the highest level of performance in coin format on the back of several patented innovations.

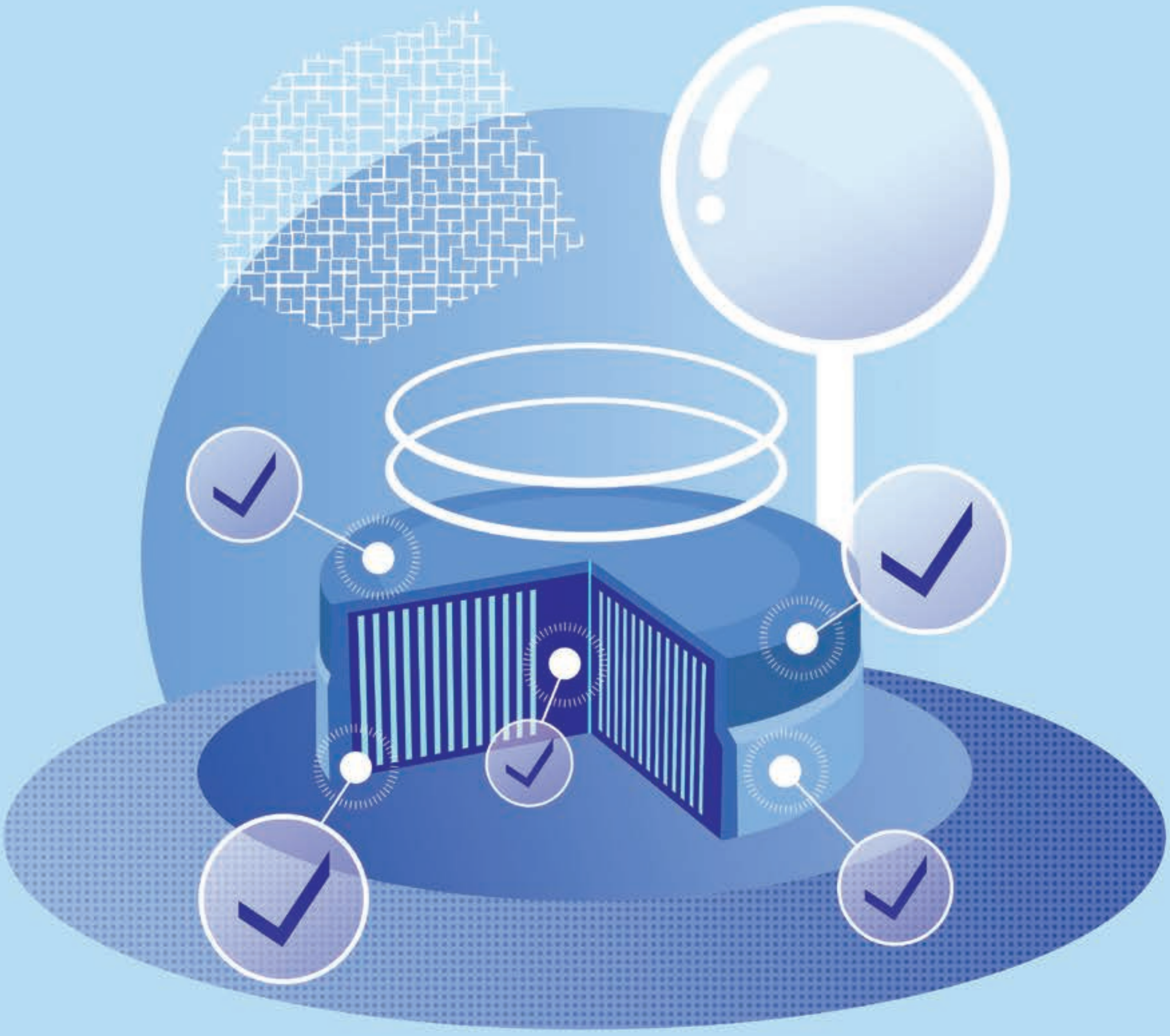
Technological leadership

Own brand mechanical engineering

We control the whole value chain. This starts with materials research right through to the finished packed product. We implement the technology with our own tools and our own machines. For these innovations, we have an in-house tool and machine construction. Our batteries with highest energy densities require highest precision in the production lines. We train our employees across the whole value chain to become battery experts and keep our expertise in-house.

Production & quality assurance

Thorough testing



We produce more than 1 billion batteries per year. Each of them encapsulates 130 years of development experience. We produce quality and subject our batteries highest quality and performance requirements. The result is the highest quality, „Made in Germany“. So we have become the market leader in hearing aid batteries.

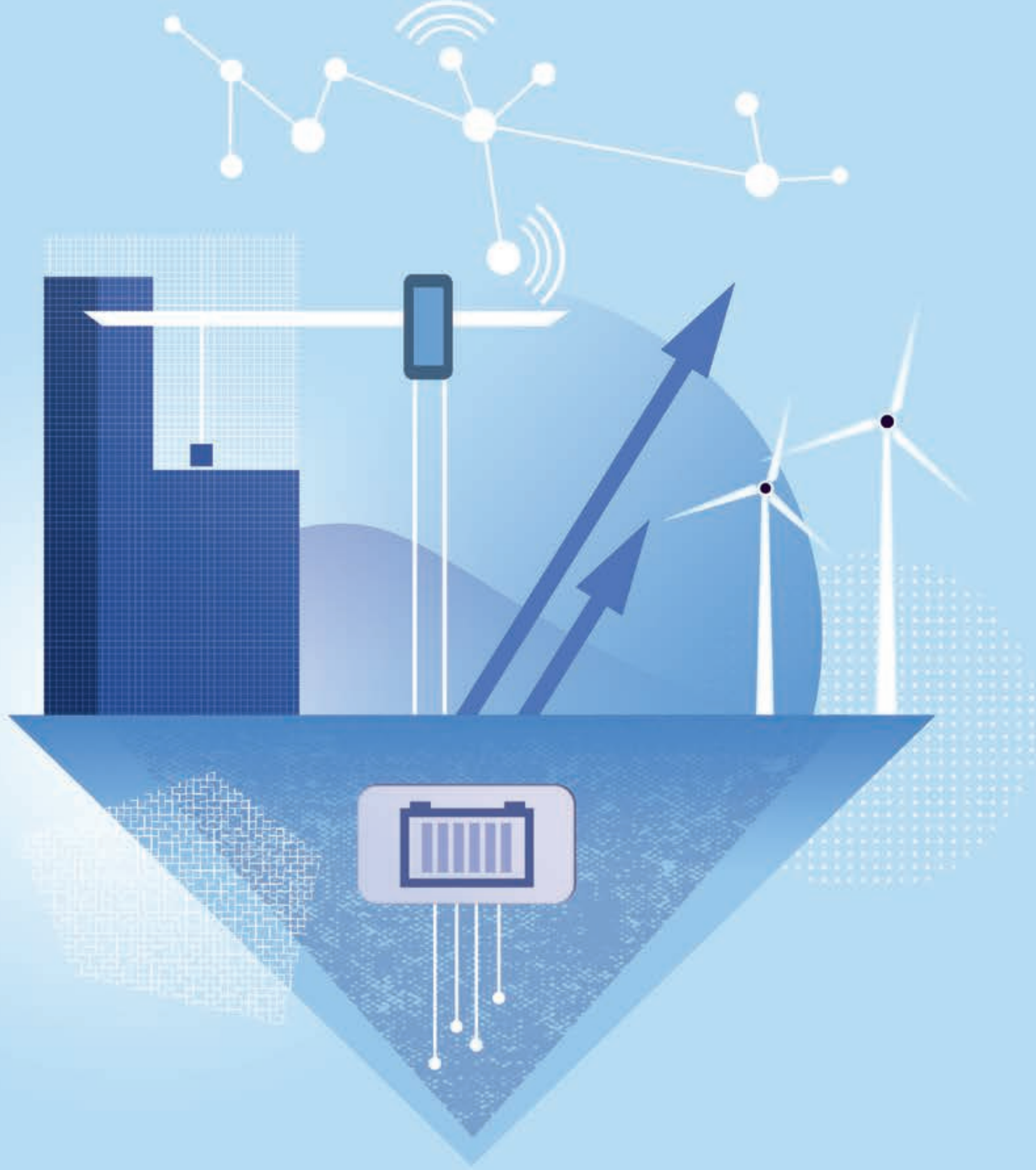
Resources

Material circulation system

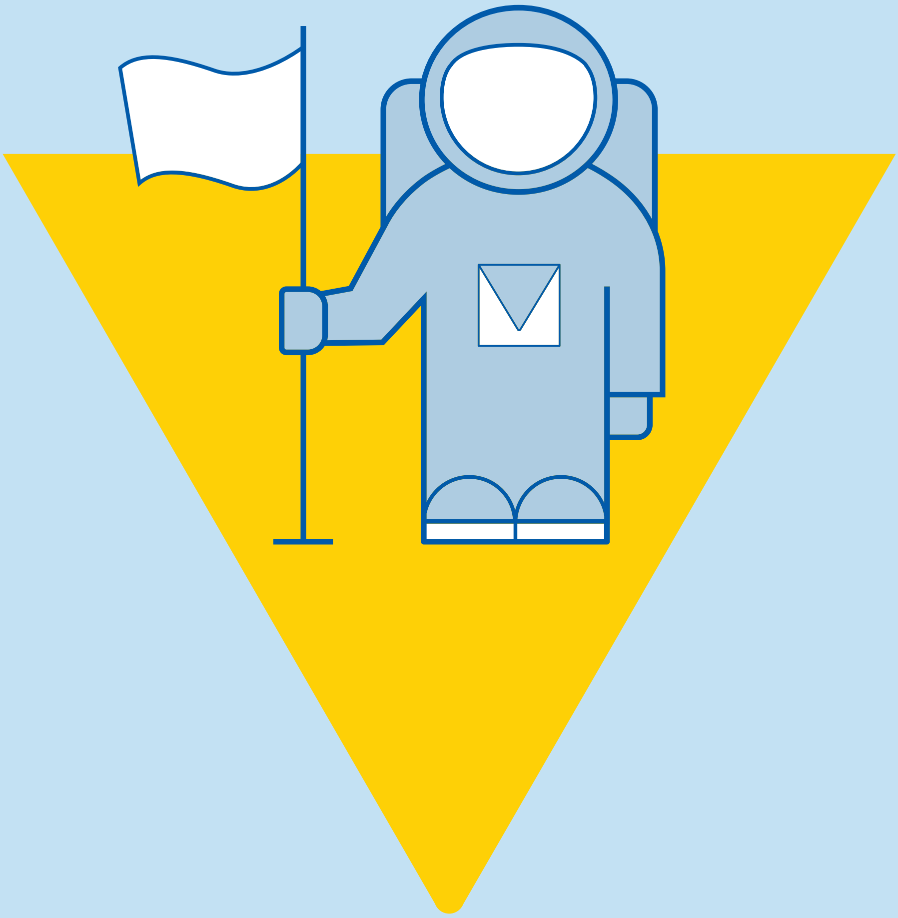
Environmental protection and sustainability are important corporate goals that extend beyond the whole lifecycle of our products. We have set ourselves strict guidelines for environmental protection and the efficient use of energy and also require our suppliers to comply with them. This is why recycling at **VARTA** starts during the production process. We recycle all the material remnants from battery production.

Expansion

Plenty of space for the future



The demand for our products is very high - therefore we create space for massive production expansion. Our plans are built on solid ground: technological progress is heading in a direction that necessitates qualified energy storage in most areas. Digital networking and the resulting sustained demand for digital lifestyle products as well as the age pyramid in hearing aids are major growth trends of the future.



130 YEARS EXPERIENCE

We owe it to our history that we are a leading battery expert world-wide.
We have mastered production processes with high manufacturing depth
and a diversified product portfolio.

Foreword from the Executive Board

Dear Shareholders,

VARTA AG celebrated the most successful year in the recent history of the company in 2018, once again exceeding the pleasing results recorded in the previous year. We have consistently pursued our strategy, which we announced as part of the IPO in 2017, and have consequently continued along a profitable growth path. In this context, we again recorded a strong result in financial year 2018, with double-digit growth in revenue and income.

Our two segments „Microbatteries“ and „Power & Energy” both contributed to this pleasing growth. In the „Microbatteries“ segment, the „Healthcare” area further consolidated its market-leading position within a market subject to structural growth. The area of „Entertainment” continues to grow at a rapid pace due to the high demand for wireless lifestyle products such as headsets and other wearables.

The „Power & Energy“ segment managed to break even as early as Q1 2018 and has therefore operated on a profitable basis since this time. For the **VARTA AG** Group, this is an important milestone in the establishment of this nascent segment and we will consistently continue on our profitable growth path here also.

Our successes are first and foremost due to the fact that the **VARTA AG** Group is one of the technological leaders on the relevant markets. This technological edge is providing the company with ever more potent impetus: Batteries are increasingly becoming strategic components in devices. When it comes to new wireless lifestyle products, batteries are now embedded into the device. Therefore, manufacturers value top quality and reliability more than ever before. This is yet another reason for countless manufacturers to place their trust in the **VARTA** Group as a high-quality supplier.

Another clear trend is dominating the battery industry: The market is moving toward batteries with smaller dimensions and higher energy density. This constant scaling down of batteries in tandem with a simultaneous increase in energy density is becoming an ever more urgent priority. In recent months, the **VARTA** Group has made enormous progress in its research of new processes and technologies in this area. In the last twelve months alone, seven important patent families have been registered. Aside from profound expertise in electrochemistry, our strengths lie in decisive product innovations. The **VARTA** Group is a technology group and innovation is our key to success.

In order to meet the increasing demand for our products, immediately after the IPO in October 2017, we initiated the largest investment program in **VARTA AG**‘s recent history. The overwhelming majority of this investment was directed into expanding production capacity for our lithium-ion batteries (Coin Power).

In financial year 2018, Group revenue rose by 12 % to € 271.7m. It was particularly pleasing to note that adjusted EBITDA also saw an above-average increase of 28 % to € 50.2m, in addition to the rise in revenue. As a result, the EBITDA margin has increased by 2.3 pp to 18.5 % of revenue. The consolidated result stands at € 25.7m, equating to a year-on-year increase of 90 %.

These positive developments and successes during financial year 2018 provide us with a platform to build upon: By making high-level investments in the expansion of our production capacities and launching new, innovative products, we are well-placed for another successful financial year in 2019.

We would like to thank our colleagues for their commitment and our shareholders for their confidence in us. We see this as a further incentive to continue developing our technological edge and, in so doing, continue our profitable growth course over the long-term.

HERBERT SCHEIN
Chief Executive Officer

STEFFEN MUNZ
Chief Financial Officer

Steffen Munz und Herbert Schein

HERBERT SCHEIN, CEO

EDUCATION

- University degree in electrical engineering

PROFESSIONAL EXPERIENCE

- Since 2016: CEO of **VARTA AG**
- Since 2011: CEO of **VARTA** Storage GmbH
- Since 2008: CEO of **VARTA** Microbattery GmbH
- Joined **VARTA** more than 25 years ago
- Well established in various battery markets requiring expertise in battery technology coupled with battery industry insight and in depth knowledge
- Competences to include battery markets, innovation, technology, marketing & sales
- Deep understanding and direct successful experience in market launches of new products and of setting up production facilities in Europe and Asia
- Extensive knowledge and experience in the conception and execution of business strategies for international business segments

STEFFEN MUNZ, CFO

EDUCATION

- University degree for Business Administration, University of Erlangen-Nueremberg

PROFESSIONAL EXPERIENCE

- 2/2018: CFO **VARTA AG** as well as CFO **VARTA** Microbattery GmbH and **VARTA** Storage GmbH
- 2014 – 2018: CFO, Gardner Denver Medical
- 2011 – 2013: CFO, BODE Chemie GmbH, a member of the HARTMANN GROUP
- 2008 – 2011: Head of Group Controlling, HARTMANN GROUP
- Management consultant at Roland Berger
- More than 10 years experience in a commercial management role of market-listed companies
- Experience with global manufacturing companies, especially manufacturers of medical device components

Supervisory Board Report for Financial Year 2018

Dr. Georg Blumauer, Dr. Harald Sommerer, DDr. Michael Tojner, Sven Quandt, Frank-Dieter Maier (Dr. Franz Guggenberger nicht im Bild).

Dear Shareholders,

The Supervisory Board of **VARTA AKTIENGESELLSCHAFT** (**VARTA AG**) comprises independent persons who maintain a close-knit relationship with **VARTA AKTIENGESELLSCHAFT,** supporting the company with assistance and advice in addition to attending regular, statutorily required Supervisory Board meetings. The Supervisory Board is regarded as an active management organ that acts in a supportive and advisory capacity.

We are proud of **VARTA AG**'s growth, particularly with regard to our leading market position for hearing aid batteries and the breakthrough success of the high-performance "CoinPower" lithium-ion batteries. The Executive Board – above all Herbert Schein – displayed great foresight in driving forward the development of "CoinPower" many years ago, thereby allowing the company to enter the market for lithium-ion technologies.

Our lithium-ion technology expertise naturally supports the further expansion of our position in the field of energy storage systems in the Power & Energy segment. We are investing heavily in R&D, with the aim not simply to maintain our innovative ability and technological leadership, but rather to enhance these qualities further.

In respect of future development in the field of electromobility, we regard lithium-ion technology as vital. **VARTA AG** has carved out a market-leading position for innovative lithium-ion battery technologies and is not ruling out any future involvement in manufacturing electromobility batteries alongside other strong European partners.

Until then, however, we will be concentrating on our adopted path of expanding our position as market leaders in the field of microbatteries and the implementation of our growth strategy in the Power & Energy segment.

The IPO in 2017 involved an expansion of the shareholder structure at **VARTA AG.** Since then, the company has been successful in attracting international funds as shareholders. With a stake of more than 64%, Montana Tech Components AG remains the majority shareholder. In this role as anchor shareholder, it pursues a strategy that targets stability and long-term corporate success. In so doing, the management of **VARTA AG** are afforded the requisite entrepreneurial license to capitalize on market opportunities and implement these successfully.

Supervisory Board Report for Financial Year 2018

The Supervisory Board of **VARTA AG** is pleased to report to you on the work undertaken by the company in the first full financial year following the IPO. For **VARTA AG,** 2018 was a hugely eventful year that saw strong growth. In financial year 2018, the Supervisory Board of **VARTA AG** again performed its duties and tasks in accordance with the law and the company's Articles of Association, in addition to focusing on the economic and financial position of the company.

VARTA AG shares have been in circulation on the Frankfurt Stock Exchange since October 19, 2017. The IPO in the Prime Standard segment means that the company is subject to stringent transparency and disclosure requirements. These post-admission obligations also impact the work of the Supervisory Board. New regulations and provisions have direct consequences for the Supervisory Board and its dealings with the Executive Board. Together with the Executive Board, the Supervisory Board ensures that the processes and structures established within the company conform with the requirements of the Frankfurt Stock Exchange.

The Supervisory Board's main task is to advise and guide Executive Board activities. In particular, the Supervisory Board's activities during the period under review were focused on the strategic direction of **VARTA AG** to ensure further profitable growth, issues linked to the organization and profile of the Executive Board, corporate planning in general and investments to expand production capacity.

On June 19, 2018, the first Annual General Meeting following the IPO was held. It was the subject of huge interest even among investors, with more than 86% of the subscribed capital represented at the Annual General Meeting.

The Supervisory Board monitored Executive Board members on a regular basis and have been left in no doubt regarding the legality, expediency and correctness of their work. This close contact with the Executive Board was also maintained in the period between the Supervisory Board's regular meetings. The chairman and individual Supervisory Board members were in regular bilateral communication with the board members and advised on various business matters. The Executive Board participated in all Supervisory Board meetings and provided comprehensive answers to all Supervisory Board questions.

In accordance with Section 90 of the German Stock Corporation Act (AktG), the Executive Board regularly, promptly and comprehensively briefed the Supervisory Board, both verbally and in writing, on the key aspects of corporate planning and business development, the risk situation and risk management in addition to the economic situation of the company and the Group. The Supervisory Board also discussed all important business processes.

A total of four regular meetings, which were held in person, as well as regular reports obtained from the Executive Board, allowed the Supervisory Board to keep abreast of the business situation and significant events. Moreover, the Supervisory Board adopted a resolution by way of written procedure.

The Supervisory Board is kept up to date via a detailed monthly report. For any discussions and clarifications required, Executive Board members are available for bilateral discussions with the Supervisory Board.

Supervisory Board Meetings and Committees in Financial Year 2018

The Executive Board reported in detail on the company's strategic, operational and financial situation at all Supervisory Board meetings.

During the first meeting on **April 9, 2018 (Balance Sheet Meeting),** the Supervisory Board addressed the annual and consolidated financial statements 2017 before discharging the Executive Board for financial year 2017. The annual financial statements were handed out to all Supervisory Board members and discussed in detail. The Supervisory Board subsequently reviewed the annual financial statements for 2017 and raised no objections before approving them. The annual financial statements for 2017 were therefore finalized on April 9, 2018. Moreover, a decision was reached during this meeting with regard to the choice of auditors for financial year 2018, while a new agreement concerning division of responsibilities was reached following the expansion of the Executive Board to include Steffen Munz. The Supervisory Board also defined the agenda for the Annual General Meeting on June 19. Further key points arising from this meeting included the expansion of the warehouse at the Ellwangen site. In each meeting, the Supervisory Board was also advised by the Chief Compliance Officer on the compliance system and, where necessary, any reported breaches.

On **June 6, 2018,** the second meeting in financial year 2018 was held. During this meeting, the Supervisory Board discussed in particular the investments made within the framework of production expansion, potential M&A deals and the remuneration of Executive Board members.

The third meeting took place on **August 29, 2018.** In this meeting, the Supervisory Board concentrated on the company's situation and changes to the Executive Board.

For the final meeting during the 2018 reporting period, the Supervisory Board convened on **November 22, 2018.** The main issue for this meeting was to pass a resolution on the 2019 budget.

In conclusion, it can therefore be noted that the Supervisory Board authorized, following extensive discussions, all business transactions and processes subject to mandatory submission requirements. The Executive Board informed the Supervisory Board concerning all events of material importance in assessing the situation and development of the company.

Except two members of the Supervisory Board, all members of the Supervisory Board attended the Supervisory Board's meetings. However, the two members of the Supervisory Board, who were prevented from attending in two meetings, took part in the decision-making process in writing afterwards.

Committee activities

There are two Supervisory Board committees: the Audit Committee and the HR Committee. The latter additionally assumes the responsibilities of a Nomination and Remuneration Committee.

The members of the Audit Committee are as follows:

- Dr. Harald Sommerer (Chairman)
- DDr. Michael Tojner
- Frank-Dieter Maier

The members of the HR Committee are as follows:

- DDr. Michael Tojner (Chairman)
- Dr. Harald Sommerer
- Sven Quandt

The committees work to prepare decisions and issues for meetings of the Supervisory Board as a whole. As far as legally permissible, the Supervisory Board transfers decision-making authority to its committees. The committee Chairmen regularly reported on key aspects of committee meetings during meetings of the Supervisory Board.

The Audit Committee held two meetings via conference call in the reporting year.
In the presence of the appointed auditors, it discussed the annual financial statements, the accounting process, the internal control system and corporate governance aspects, among other things.

The HR Committee's meeting in person during the reporting year covered strategy and organization, among other issues. The HR committee held several votes on the issue of Executive Board organization and profile in addition to the integration of new board member, Steffen Munz, supported by joint meetings and bilateral discussions. Furthermore, decisions were also reached in the HR Committee via conference calls.

Members of the Supervisory Board in Financial Year 2018

Since September 7, 2016, the Supervisory Board of **VARTA AG** has comprised the following members:

- DDr. Michael Tojner, Chairman
- Dr. Harald Sommerer, Deputy Chairman
- Frank-Dieter Maier
- Sven Quandt
- Dr. Georg Blumauer
- Dr. Franz Guggenberger.

The Supervisory Board would like to take this opportunity to thank the Executive Board and all employees for their successful work and commitment during financial year 2018.

To our shareholders, I would like to express my sincere thanks for placing your trust in **VARTA AG** and the company's shares.

Ellwangen, January 2018
On behalf of the Supervisory Board,

DDr. Michael Tojner
Chairman

MADE IN GERMANY

guaranteed highly reliable, best quality, safety, and efficiency

Contents

Consolidated management report for financial year 2018

VARTA Aktiengesellschaft, Ellwangen (Jagst)

This report combines the management reports of both **VARTA Aktiengesellschaft** (**VARTA AG**) and the **VARTA AG Group.**

1 GROUP STRUCTURE

1.1 BUSINESS MODEL

VARTA Aktiengesellschaft, Ellwangen, Germany (**VARTA AG**) is the parent company of the corporate Group. Since October 2017, **VARTA AG** has been listed on the Frankfurt Stock Exchange in the Prime Standard segment. The description below provides an overview (simplified) of the Group as at the balance sheet date.

VARTA AG is a company headquartered in Ellwangen, Jagst. The business activities of **VARTA AG** encompass the development, production, sale, research and development of microbatteries and energy storage solutions.

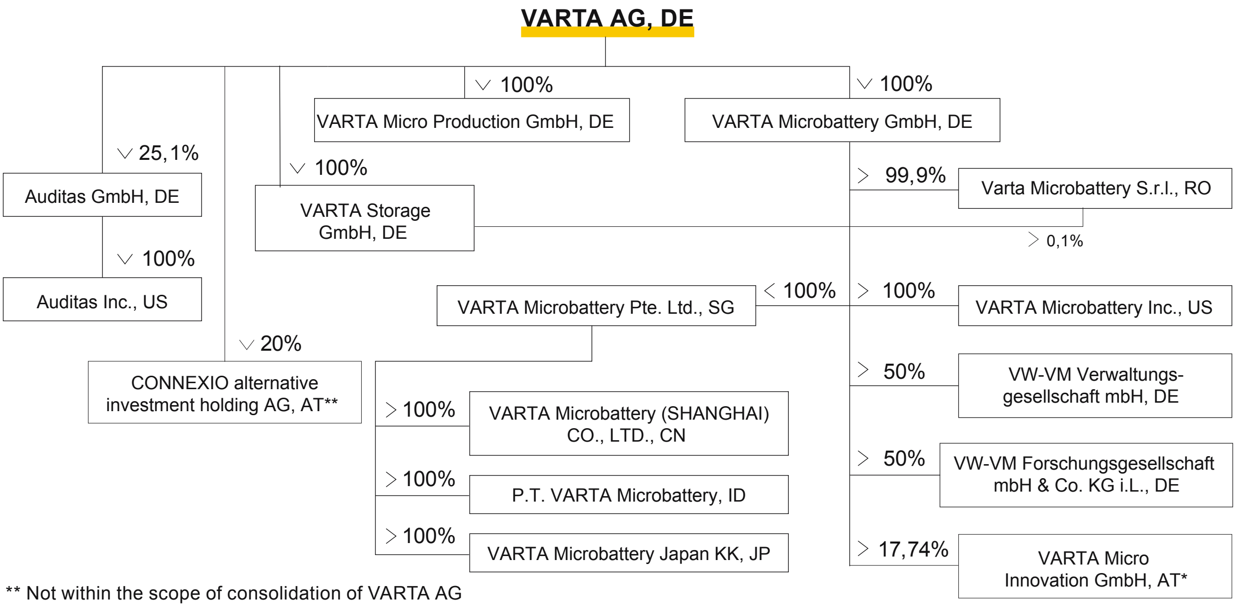
The business activities of the **VARTA AG Group** are divided into two separate business segments: **VARTA Microbattery GmbH operates the Microbatteries segment, while VARTA Storage GmbH assumes responsibility for the Power & Energy segment.**

The Group develops, manufactures and sells microbatteries and smart battery solutions for a variety of applications and end user markets. Extensive experience in the field of materials research and the development of various electrochemical battery systems paired with expertise in process development and mass production form the basis from which the Group is able to develop new and innovative products.

The Group operates five production and battery manufacturing plants in Germany, Romania, Indonesia and China in addition to distribution centers in the USA, Europe and Asia, from which direct sales to customers in more than 75 countries around the world can be conducted. Operating on a global basis today, **VARTA AG** can proudly look back on 130 years of company history.

The Group's battery solutions are strategic components in products for end users that demand the highest levels of quality, reliability and performance. There is a focus on battery systems with high energy densities for primary batteries and rechargeable batteries featuring lithium-ion technology. Regarding semi-customized or fully-customized battery solutions, **VARTA AG** offers its customers comprehensive advice and strategic planning in terms of the right choice of components to ensure the most efficient energy supply for any given application.

The following organigram portrays the Group structure including subsidiaries operating in different countries.



** Not within the scope of consolidation of VARTA AG
* Not within the scope of consolidaiton of MTC AG

Segments and organizational structure

Microbatteries

The **Microbatteries** segment is controlled and managed by **VARTA Microbattery GmbH**. It focuses on manufacturing microbatteries – primarily for applications in the areas of **Healthcare and Entertainment & Industrial.** Here, the company makes selective use of the most innovative technologies in order to produce the highest energy density within the smallest space possible. Depending on the product and application, the company strives to leverage the most innovative technologies such as zinc air, lithium ions, silver oxide and nickel metal hydride for rechargeable and non-rechargeable battery solutions.

For applications in the area of **Healthcare**, zinc-air batteries are primarily manufactured for use in hearing aid devices. These are marketed under the “powerone” and “ecopack” brands in addition to proprietary customer brands. Our success in the area of hearing aid batteries is founded on the innovative strength, reliability, long service life and consistent quality of our products. Our market position is secured by proprietary production automation processes and our ability to provide an end-to-end service to our customers, ranging from initial product to the POS.

In the **Entertainment** area, manufacturing is focused above all on high-end lithium-ion battery solutions for wireless premium headphones (**hearables**), in addition to other “wearable” application areas. These include, among others, applications in the growing end user markets for electrical appliances such as Bluetooth headsets and medical devices to measure hypertension (high blood pressure), blood sugar and other bodily functions.

In the **Industrial** product group, the company primarily manufactures rechargeable battery solutions for industrial and original equipment manufacturers (OEMs). Among other things, these include server applica-tions as well as applications in car keys, alarms systems and smart meters.

Power & Energy

In the power and energy segment, which is under the management and control of **VARTA** Storage GmbH, mobile and stationary energy storage solutions are developed, manufactured and sold. The segment is focused on the development, system integration and assembly of power pack solutions for OEM customers in various markets. To this end, the batteries used are predominantly based on lithium-ion technology. This segment is responsible for the production of rechargeable, standardized and customized battery packs. These can be seamlessly integrated into various industrial and wireless applications. Irrespective of the technology or complexity of tasks at hand, the company offers a full service from design to production for OEM customers. This segment is concentrated on solutions for portable industrial applications, communications devices and electric power tools in addition to devices used at home, in the garden and for medical applications. The segment also develops and manufactures energy storage systems for private households and commercial applications. Our energy storage devices are characterized by high quality and reliability. The product portfolio features a modular design. This ensures that every end user can find the right energy storage device for their specific requirements: from handy, compact, complete beginner systems to mass storage solutions for industrial facilities.

1.2 STRATEGY AND GOALS

As part of its annual budget planning, the **VARTA AG** Group defines its goals and strategies. With its two separate segments, the Group is ideally positioned to take advantage of the relevant growth trends in both business areas. These include demographic changes, technological progress, increased connectivity (Internet of Things) and renewable energies (growing awareness of recycling materials).

Demographic change

Both increasing life expectancy and increased customer acceptance due to advances made in hearing aid technology are leading to rising demand for hearing aid batteries. **VARTA Microbattery** serves this market with zinc-air and rechargeable batteries.

Technological progress

The unabated trend towards wireless devices across all areas is increasing the demand for reliable, mostly rechargeable energy solutions of the highest quality. At the same time, there is a trend towards smaller devices with increased functionality, leading to demand for high energy density batteries.

Connectivity

The advances made in connectivity and convergence on account of the Internet of Things, further developments in telecommunications and the wider prevalence of smart solutions are driving demand for batteries in a wide range of industries such as IT, telecommunications and the healthcare sector.

Renewable energies

The increased importance of renewable energies, energy efficiency, independence from fossil fuels and European Union (EU) climate targets are leading to sustainable growth rates in the field of intermediate energy storage solutions.

Here, the **VARTA AG** Group focuses on the following growth areas and objectives:

Strengthening and expanding global market position in core products

In fundamental terms, the Group has a focus on business areas in which it strives to attain long-term market-leading positions.
In the Healthcare area, the company aims to consolidate and expand its market-leading position on the back of further innovations. As is the case in the Healthcare area, the Group is particularly keen to carve out a leading market position for true wireless headsets, thereby benefiting from the strong market growth to a disproportionate extent.
In terms of mobile energy solutions, the Power & Energy segment's focus lies on strong growth from gaining new customers. In this context, the Group concentrates on major customers that operate on a global basis.

We are aiming to increase our market share, primarily in Europe, and assume a leading position among European manufacturers. Trends towards sustainability, increased environmental awareness and rising demand for energy self-sufficiency should be of benefit to our accumulator batteries for intermediate energy storage solutions. Here, the defined goals include above-average growth in selected markets as well as steadily expanding the regions in which the company operates.

Expanding innovation and technology leadership

The Group is working on developing innovative products using fully automated high-speed production lines in Germany, above all in the Microbatteries segment. **VARTA Microbattery** delivers solutions that offer the best combination of quality, innovation, technology and value-for-money. The Microbatteries segment covers the entire value-added chain, from materials research to the finished product, including customer-friendly packaging concepts. Moreover, the Group expanded its production capacities in Romania during the previous financial year to meet increased demand.

The combination of strong market position, internal research and development activities and long-term customer relationships has secured a definitive competitive edge for the Group, allowing us to benefit from sustained growth trends in the markets for microbatteries in the healthcare, entertainment and industrial sectors. The Group aims to supply its customers with the highest quality batteries and battery solutions. It will continue to work towards developing innovative, high-performance button cell technologies and customized smart battery solutions.

Strong financial profile enabling focus on profitable growth

The Group intends to capitalize on further growth opportunities by investing in the expansion of production capacities and by making selective acquisitions. The Group expects that its strong financial profile, together with a low debt ratio, prudent use of working capital and its focus on high-growth investments, should allow it to further increase its cash flow capacity.

1.3 CORPORATE MANAGEMENT

The **VARTA AG** Group is managed on the basis of internally defined financial and non-financial metrics to pursue a strategy centered on sustained value growth. The Executive Board has not changed its internal control and management mechanisms in comparison with the prior year. As was the case in the previous year, the following metrics were applied for corporate management purposes: Sales, adjusted EBITDA, CAPEX and net working capital.

The management control system also represents the basis for **VARTA AG's** external reporting and is monitored by the Supervisory Board within the scope of its control function.

Key financial and non-financial indicators

Sales revenue is one of the most important key indicators to measure growth at the **VARTA AG** Group. It is also the most important metric for corporate Group management. As part of the budgeting process, sales are broken down by individual segment and monitored on an ongoing basis.

Adjusted EBITDA (operating earnings before interest, taxes, depreciation and amortization adjusted for special effects) represents a sustainable earnings indicator for the Group. At the same time, adjusted EBITDA is a suitable control variable to effectively assess the operating earnings capacity of the Group and/or the two segments.

In the previous financial year, the Executive Board defined (if applicable) costs related to the IPO, impacts on the profit and loss account resulting from the reimbursement claim from an assumption of debt in connection with pension obligations, effects from the share-based remuneration, disposal effects from sale and lease-back transactions, potential restructuring costs and expenses in connection with M&A transactions as special effects. The earnings effect resulting from share-based remuneration in financial year 2018 was adjusted in line with this definition.

The necessity for investments as a result of the huge demand for the Group's products is monitored by the Executive Board using the CAPEX metric. It refers to payments made to purchase intangible assets and property, plants and equipment. In this context, the Executive Board reviews the effective capital allocation on the basis of yields on invested capital. CAPEX is a metric applied as a control mechanism solely at **VARTA AG** Group level. It covers investments excluding M&A transactions.

Net working capital (provisions plus trade receivables less trade payables) is also used as an important management metric. Net working capital is applied as a control variable exclusively at **VARTA AG** Group level.

Changes in employee numbers remain an important key performance indicator on account of the dynamic growth enjoyed by the Group.

1.4 SEPARATE NON-FINANCIAL GROUP REPORT

Further information on non-financial indicators and on our **Corporate Social Responsibility** can be found in the separate **non-financial Group report**, which will be made available on our website at https://www.varta-ag.com/corporate-social-responsibility at the latest four months after the closing date of the consolidated financial statements.

1.5 MANAGEMENT AND CONTROL

In 2018, the Executive Board of **VARTA AG** comprised three members: Herbert Schein (Chairman of the Executive Board/CEO), Steffen Munz (CFO) and Dr. Michael Pistauer (Director of Investor Relations and Mergers and Acquisitions). As planned, Dr. Pistauer left the Executive Board on December 31, 2018 and transferred responsibility for the "Investor Relations" and "Mergers & Acquisitions" (M&A) areas to Steffen Munz. As at January 1, 2019, the Executive Board of **VARTA AG** therefore comprised two members. The Executive Board members share joint responsibility for the management of the company.

The Supervisory Board was composed of the following members as at December 31, 2018: DDr. Michael Tojner (Chairman), Dr. Harald Sommerer (Deputy Chairman), Frank Dieter Maier, Sven Quandt, Dr. Georg Blumauer and Dr. Franz Guggenberger.

1.6 CORPORATE MANAGEMENT DECLARATION

Further details on how the Executive Board and Supervisory Board cooperate in their activities and on additional corporate management and control standards can be found in the Group management declaration in accordance with Section 289f of the German Commercial Code (HGB), which also contains the declaration of conformity in accordance with the German Corporate Governance Code (DCGK) pursuant to Section 161 of the German Stock Corporation Act (AktG). Moreover, the Executive Board and Supervisory Board of **VARTA AG** publish a joint Corporate Governance Report in line with Point 3.10 DCGK every year. All documents are published on the **VARTA AG** homepage (www.varta-ag-com/investor-relations).

2 ECONOMIC REPORT

2.1 MARKETS AND INFLUENCING FACTORS

The markets in which the **VARTA AG** Group operates and the influence factors to which it is exposed have remained practically identical in comparison with the prior year. The **VARTA AG** Group manufactures and sells batteries around the world, benefiting from a positive consumer landscape despite its relative independence from the macroeconomic environment. This infers that any negative trends in the macroeconomic environment would not entail any direct negative consequences for the business model, as the majority of products are unaffected by the economic cycle. For example, they tend to be used in medical fields.

In geographical terms, the sales distribution is highly diversified. Most of our products are sold in Europe (see regional sales distribution: Section 3.1). Outside of Europe, Asia and North America represent additional key sales markets. This therefore means that dependency on individual countries and their respective economic development is comparatively low. Due to the market and customer structure, the eurozone is the most important economic area for the Group.

The macroeconomic conditions observed in the countries relevant to the **VARTA AG** Group's activities in 2018 can be assessed as positive and stable.

Demographic trends are key to the sales of batteries for healthcare applications, while it is trends in consumer electronics that exert the greatest influence on sales of batteries for entertainment applications and the trend towards wireless products and renewable energies that most impact sales of products in the Power & Energy segment.

2.2 MACROECONOMIC AND INDUSTRY-RELATED FRAMEWORK CONDITIONS

The existing macroeconomic framework conditions in 2018 in the sales markets relevant to the **VARTA AG** Group can again be described as positive and stable.
Demographic trends represent a crucial factor in sales of batteries for healthcare applications, while trends in consumer electronics are key to sales of batteries for entertainment applications and the trends towards wireless products and renewable energies support sales of products in the Power & Energy segment.

The macroeconomic and industry-related framework conditions in the reporting year did not deviate to any great degree from those observed in the prior year. Increased life expectancy of people across all societies in addition to rising acceptance of hearing aids supports the sales of hearing aid batteries. The relevant markets of Europe, Asia and North America are all undergoing demographic changes (aging populations) and it is expected that older generations will continue to make up an even greater share of these populations moving forward. According to studies conducted by the US Censure Bureau, 8.5% of the global population – or 616 million people – is aged 65 or over. In Europe, North America and Asia, the equivalent figures are 17.4%, 15.1% and 7.9% respectively. In 2050, it is expected that 1.6 billion people – or 16.7% of the global population – will be aged 65 or over. In regional terms, this will equate to 27.6% of the European population, 22.5% of the North American population and 18.9% of the Asian population.

In the Entertainment area, sales growth was characterized by new applications in the field of consumer electronics. The more wireless devices that are developed, particularly for micro-applications (e.g. Headsets), the stronger the position of the **VARTA AG** Group here. This is a trend which has also had a positive impact on the Power & Energy segment.

According to WiFore Consulting (2015), hearables are expected to enjoy growth of more than 40% up to 2020. The trend towards interconnectivity is a driving force behind this development. In addition to the smartwatch, fashion and medical markets, WiFore Consulting takes the view that the hearable technology market will experience particularly strong growth.

The Avivenne Energy Report 2018 indicates that, in the Power & Energy segment, the market segment for lithium-ion battery packs will experience growth from 120 GWh in 2017 to 490 GWh by 2025, equating to an annual growth rate of +19%. Moreover, the sub-segment for medical devices, power tools and gardening tools, which are all target markets for the Power & Energy segment, will register growth from approximately 14 GWh in 2017 to around 44 GWh, corresponding to an annual growth rate of around 16%. The market segment for stationary energy storage systems is set to grow by 22% year on year in the period from 2017 to 2025.

2.3 BUSINESS DEVELOPMENT

General comments from the Executive Board regarding the economic situation

VARTA AG can look back with pride on a highly successful 2018. Key developments in 2018 included high demand for zinc-air batteries for hearing aid applications and lithium-ion batteries for wireless lifestyle products, the expansion of production capacities in the field of Microbatteries due to this demand and the highly successful business development for stationary energy storage systems. Double-digit organic growth of 12.2% to EUR 271.1m was recorded in Group revenue for financial year 2018. Consolidated operating income again grew faster than revenue growth due to the scaling of the business model. Adjusted EBITDA rose by 28.3% to EUR 50.2m. It was especially positive to note that both the Microbatteries and the Power & Energy segments sustained high growth impetus and continued their very positive development.

Comparison of business development with prior year forecast

The consolidated financial statements from last year contained forecasts for 2018 on the basis of the key performance indicators listed below. Overall, the expectation last year was for the positive business development to continue during 2018.

KPI	FORECAST FOR 2018	FY 2018
Financial indicators: Group		
Sales revenue	Significant sales growth at stable currency exchange rates	Huge sales growth at stable currency exchange rates
Adjusted EBITDA	Huge increase	Huge increase
CAPEX	Significant increase	Huge increase
Financial indicators: Microbatteries segment		
Sales revenue	Significant sales growth	Significant sales growth
Adjusted EBITDA	Huge increase in relation to sales	Significant increase in relation to sales
Financial indicators: Power & Energy segment		
Sales revenue	Huge increase	Huge increase
Adjusted EBITDA	Significant increase	Huge increase

3 DEVELOPMENT OF EARNINGS, FINANCIAL POSITION AND NET ASSETS

3.1 EARNINGS SITUATION

Consolidated Income Statement for the Period January 1 to 31 December, 2018

(IN K€)	*SPECIAL EFFECTS*	2018	*SPECIAL EFFECTS*	2017
Sales revenue		**271,650**		**242,157**
Increase in finished and unfinished goods		3,899		3,145
Own work capitalized		4,152		3,517
Other operating income		7,109		14,472
Cost of materials		-106,867		-99,928
Personnel expenses		-92,440		-86,047
Other operating expenses		-40,114		-44,227
EBITDA		**47,389**		**33,089**
Costs of IPO	*0*		*6,115*	
Reimbursement claim from pensions	*0*		*-3,629*	
Costs of share-based payment	*2,830*		*3,557*	
Adjusted EBITDA	***50,219***		***39,132***	
Depreciation and amortization		-10,518		-9,446
Operating earnings (EBIT)		**36,871**		**23,643**
Financial income		160		63
Financial expenses		-416		-783
Other financial income		368		687
Other financial expenses		-631		-889
Financial result		**-519**		**-922**
Profit and loss shares in companies recognized in the balance sheet under the equity method		130		-1,696
Earnings before taxes		**36,482**		**21,025**
Income tax expenses		-10,779		-7,481
Consolidated result		**25,703**		**13,544**
Appropriation of profit:				
Shareholders of **VARTA AG**		25,260		13,268
Non-controlling interests		443		276

Sales

Sales at the **VARTA AG** Group increased by 12,2% from EUR 242.2m to EUR 271.7m in the financial year 2018. Both the Microbatteries and Power & Energy segments posted year on year growth in sales revenue, with the Power & Energy segment recording the most significant increase in percentage terms.

The Microbatteries segment grew by 7.5% from EUR 203.6m to EUR 218.9m. The sales growth is above all the result of the increased sales of zinc-air batteries for the hearing aid market. By its own assessment, the Group's position as market leader in the structurally growing market for hearing aid batteries was strengthened. In addition, great demand for wireless entertainment products such as headsets or other wearables led to a significant sales increase for rechargeable lithium-ion batteries in the Microbatteries segment.

Sales revenue in the Power & Energy segment rose from EUR 37.7m to EUR 51.8m, which equates to growth of 37.4%. The volume-related sales growth is due in particular to the highly successful development of stationary energy storage systems. This is above all the result of increasing the market share in the DACH region (Germany, Austria, Switzerland), entry into the Italian and Australian markets and the introduction of the **VARTA** Pulse wall storage solution for private households.

Based on the transition method applied under IFRS 15, the comparative information has not been adjusted to the new regulations. To show how IFRS 15 affects the timing of the revenue recognition, we refer to the explanations in the Notes under Chapter 4.19.2. Overall, the first-time application of IFRS 15 as of January 1, 2018 produced an effect of K€ 633 in the equity, but not recognized in the profit and loss account. In the current financial year, there was a year-on-year rise in sales revenue and cost of materials totaling EUR 1.1m and EUR 0.9m respectively.

The following chart shows Group sales revenue broken down according to certain geographical locations. In particular, business in Germany and Asia developed favorably. This reflected above all the strengthening of the market-leading position in Germany and the positive development of clients with production facilities based in Asia. Further information about the geographical distribution of the segments can be found in Section 6 “Segment Reporting” of the Notes to the Consolidated Accounts.

(IN K€)	2018 SALES REVENUE	2017 SALES REVENUE	CHANGE (%)
Europe	137,424	118,686	15.8%
Asia	72,870	63,394	14.9%
North America	56,217	55,811	0.7%
Other	5,139	4,266	20.5%
Group total	**271,650**	**242,157**	12.2%

Expenses and other operating income

The cost of materials in the reporting year was EUR 106.9m compared with EUR 99.9m in the prior year, corresponding to an increase of 6.9%. This increase, which is disproportionately smaller than the sales increase, can mainly be attributed to falling prices for metal-based raw materials and purchased components. Both segments were affected.

Personnel costs rose from EUR 86.0m to EUR 92.4m, or by 7.4%. This increase compared with 2017 was primarily the result of collective pay increases in Germany in 2018 and inflation-based wage increases abroad. Furthermore, a rise in staff numbers is affecting growth in the area of CoinPower and in the area of battery packs. Personnel costs include expenses for share-based remuneration in the amount of EUR 2.8m (2017: EUR 3.6m).

Other operating expenses fell from EUR 44.2m to EUR 40.1m. In the previous year, they included the one-off costs of the stock exchange flotation (IPO costs) in the amount of EUR 6.1m. Conversely, expenses in relation to sales commissions rose due to the increase in sales brokered in particular. Here, incoming commission payments related to a subsidiary’s online business also had an effect, which last year were only factored in on a pro rata basis on account of intrayear consolidation. As a result of the expansion of production capacities, maintenance expenses rose by EUR 1.0m.

Other operating income fell by EUR 7.4m from EUR 14.5m in 2017 to EUR 7.1m in 2018. In the previous year, there was a special effect from a reimbursement claim in the amount of EUR 3,629k in connection with the agreement on the assumption of a joint debt obligation for pensions. Furthermore, the decrease is mainly due to a decline of EUR 3.1m in income from offsetting rent and services to the joint venture firm VW-VM Forschungsgesellschaft mbH & Co. KG i.L. The loss is connected with the termination of the business activities of the joint venture.

Adjusted EBITDA
Adjusted EBITA rose from EUR 39.1m to EUR 50.2m during financial year 2018. This corresponds to a growth rate of 28.3% in comparison to the previous year.
The increase in adjusted EBITDA can be attributed to the profitable sales growth in hearing aid batteries and lithium-ion batteries and the simultaneous disproportionately low increase in costs due to the scaling of the business model.

Operating earnings (EBIT)
Operating earnings improved from EUR 23.6m to EUR 36.9m, equating to an increase of 56.4% in comparison with the previous year. In addition to the increase in EBITDA, the disproportionately low increase in depreciation and amortization led to a very significant improvement in operating earnings. Depreciation and amortization increased from EUR 9.4m in 2017 to EUR 10.5m in 2018, which is due primarily to the demand-driven investment in tangible assets because of the expansion of production capacities.

Financial result
The financial result improved in the reporting year from EUR -0.9m in 2017 to EUR -0.5m in 2018. This was mainly the result of the significant decrease in interest expenses from EUR 0.8m in 2017 to EUR 0.4m in 2018. Owing to the IPO, the **VARTA AG** Group was able to reduce debt to a large extent and subsequently cut interest expenses significantly.

Taxes
Tax expenses increased primarily on the back of the pre-tax result rising from EUR 21.0m in 2017 to EUR 36.5m in 2018. This produced an effective tax ratio of 29.5% (2017: 35.6%) in relation to the pre-tax result. For further details on taxes, please see the Notes to the consolidated accounts under chapter “Income tax expenses”.

Consolidated result
The significant sales growth in both segments in connection with the disproportionately low increase in costs due to the scaling of the business model also had a very positive effect on the consolidated result.
The consolidated result almost doubled from EUR 13.5m in 2017 to EUR 25.7m in 2018, equating to an increase of 90.4%

3.2 ASSET AND FINANCIAL SITUATION

Consolidated balance sheet as at December 31, 2018

(IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
ASSETS		
Non-current assets	**151,831**	**105,258**
Current assets	**249,865**	**226,222**
Total assets	**401,696**	**331,480**

(IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
EQUITY AND LIABILITIES		
Equity	**259,422**	**230,452**
Non-current liabilities	**60,422**	**29,423**
Current liabilities	**81,852**	**71,605**
Total liabilities	**142,274**	**101,028**
Total assets	**401,696**	**331,480**

Non-current assets

Non-current assets increased by 44.2% from EUR 105.3m in 2017 to EUR 151.8m in the year under review. This increase is mainly the result of the rise in tangible assets from EUR 63.4m to EUR 112.8m as at December 31, 2018. The production capacities were expanded as a result of the large demand, in particular for lithium-ion button cell batteries and zinc-air batteries.

As a result of the termination of the business activities and the expected scheduled liquidation in the first quarter of 2019 pursuant to the joint venture agreement, the at-equity value for VW-VM Forschungsgesellschaft mbH & Co. KG i.L. fell from EUR 1.7m in 2017 to EUR 0.3m as at December 31, 2018. This is essentially connected with a capital repayment of EUR 1.5m.

Other assets fell slightly from EUR 15.8m in 2017 to EUR 15.7m and mainly include a reimbursement claim from the assumption of a joint debt obligation effected in June 2018 in the amount of EUR 15.6m.
For further details of the assumption of a joint debt obligation, we refer to the Chapter “Pensions” in the Notes to the Consolidated Financial Statements.

Current assets

Current assets jumped by EUR 23.7m from EUR 226.2m in 2017 to EUR 249.9m as at December 31, 2018. The increase was the result, among other things, of trade receivables rising by EUR 6.2m to EUR 26.3m owing to the increase in sales volume.

Equity/equity ratio

At 64.6%, the equity ratio of the **VARTA AG** Group has remained high since the IPO in 2017 (previous year: 69.5%). The VARTA AG Group is therefore in a position to finance the necessary investments in expanding production capacities from its own funds.

Equity rose from EUR 230.5m EUR in 2017 to EUR 259.4m as at December 31, 2018.

Non-current liabilities

Non-current liabilities increased by EUR 31m from EUR 29.4 m in 2017 to EUR 60.4m as at December 31, 2018. The increase was mainly due to client payments in the amount of EUR 30.2m.

Current liabilities

Current liabilities increased primarily due to the rise in trade payables in combination with the growth in business volume from EUR 71.6m to EUR 81.9m as well as the current portion of customer prepayments of EUR 11.5m.

Net working capital

Net working capital rose by EUR 0.6m from EUR 41.4m in 2017 to EUR 42.0m in 2018. This corresponds to an increase of 1.4% year on year.
This produces a net working capital ratio of 15.4% in relation to sales.

Cash flow statement

(IN K€)	2018/12	2017/12
Cash and cash equivalents as at January 1, 2018	**138,536**	**12,347**
Cash flow from ongoing business activities	69,846	22,020
Cash flow from investment activities	-58,982	-16,943
Cash flow from financing activities	-114	121,577
Net change in cash and cash equivalents	**10,750**	**126,654**
Effects of exchange rate fluctuations	455	-465
Cash and cash equivalents as at December 31, 2018	**149,741**	**138,536**

* see explanation concerning change in disclosure in note 37 Group cash flow

The cash flow from ongoing business activities in the reporting year amounts to EUR 69.8m and is therefore EUR 47.8m higher than last year's figure. This is firstly due to higher inflows of cash from the increase in sales revenue and, secondly, customer prepayments of EUR 41.6m that had a positive effect.

The cash flow from investment activities increased from EUR 16.9m in 2017 to EUR 59.0m in 2018. This is mainly the result of investments in tangible assets for the demand-driven expansion of production capacities for lithium-ion button cell batteries and zinc-air batteries.

The cash flow from financing activities declined from EUR 121.6m in 2017 to EUR -0.1m. The decline is due to the absence of the proceeds from the IPO in 2017.

Cash and cash equivalents as at December 31, 2018 therefore totaled EUR 149.7m compared with EUR 138.5m as at December 31, 2017.

4 RESEARCH AND DEVELOPMENT

Expenses incurred as a result of research and development for the VARTA AG Group totaled EUR 12.9m (prior year: EUR 12.3m) in 2018. This produces an R&D expense ratio of 4.8% in relation to sales, compared with 5.1% in the previous year.

Microbatteries segment
The focus on technological leadership was shaped by a targeted further development of the segment's expertise in the field of zinc-air batteries for hearing aids (product group: Healthcare) and rechargeable lithium-ion button cell batteries (CoinPower) in the "Entertainment & Industrial" product group. To this end, there was primarily an emphasis on further increasing capacity, the evaluation and qualification of new materials for CoinPower batteries, the further development of mercury-free zinc-air batteries, the use of less expensive raw materials and the development of more efficient production processes.

Expenses incurred in relation to research and development for the Microbatteries segment from January to December 2018 totaled EUR 9.8m (prior year: EUR 9.6m). This produced an R&D expense ratio of 4.5% of sales (prior year: 4.7%). The depreciation of capitalized development costs totaled EUR 0.5m in the past financial year. The capitalization ratio stands at 3.9% (prior year: 8.3%). In the Microbatteries segment, there was a pronounced focus on the development of smaller and more efficient button cell batteries.

Power & Energy segment
The further development of the product portfolio was key to expanding our market position for lithium-ion home storage solutions. In this context, the focus was on the market launch of the **VARTA** Pulse product range in Australia. Moreover, the cloud partnership continued to be driven forward, enabling energy storage systems to be connected together via cloud solutions to exchange surplus energy.

Expenses incurred in relation to research and development for the Power & Energy segment in financial year 2018 stood at EUR 3.1m, slightly up on the prior year (EUR 2.7m). This produces an R&D expense ratio of 6.0% of sales (prior year: 7.1%). The depreciation and amortization of capitalized development costs totaled EUR 0.4m in 2018 (prior year: EUR 0.2m). The capitalization ratio stood at 43.8% (prior year: 51.9%). This primarily concerns product and production process development for flexible mass storage devices and the development of various home storage systems.

5 INVESTMENTS EXCLUDING M&A (CAPEX)

The Group refers to investments in intangible and tangible assets as CAPEX. This is an important control variable for high-growth manufacturing companies. In 2018, **VARTA AG** launched an extensive investment program which was implemented in 2018 and will continue across 2019 as well. The aim of these investments is to expand capacities in the Microbatteries segment. This program will be funded by the cash inflow from the IPO in October 2017 and was a primary reason for the stock exchange flotation.

Payments resulting from the investments in intangible assets and property, plant and equipment totaled EUR 56.3m compared with EUR 17.0m in the previous year.

The major portion of the investments in tangible assets served the purpose of the demand-driven expansion of the production capacities for lithium-ion button cell batteries as well as zinc-air batteries. Furthermore, investments for the replacement of equipment are necessary at regular intervals for renovating the production plants, for developing new products and for quality assurance activities.

6 EARNINGS SITUATION: SEGMENTS

The segment information of the **VARTA AG** Group relates to both the Microbatteries and Power & Energy segments.

Microbatteries	2018	2017
Sales revenue (EURm)	218.9	203.6
Adjusted EBITDA (EURm)	47.3	43.7
Adjusted EBITDA margin (%)	21.6	21.5

Sales in the Microbatteries segment in financial year 2018 rose from EUR 203.6m to EUR 218.9m. This corresponds to sales growth of 7.5% year on year. This sales growth is partly the result of the growth in zinc-air batteries for the hearing aid market. The Group further expanded upon its market-leading position for hearing aid batteries, a market which is subject to structural growth. In addition, the growing demand for wireless entertainment products such as headsets or other wearables led to an increase in sales of rechargeable lithium-ion batteries. EBITDA rose from EUR 43.7m to EUR 47.3m, which equates to growth of 8.2%. The increased profit is due to the profitable sales growth and the disproportionately low rise in costs due to the scaling of our business model. This produced an EBITDA margin of 21.6% of sales compared with 21.5% in 2017.

Power & Energy	2018	2017
Sales revenue (EURm)	51.8	37.7
Adjusted EBITDA (EURm)	2.9	-4.4
Adjusted EBITDA margin (%)	5.6	-11.7

Sales in the Power & Energy segment rose from EUR 37.7m to EUR 51.8m, corresponding to very high sales growth of 37.4%. This increase in sales can be attributed to further growth in stationary energy storage solutions for private households and major projects, as well as to new customers within the scope of customized projects in the Power area. EBITDA improved markedly from EUR -4.4m in 2017 to EUR 2.9m in 2018. The significant sales growth in connection with the disproportionately low increase in expenses, the improved margin situation resulting from the implementation of a large number of customized projects in the Power area and progress made in preparing stationary energy storage systems for serial production all had a positive effect on the EBITDA.

Further details regarding segment reporting can be found in Chapter 6 of the Notes to the Consolidated Accounts.

7 INFORMATION ABOUT VARTA AG

The management report of **VARTA AG** and consolidated management report for financial year 2018 are combined pursuant to Section 315 (3) HGB in conjunction with Section 298 (3) HGB. The annual financial statements and the management report of the Company and corporate Group are published simultaneously in the German Federal Gazette.

Description of the Company
VARTA AG is a holding company that exercises exclusive control over the corporate Group and its operating subsidiaries. The following numbers and explanations refer to the annual financial statements of **VARTA AG** prepared according to the provisions of the German Commercial Code (HGB) and the German Stock Corporation Act (AktG)

Earnings situation
Sales in financial year 2018 stood at EUR 666k (2017: EUR 850k). These are essentially due to royalties from **VARTA** Storage GmbH of EUR 665k.
Other operating expenses in 2018 amounted to EUR 2,747k (2017: EUR 10,895k) and comprise mainly costs connected with the allocation of costs of affiliated companies of EUR 702k (2017: EUR 242k), the fee for consulting and auditing costs of EUR 623k (2017: EUR 926k), and costs for advertising and public relations of EUR 343k (2017: EUR 599k). In the previous year, costs related to the IPO in the amount of EUR 8,116k were included.

In financial year 2018, **VARTA AG** employed three members of staff in addition to the Executive Board. In total, personnel costs rose from EUR 1,917k in 2017 to EUR 3,298k in 2018. This was due to the increase in staff numbers in addition to the number of executive board members rising from two to three.

Depreciation and amortization predominantly includes depreciation of intangible assets totaling EUR 908k. Net interest income essentially improved due to short-term investments in affiliated companies from EUR 405k to EUR 1,817k.

The profit transfer agreement with **VARTA** Microbattery GmbH yielded income in the amount of EUR 33,588k. Conversely, costs from the profit transfer agreement with **VARTA** Storage GmbH amounting to EUR 3,814k offset this to some extent. The overall result is an increase in income from profit transfer agreements from EUR 23,701k in 2017 to EUR 29,774k in 2018.

Total net profit therefore stood at EUR 28,134k, up from EUR 8,182k in the previous year.

Income statement of VARTA AG for the financial year of 2018

		2018		2017	
		K€	K€	K€	K€
1.	Revenue		666		850
2.	Other operating income		198		76
	– of which from exchange rate gains EUR 95k (prev. year: EUR 153) –				
3.	Personnel expenses				
	a) Wages and salaries	-3,241		-1,865	
	b) Social charges and costs for Pension plans and support	-57	-3,298	-52	-1,917
	– of which for pensions EUR 0k (prev. year: EUR 0k) –				
4.	Depreciation on intangible and tangible assets		-936		-935
5.	Other operating expenses		-2,747		-10,895
	– of which from exchange rate losses EUR 98k (prev. year: EUR 260) –				
6.	Income from profit transfer agreements		33,588		28,583
7.	Other interest income and similar		1,855		594
	– of which from affiliated companies EUR 1,811k (prev. year: EUR 558k) –				
8.	Expenses from assumption of losses		-3,814		-4,882
9.	Interest expenses and similar		-38		-189
	– of which from affiliated companies EUR 20k (prev. year: EUR 172k) –				
10.	Taxes on income and profit		-5,522		-4,345
11.	**Result after tax/profit for the year**		**19,952**		**6,940**
12.	Profit/loss brought forward		8,182		1,242
13.	**Net profit/loss**		**28,134**		**8,182**

Asset and financial situation

As at December 31, 2018, fixed assets increased by EUR 31,112k from EUR 59,192k in 2017 to EUR 90,304k year on year, due primarily to the rise in financial investments from EUR 54,542k to EUR 86,589k. This increase is due to loans granted to subsidiaries.

Current assets decreased by EUR 3,257k from EUR 157,852k in 2017 to EUR 154,595k as at December 31, 2018. Liquid funds fell from EUR 123,249k in 2017 to EUR 55,866k in 2018 in connection with a short-term loan to a related company in the amount of EUR 56,977k as well as to the subsidiary **VARTA** Microbattery GmbH totaling EUR 5,652k. In contrast, investments made by **VARTA** Microbattery GmbH had an opposing effect for **VARTA AG**. As a result of this investment of liquid funds, receivables and other assets rose sharply by EUR 64,125k from EUR 34,603k in 2017 to EUR 98,728k in 2018.

Equity increased overall by EUR 19,952k from EUR 195,783k in 2017 to EUR 215,735k as at December 31, 2018. This increase is due to a change in net profit.

Provisions rose by EUR 1,060k from EUR 4,460k in 2017 to EUR 5,520k as at December 31, 2018. This increase is above all due to higher provisions for obligations for personnel costs. Liabilities increased by EUR 6,302k from EUR 15,046k in 2017 to EUR 21,348k as at December 31, 2018, due mainly to the increase in liabilities to affiliated companies in connection with the granting of a loan by **VARTA** Microbattery GmbH to **VARTA AG**.

Balance sheet of VARTA AG as at December 31, 2018

Assets

	12/31/2018		12/31/2017	
	K€	K€	K€	K€
A. Fixed assets				
I. Intangible assets				
Compensable concessions, industrial Property rights and similar rights and assets as well as licenses to such rights and assets		3,498		4,406
II. Tangible assets				
1. Other equipment, factory and office equipment	216		244	
2. Advance payments and assets under construction	1	217	-	244
III. Long-term investments				
1. Shares in affiliated enterprises	30,201		30,100	
2. Loans to affiliated enterprises	55,999		23,968	
3. Equity interests	30		30	
4. Other loans	359	86,589	444	54,542
		90,304		**59,192**
B. Current assets				
I. Receivables and other assets				
1. Trade receivables	-		1	
2. Claims against affiliated enterprises	96,282		29,741	
3. Other assets	2,447	98,729	4,861	34,603
II. Cash and cash equivalents		55,866		123,249
		154,595		**157,852**
C. Prepaid expenses		**29**		**41**
D. Deferred tax assets		**1,403**		**1,331**
Total assets		**246,331**		**218,416**

Equity and Liabilities

	12/31/2018 K€	12/31/2017 K€
A. Equity		
I. Subscribed capital	38,200	38,200
II. Capital reserve	142,590	142,590
III. Revenue reserves		
Statutory reserves	6,811	6,811
IV. Retained earnings / Accumulated deficit	28,134	8,182
	215,735	**195,783**
B. Provisions		
1. Tax accruals	2,839	2,817
2. Other provisions	2,681	1,643
	5,520	**4,460**
C. Liabilities		
1. Liabilities to financial institutions	9	2
2. Trade payables	264	2,052
3. Liabilities to affiliate enterprises	20,436	12,276
4. Other liabilities	639	716
– of which from taxes EUR 88k (prev. year: k€ 152)		
	21,348	**15,046**
D. Deferred tax liabilities	**3,728**	**3,127**
Total equity and liabilities	**246,331**	**218,416**

Risks and opportunities

The business development of **VARTA AG** is to a great extent dependent on the risks and opportunities of the **VARTA AG** Group, which were previously outlined in the consolidated management report of the **VARTA AG** Group.

There is the risk that the equity interests and loans to affiliated enterprises will be impaired. This is reviewed at least once a year. No impairment value need was identified in financial year 2018.

In addition, the risks from legacy liabilities existing at **VARTA AG** should be highlighted. The former properties of **VARTA AG** and of its former subsidiaries served mainly as manufacturing plants for the production of batteries and are burdened with industry-typical legacy liabilities. All former foreign shareholdings and one domestic participation were sold off to a single buyer, who has assumed liability for these risks as well as any risks arising in the future. This buyer has agreed not to make **VARTA AG** responsible for these risks; however, the legal liability of **VARTA AG** continues in relation to third parties. The buyer has now been liquidated, and an enterprise affiliated with the buyer, Global Equity Partners Beteiligungs-Management GmbH, Vienna, has hedged this indemnity with a guarantee in the amount of EUR 20m lasting until 2031 and reimbursed a claim raised in the meantime from such legacy liabilities. **VARTA AG** has evaluated the remaining risks and believes, taking into consideration the contractual claims for reimbursement, that any third-party action under the legal liability is unlikely. **VARTA AG** will be exposed to that extent only if the risks described above exceed the hedge potential of the guarantor or if it is unable to fulfill its contractual obligations.

Outlook

The expectations of **VARTA AG** regarding its financial and non-financial indicators as well as to the risk profile essentially correspond (based on their importance within the corporate Group and the cross shareholdings of the affiliates) to the projections of the **VARTA AG** Group, which are described in detail in the forecasts, risks and opportunities section of the consolidated management report. The economic growth of **VARTA AG** depends to a great extent on the contributions to financial results by its operating subsidiaries which flow to **VARTA AG** by virtue of the existing profit transfer agreements. The growth forecast of the operating subsidiaries implies, also in conformity with the expectations at the level of the **VARTA AG** Group, a very significant increase in overall results.

8 EMPLOYEES

The competence and capabilities of its employees as well as the level of identification that employees feel with the company form the basis of the successful development of the Group. In addition to training junior members of staff, further training and qualification schemes ensure a high level of competence among **VARTA AG** employees. The Group is interested in committed, motivated employees that enjoy working in strong teams to drive forward the company's innovation.

Our employees are distinguished by incredible commitment, dedication and loyalty. The Group places huge value on sustainable personnel policies with the aim of increasing both employee efficiency and satisfaction. For this reason, a new working hours model was developed last year in response to increased production demand.

The aim here is to encourage employees to commit to working at **VARTA AG** over the long term and enable them to identify with the company via common corporate goals. Employees tend to stay with the company for many years, allowing them to gain profound professional expertise within their respective area of responsibility. Furthermore, a balanced age profile promotes healthy knowledge transfer from generation to generation.

Generally speaking, the company is keen to monitor and maintain a balanced age profile of the staff complement. We aim to foster a working culture based on mutual respect and appreciation in which men and women alike are able to realize their professional goals.

To this end, it is essential that the Group achieves a balanced gender ratio in its workforce. At the end of 2016, **VARTA AG** set a target proportion of 30% female employees in the two management tiers below the Executive Board. At 29% as at year-end, this target was very nearly achieved. The target ratio for all employees in Germany stands at 36%.

As a responsible, conscientious employer, occupational health and safety is a matter taken very seriously by the **VARTA AG** Group. Moreover, the working culture of the Group is shaped by the values of mutual respect and openness.

Employer appeal

Specific, targeted measures are implemented across **VARTA AG** which aim to foster long-term commitment to the company. At the start of 2018, executives and employees deemed "high potential" were given the opportunity to participate in a stock option program.
Furthermore, Group executives meet annually as part of the manager's conference. The Group also supports targeted initiatives for the further development of trainees within the company.

As at December 31, 2018, the number of employees across the entire Group had risen to 2,284, up from 2,171 in 2017.
As at the balance sheet date of December 31, 2018, the number of employees was split on a regional basis as follows:

	DEC. 31, 2018	DEC. 31, 2017
Europe	1,354	1,232
Asia	911	919
USA	19	20

9 REMUNERATION REPORT

The Remuneration Report describes the basic principles of the compensation system for the Executive Board and the Supervisory Board of **VARTA AG**. The report also explains the structure, the composition and the amount of individual remuneration components. The report is based on the recommendations of the German Corporate Governance Code (DCGK) as last amended on February 7, 2017, unless stipulated otherwise by the Supervisory Board in its declaration of conformity. This report also contains information according to the requirements of the German Accounting Standard (DRS) 17, the German Commercial Code (HGB) and the International Financial Reporting Standards (IFRS), unless stipulated otherwise by the Supervisory Board. The quantitative details in line with IAS 24 are contained in the Notes to the Consolidated Accounts.

According to the resolution of the Extraordinary General Meeting of shareholders on October 6, 2017, individualized information regarding remuneration of Executive Board members, as required by Section 285 No. 9 lit. a) HGB and Section 314 (1) no. 6 lit. a) HGB, shall no longer be provided.

Remuneration of the Executive Board

The determination and regular review of Executive Board remuneration is the responsibility of the Supervisory Board. According to the recommendations of the DCGK, remuneration for Executive Board members consists of fixed and variable, partly share-based components.

The Supervisory Board reviews the appropriateness and market conformity of the remuneration of the members of the Executive Board and takes into consideration all criteria specified in Section 87 AktG in addition to Point 4.2.2 Clauses 4 and 5 DCGK, such as the responsibilities of the individual members of the Executive Board, their personal performance as well as the economic situation, the success and future prospects of **VARTA AG**.

Non-performance-based (fixed) remuneration components

The fixed remuneration components consist of a fixed basic salary, fringe benefits and a contribution towards a private pension scheme. The fixed basic remuneration is paid as a monthly salary. In addition, the members of the Executive Board receive fringe benefits, which are taxed individually according to the current tax regulations if they accrue a non-cash benefit from private use. These fringe benefits consist essentially of the private use of a company car and the payment of insurance premiums. The D&O insurance deductible, which is borne by the members of the Executive Board personally, corresponds to 10% of the respective losses, in accordance with Section 93 (2) Clause 2 AktG, but is a maximum of one-and-a-half times the fixed annual remuneration.
No pension commitments have been made.

Performance-based (variable) remuneration components

The performance-based remuneration components are tied to the development of certain quantitative objectives. In accordance with the Group's tax system, the Supervisory Board applies the metric of EBIT/EBITDA to ascertain target values here.

The Supervisory Board resolves the annual corporate targets for the calculation of the variable, short-term remuneration components.

Share-based remuneration

A stock option program has been established by the parent company VGG GmbH (Vienna, Austria) for the subscription of ordinary shares in **VARTA AG**. The underlying vesting period is four years. The share-based remuneration is tied to the main condition of an active employment relationship for the respective exercise period.

There is still a Long-Term Incentive (LTI) Program for the Executive Board. This LTI Program is a long-term quasi-equity component, which is aimed at a long-term cooperation between **VARTA AG** and the Executive Board. The program is intended to run for five years. Here, the key exercise condition is an existing employment relationship of at least three years. In this context, there exists a total of 214,285 stock options with a fair value of K€ 1,609 at the time of issuance.

Total Executive Board remuneration in financial year 2018 (2017)

NON-PERFORMANCE-BASED (FIXED) REMUNERATION INCLUDING FRINGE BENEFITS	PERFORMANCE-BASED VARIABLE REMUNERATION	SHARE-BASED REMUNERATION GRANTED BY THE COMPANY		TOTAL REMUNERATION
K€	K€	K€		K€
910 (610)	**1,634 (1,002)**	**1,609 (0)**		**4,153 (1,612)**

The service contracts of Executive Board members do not provide for any other fixed remuneration in case of a termination of the employment contract due to a change in control. However, a voluntary compensation payment may be agreed in cases of premature termination of service contracts by the Company without good cause. However, the severance payment is capped at a maximum amount of one or two times the respective annual salary.

Supervisory Board remuneration:
The remuneration of the Supervisory Board was decided by the Annual General Meeting and outlined in Section 15 of the Articles of Incorporation of **VARTA AG**. As per the Articles of Incorporation, each member of the Supervisory Board of **VARTA AG** receives a fixed compensation of EUR 30k in addition to reimbursement of all reasonable expenses. Remuneration of the Supervisory Board of **VARTA AG** therefore complies with the recommendations described in Point 5.4.6 of the DCGK regarding Supervisory Board remuneration as amended on February 7, 2017. In Point 5.4.6, the DCGK also recommends taking into consideration the function of chairman and deputy chairman of the Supervisory Board as well as the function of chairman and membership of the committees when determining remuneration. Accordingly, the Articles of Incorporation of **VARTA AG** provide that the Chairman of the Supervisory Board and the Deputy Chairman of the Supervisory Board each receive a fixed annual remuneration of EUR 50k in addition to the reimbursement of their expenses. This also pays for the assumption of memberships of committees and chairmanships of committees. The members of the Supervisory Board who are not part of the Supervisory Board for the full fiscal year receive remuneration due to them pro rata temporis in the amount of one twelfth for each initiated month of activity.

Total Supervisory Board for financial year 2018 (2017)
For the reporting year 2018, the Supervisory Board received total compensation in the amount of EUR 190k (2017: EUR165k). This total includes the reimbursement of the expenses incurred by each member of the Supervisory Board as well as the VAT due on the remuneration and reimbursement of expenses. The premium of the D&O insurance taken out for the members of the Supervisory Board is also borne by the Company. In addition, consulting services and other services in the amount of EUR 3k (2017: EUR 122k) were remunerated.

Individual remuneration Supervisory Board members in financial year 2018 (2017)

(IN K€)	FIXED REMUNERATION (ALL FIGURES NET)	OTHER CONSULTING SERVICES (ALL FIGURES NET)
DDr. Michael Tojner (Chairman)	50 (34)	0 (0)
Dr. Harald Sommerer (Deputy Chairman)	50 (38)	0 (0)
Dipl.-Ing. Frank Dieter Maier	30 (33)	0 (0)
Sven Quandt	0 (0)	0 (0)
Dr. Franz Guggenberger	30 (30)	0 (0)
Dr. Georg Blumauer	30 (30)	3 (122)
Total	**190 (165)**	**3 (122)**

Miscellaneous
No further loans or advances were granted to the members of the Executive Board or to the Supervisory Board of **VARTA AG** or its subsidiaries, nor were any contingent liabilities incurred on their behalf.

10 ENVIRONMENTAL PROTECTION

The company's environmental management system is monitored by the TÜV in accordance with ISO 14001 in the context of the audit. Since 2006, waste has been consistently separated and re-used rather than being disposed of. Legal guidelines regarding emission reductions have been met. The groundwater monitoring program established at the Ellwangen site was continued during the reporting year.

11 PROJECTIONS, OPPORTUNITIES AND RISKS REPORT

11.1 OPPORTUNITIES AND RISK MANAGEMENT SYSTEM

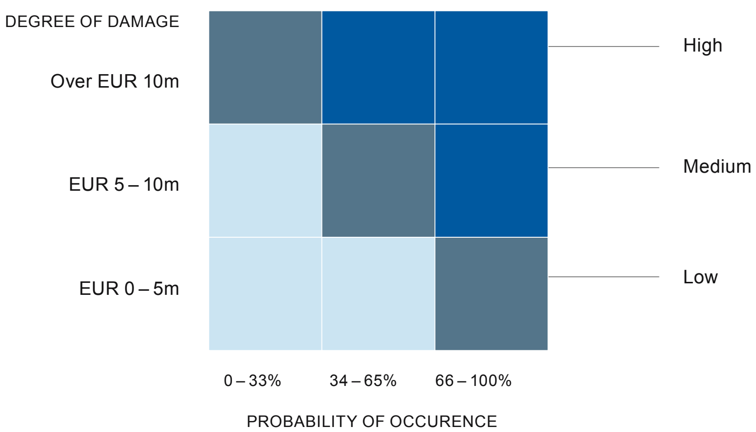
The Company has instituted management and control measures for the early detection and assessment of risks as well as for the handling of existing risks. These are enshrined in an early risk detection, internal control and risk management system.

The risk management system as a whole is evaluated at Group level and focuses on operating, financial, strategic and other risks. This conforms to the legal requirements pursuant to Section 91 (2) AktG. In this process, the risks are categorized as small, medium or high on the basis of an internal risk matrix (see matrix below). There is no risk quantification for assessing legal or compliance risks, although these risks are taken properly into account.

As a production company, much attention is paid to external factors such as the prices of raw materials, which could adversely impact the Group's financial results. Likewise, internal processes must be optimized on an ongoing basis because of the growing size of the business. Opportunities are seen in technological advances of wireless devices. Overall, the risk situation is considered manageable.

Important components of the system are a strategically oriented planning system, an annual budget that is updated several times during the year and adapted to the new insights, monthly reports detailing target and actual figures in addition to early and regular communications concerning risks and opportunities. This risk management system is supported by regular management meetings in which the opportunities and risks for business development are analyzed and discussed in detail.

The ranges for the quantification of risks have been adjusted compared with the previous year. This was carried out in order to focus on the main risks for the growth course we have embarked upon. This adjustment may result in risks being reclassified on a case-by-case basis.



11.2 EXECUTIVE BOARD: OVERALL ASSESSMENT OF THE OPPORTUNITY AND RISKS SITUATION

The executive board bears responsibility for managing all opportunities and risks. It is an integral part of corporate governance and also complies with the legal requirements pursuant to Section 91 (2) AktG. Based on the assessment of the Executive Board, the following risks described are manageable as at the publication date. No individual risks are discernible which could endanger the existence of the Company. At the same time, there is a firm conviction that the corporate Group is well-placed strategically and financially to exploit all opportunities that arise.

The opportunities and risks report covers the identification, assessment, control and monitoring of core risks. These risks include all scenarios that constitute a serious threat to the success of the company and that could have a material effect on the earnings or cash flow situation of the company. They can be allocated to individual risks classes according to their loss potential (large, medium, small). The loss potential is measured uniformly within the corporate Group in the context of a standard procedure and comprises a combination of the likelihood of occurrence and the expected effect of any loss on the corporate results.

Risk Officers monitor the risk situation for their business area on a decentralized basis and report to Group Risk Management. Within the individual business areas, there is a responsible person (Risk Owner) for the various risks areas who reports to the respective Risk Officer of that business area. In order to ensure a close alignment with the operating and financial issues, risk management is located within the central “Corporate Controlling” division.

Risk management is audited at regular intervals for its efficacy with areas for improvement identified and relevant measures implemented where necessary.

11.3 INTERNAL CONTROL SYSTEM

The accounting-related internal control and risk system of **VARTA AG** is an important part of the risk management strategy. The internal control system refers to the principles, procedures and measures introduced by the Management which are aimed at the organizational implementation of the management decisions in order to ensure the efficacy and cost efficiency of the business activities, the propriety and reliability of the internal and external accounting measures and compliance with the regulations relevant to the **VARTA** Group.

Depending on the respective situation, an appropriate internal control system which is continuously improved is implemented in the individual Group companies. The accounting system observes the principle of the separation of functions.

There are uniform accounting guidelines throughout the corporate Group. Furthermore, the accounting system is largely centralized at the Ellwangen site.

The executive board bears responsibility for the internal control and risk management system with regard to the corporate accounting process.

11.4 RISK SITUATION

Among all identified opportunities and risks, we explain below those areas which from today's viewpoint could materially affect the asset, financial and earnings situation negatively or positively during the projected period. The respective classification of the potential loss amount of the risk existing before counter-measures are implemented is indicated for the risks according to the above-mentioned assessment of the expected amount of loss in relation to the consolidated result, i.e. the gross amount of the expected loss.

Compared with the previous year, when the risks were presented on a net basis, the risks are specified according to the expected gross amount of loss in this year's report (prior to any countermeasures implemented). This corresponds with the internal management structure.

The risk situation for the **VARTA AG** Group is as follows:

RISK CLASS	INDIVIDUAL RISKS	GROSS AMOUNT OF THE EXPECTED LOSS
Operational risks	Production and logistics risks	medium
	Risk to industrial safety and environmental protection	small
	Procurement risks	small
	Continuous price pressure	small
	IT	small
Strategic risks	Restriction through potential substitute technologies	medium
	Dependence on one client	medium
	Shift in the market/trend	small
Financial and default risks	Foreign currency risks	small
	Investments and derivatives of financial instruments	small
	Default risks from the provision of goods and services	small
	Payments of tax arrears	small
	Soundness of our intangible assets	small

11.5 OPERATIONAL RISKS

Production and logistics risks as well as risks to work safety and environmental protection are limited by comprehensive process and control specifications. In addition, insurance protection commensurate with the risks identified is in place.

Procurement risks, particularly in the case of important raw materials and components, are minimized by permanent market observations, long-term cooperation with suppliers centered on quality and by the purchase of strategic components from more than one source. In addition, hedging operations are carried out for the purchase of nickel as one of the most important raw materials by value on the basis of the budget for the respective financial year.

The company deals with continuous price pressures, in particular from Asian competitors, by introducing technologically advanced and innovative products manufactured to high standards of quality and at competitive costs. **VARTA AG's** ability to ensure that new battery technologies are ready for mass production is particularly noteworthy.

The central Group IT department is responsible for all information systems and user authorizations worldwide. The IT landscape is globally very uniform with little fragmentation. This guarantees seamless access to the relevant data systems and technical applications for all employees despite the growing size of the enterprise. The IT department continuously monitors all system operations, examines the existing authorizations of individual users on a regular basis and adjusts the access rights to individual systems if necessary. For this reason, we also consider risks in the area of IT to be manageable.

STRATEGIC RISKS AND MARKET RISKS
The product portfolio contributes to a successful market positioning compared with our competitors. The **VARTA AG** Group stands for high quality, reliability and safety. The risk of technological substitution is considered to be medium. This risk can be reduced through continuous market monitoring and close contact with innovative manufacturers.

In particular, technological and innovative leadership is one of our major strengths. With its focus on research and development as well as its large network of research partners, the Group is excellently placed to help shape the technological progress of the relevant industries. We keep a close eye on restriction through potential substitute technologies. In the medium term, no material effects of potential replacement technologies in core Group business areas are discernible. Rather, this should be seen as an opportunity to help shape the technological advances in the various business segments.
Nevertheless, in a fast-growing and innovative environment, it is, of course, important to make the right decisions at all times so that the company is able to compete and thrive in the market over the long term. Despite the external nature of most risks, strategic risks must be detected in a timely fashion and the reaction must be commensurate with the risks. The market and competitive environment are constantly monitored in order to detect any possible risks in good time. The extent of any risk is determined primarily by the sales volume. Depending on the circumstances, product-specific and, as the case may be, regionally differing measures are taken.
Our business is highly diversified in regard to the geographical distribution of the sales markets, business areas and end user markets. No one customer alone contributed more than 15% to Group revenue during financial year 2018.

11.6 FINANCIAL AND DEFAULT RISKS

The Group is exposed to exchange rate risks on account of its international sales and worldwide purchases of raw materials and components. These risks were thoroughly analyzed and assessed during the reporting year. Most of the exposures to the main operating currencies (USD and SGD) incurred within the Group under the budget for 2018 were hedged by forward foreign exchange transactions and the risks were thereby adequately mitigated. The forward transactions are matched by planned operating payment streams in at least comparable amounts. The efficacy of the hedging instruments falling due in the future is measured quarterly. Hedging transactions are examined both prospectively and retrospectively in terms of their efficacy. Further explanations are contained in the Notes.

Investments and derivatives of financial instruments are pursued exclusively with banks with good creditworthiness. We take out credit insurance to minimize the default risk for most credit transactions based on the exchange of goods and services. We also obtain credit information and gather historical data from past business transactions in order to evaluate the creditworthiness of clients and to avoid payment defaults, in particular regarding past payment behavior. A comprehensive debtor management system has been set up for this purpose. To the extent that default risks can be discerned among individual financial assets, their value is corrected accordingly.

Other risks arising from usual payment transactions in the business or from potential additional tax payments are considered to be minor.

In addition, the intrinsic value of our intangible assets, in particular the capitalized development services in the business segments, are examined on a regular basis. The intrinsic value of the intangible assets is based on the long-term plans of the respective business segments at the time.

The remaining residual risks can be regarded as immaterial.

OTHER RISKS

Other risks comprise all remaining risks that cannot be assigned to the other risk categories. Compliance risks are understood to comprise penalties, financial or other material losses due to violations of the law and non-compliance with internal corporate regulations and principles. The compliance risks are judged to be small overall.

11.7 OPPORTUNITIES FOR FUTURE GROWTH

The development of the relevant markets for battery applications is of crucial importance for the further growth of the **VARTA AG** Group in addition to favorable macroeconomic framework conditions.

One of the success factors is the centralized planning and control system for the global flow of goods, which is supported by electronic data processing. It allows the Group to optimize processes related to the flow of goods between subsidiaries and across borders. The expansion of a production site in Eastern Europe presents another opportunity to improve flexibility through shorter shipping distances and further cost savings.

The high quality of the products, supported by the ability to innovate and proprietary research and development activities, opens up further opportunities. By continually investing in the expansion of the production capacities and the associated greater flexibility in the sourcing of products, the Group is well positioned to profit from the growing markets for battery applications, driven by an aging world population, greater technological networking and advancing miniaturization. Aside from the quality of our products, our customers also appreciate the Group's reputation for reliability, reflected in long-term supply and service relationships.

11.8 OVERALL RISK SITUATION FOR THE GROUP

The risk from unfavorable changes in exchange rates and raw material prices is countered by hedging the main currencies and raw materials. The risks of rising transportation costs will be offset by the new production site in Eastern Europe and the resulting shortening of freighting distances. The risks of labor cost disadvantages compared with competitors based mainly in the Far East is countered by further automation of production processes in Germany and by the optimal use of the production network in Asia and Eastern Europe.

Based on the opportunities and risks defined above, no major effects on the strategic goals of the corporate group are expected.

12 OUTLOOK

The Group is again anticipating double-digit growth in sales and income on account of the positive development of the economic environment, what we regard as our strong market position in core markets and huge investment in the expansion of production capacities. In the Microbatteries segment, the **VARTA AG** Group is benefiting in particular from the very significant growth in demand for rechargeable lithium-ion batteries (CoinPower), while demand for home storage solutions in the Power & Energy segment is also rising particularly rapidly. This outlook is based upon the assumption of constant currency exchange rates and organic growth of the company.

VARTA AG Group

Group revenue is expected to total EUR 303m-309m in 2019, equating to organic sales growth of around 12%-14% year on year. It is anticipated that adjusted Group EBITDA will fall between EUR 61m and EUR 64m, equating to a year on year increase of around 22%-28%.

CAPEX – i.e. payments made to purchase intangible assets and property, plant and equipment – are set to total EUR 65m-75m in the year ahead. Due to the sustained high demand for lithium-ion batteries (CoinPower), production capacities are being further expanded.

Microbatteries segment
In the hearing aid batteries business, the company intends to further consolidate its market-leading position in a market subject to structural growth. Due to strong demand for lithium-ion batteries for wireless headsets, the company plans to carry out a huge production capacity expansion in the Entertainment & Industrial area; this will constitute the largest growth potential in the Microbatteries segment. The company expects substantial double-digit sales growth in the Microbatteries segment for financial year 2019. As a result of the further scaling of our business model, we also expect to see a huge rise in adjusted EBITDA, which is set to experience above-average growth in relation to sales.

Power & Energy segment
There is a continued expectation of highly dynamic market growth in the Power & Energy segment, with the company expecting to register growth in line with the market. Growth in stationary intermediate energy storage systems is expected to continue on the back of new products being launched and tapping into new markets. Substantial double-digit percentage sales growth and very positive development in adjusted EBITDA are expected in the Power & Energy segment for full year 2019.

Our long-standing experience over many years in the battery business is factored into the opportunity and risk forecasts mapping further business development. This report contains information and forecasts that refer to the company's future development. However, it must be noted that actual results may vary greatly from the expectations surrounding the projected developments.

13 ADDENDUM

Regarding events that occurred after the closing date, reference is made to the information provided in the Notes to the Consolidated Accounts.

14 FINAL DECLARATION REGARDING THE INDEPENDENCE REPORT

The Executive Board declares pursuant to Section 312 (3) HGB that **VARTA AG**, Ellwangen, received good and valuable consideration in the legal transactions specified in the report regarding the relations with affiliated enterprises in accordance with the facts known at the time the legal transactions were implemented. No reportable actions pursuant to Section 312 AktG have either been taken or omitted.

15 TAKEOVER LAW INFORMATION

The subscribed capital of **VARTA AG** as at December 31, 2018 was EUR 38,200k and is unchanged compared with the previous year. The subscribed capital is divided into 38,200,000 shares. These are par value shares registered to the bearer representing a prorated amount of the nominal capital of one euro.

Appointment and dismissal of Executive Board members
The appointment and dismissal of members of the Executive Board is regulated by Sections 84 and 85 AktG. The Executive Board comprises a minimum of two members pursuant to Article 6 of the Articles of Association. The number of Executive Board members is determined by the Supervisory Board. The supervisory Board is authorized to nominate both a Chairman of the Executive Board (CEO) and a Deputy Chairman of the Executive Board.

Executive Board authorization to issue shares
By resolution of the Annual General Meeting on October 6, 2017, the Executive Board was authorized to increase the share capital one or several times against contributions in cash and/or in kind up to an amount of EUR 11,840k (Authorized Capital 2017 I) or up to an amount of EUR 2,960k (Authorized Capital 2017 II) up to October 5, 2022. So far, no use has been made of either Authorized Capital 2017 I or Authorized Capital 2017 II.

Moreover, the Annual General Meeting of October 6, 2017, approved a conditional capital increase of the share capital of up to EUR 11,840k to grant shares upon the exercising of option and/or conversion rights or the fulfilment of option and/or conversion obligations.

Restrictions concerning voting rights or share transfers
There are no restrictions on voting rights. All shares of the Company have the same voting right.
Except for the lock-up agreements mentioned below, there are no restrictions regarding the transferability of the shares of the Company.

The shareholders of VGG GmbH and ETV Beteiligungs GmbH and the Chairman of the Supervisory Board made a commitment to lock-up agreements within a period of twelve months beginning with the day on which the shares of the company are traded for the first time on the Frankfurt Stock Exchange and thereafter within a period of twelve additional months.

Equity interests exceeding 10% of the voting rights
As Chairman of the Supervisory Board at **VARTA AG** and majority shareholder of Montana Tech Components AG, Reinach (Switzerland), via stakes of 62.67% and 1.55% respectively in its subsidiaries VGG GmbH, Vienna (Austria) and ETV Montana Tech Holding AG, Vienna (Austria), DDr. Michael Tojner holds a stake amounting to 64.22% in **VARTA AG**.

Shares with special rights conveying a controlling authority
There are no shares with special rights conveying a controlling authority.

Ellwangen, March 26, 2019
VARTA Aktiengesellschaft

Herbert Schein Steffen Munz

STRONG FINANCIAL PROFILE

We invest conservatively with a strong focus on internal yield criteria.

Notes to the consolidated financial statements

Consolidated statement of financial position as of December 31, 2018
VARTA Aktiengesellschaft, Ellwangen (Jagst)

(IN K€)	NOTE	DECEMBER 31, 2018	DECEMBER. 31, 2017
ASSETS			
Property, plant and equipment	7	112,803	63,447
Intangible assets	8	21,174	21,556
Long-term investments and other participations recognized in the balance sheet under the equity method	9	348	1,718
Other financial assets	11/38	359	444
Deferred tax assets	16	1,477	2,313
Other assets	14	15,670	15,780
Non-current assets		**151,831**	**105,258**
Inventories	12	56,699	53,770
Contract assets	13/38	2,370	0
Trade receivables	13/38	26,345	20,103
Tax refund claims	14	549	744
Other assets		14,161	13,069
Cash and cash equivalents	15	149,741	138,536
Current assets		**249,865**	**226,222**
Total assets		**401,696**	**331,480**

(IN K€)	NOTE	DECEMBER 31, 2018	DECEMBER. 31, 2017
EQUITY AND LIABILITIES			
Subscribed capital		38,200	38,200
Capital reserve		149,374	146,719
Retained earnings		41,627	28,575
Net income		25,260	13,268
Other reserves		3,535	2,710
Equity of the VARTA AG Group	17	**257,996**	**229,472**
Non-controlling interests	17	1,426	980
Equity	17	**259,422**	**230,452**
Other financial liabilities	19	6,200	6,200
Provisions for employee benefits	20	23,639	22,775
Advance payments received	22/38	30,247	0
Other liabilities	23	93	448
Other provisions	24	243	0
Non-current liabilities		**60,422**	**29,423**
Tax liabilities	21	7,261	4,724
Other financial liabilities	19	2,720	2,201
Provisions for employee benefits	20	1,048	1,087
Contract liabilities	22/38	8,435	0
Trade payables and advance payments received	22/38	35,021	32,479
Other liabilities	23	11,018	10,285
Other provisions	24	4,304	4,256
Deferred liabilities	25	12,045	16,573
Current liabilities		**81,852**	**71,605**
Liabilities		**142,274**	**101,028**
Equity and total liabilities		**401,696**	**331,480**

Consolidated income statement for the period 01/01/ – 12/31/2018
VARTA Aktiengesellschaft, Ellwangen (Jagst)

(IN K€)	NOTE	*SPECIAL EFFECTS*	2018	*SPECIAL EFFECTS*	2017
Sales revenue	26/6		**271,650**		**242,157**
Increase in finished and unfinished goods	27		3,899		3,145
Own work capitalized			4,152		3,517
Other operating income	31		7,109		14,472
Cost of material	28		-106,867		-99,928
Personnel expenses	29		-92,440		-86,047
Other operating expenses	32		-40,114		-44,227
EBITDA			**47,389**		**33,089**
Costs of IPO		*0*		*6,115*	
Reimbursement claim from pensions		*0*		*-3,629*	
Costs of share-based payment	33	*2,830*		*3,557*	
Adjusted EBITDA		***50,219***		***39,132***	
Depreciation and amortization	30		-10,518		-9,446
Operating earnings (EBIT)			**36,871**		**23,643**
Financial income	34		160		63
Financial expense	34		-416		-783
Sundry financial income	35		368		687
Sundry financial expense	35		-631		-889
Financial result			**-519**		**-922**
Profit and loss shares in companies recognized in the balance sheet under the equity method, after taxes	9		130		-1,696
Earnings before taxes			**36,482**		**21,025**
Income tax expenses	36		-10,779		-7,481
Consolidated result			**25,703**		**13,544**
Appropriation of profit:					
Shareholders of **VARTA AG**			25,260		13,268
Non-controlling interests			443		276

Consolidated statement of comprehensive income for the period 01/01/ – 12/31/2018
VARTA Aktiengesellschaft, Ellwangen (Jagst)

(IN K€)	NOTE	2018	2017
Consolidated result		**25,703**	**13,544**
Items not reclassified under profit or loss			
Revaluation of the net defined benefit liability	20	188	335
Revaluation of the reimbursement claim	20	180	959
Tax effect	21	-102	-381
		266	**913**
Items that were reclassified or may be reclassified later under profit or loss			
Currency translation differences	36	1,345	-2,972
Result of fair value changes in cash flow hedges	38	-729	142
Tax effect	36	212	-42
		828	**-2,872**
Other income after taxes		**1,094**	**-1,959**
Comprehensive income		**26,797**	**11,585**
Appropriation of profit:			
Shareholders of **VARTA AG**		26,351	11,315
Non-controlling interests		446	270

Earnings per share* (EUR)

	NOTE	2018	2017
Basic earnings per share	18	0.66	0.36
Diluted earnings per share	18	0.66	0.36

*Earnings per share solely comprise **VARTA AG** shares

Consolidated cash flow statement for the period 01/01/ – 12/31/2018
VARTA Aktiengesellschaft, Ellwangen (Jagst)

(IN K€)	NOTE	2018	2017
Cash flow from ongoing operating activities			
Earnings before taxes		36,482	21,025
Net financial result less sundry financial expense/sundry financial income	35	256	720
Results from at equity measurement	9	-130	1,696
Depreciation and amortization	30/7/8	10,518	9,446
Gains and losses from the sale of property, plant and equipment and intangible assets		4	96
Other non-cash income and expenses		1,317	-962
Change in working capital			
Inventories	12	-2,288	-12,329
Trade receivables and other current assets	13	-8,031	-9,161
Trade payables and other current and non-current liabilities	22	38,026	15,126
Provisions and liabilities from pensions	20	583	1,929
Income tax paid		-6,891	-5,566
Net cash flow from ongoing operating activities		**69,846**	**22,020***
* see explanation concerning change in disclosure in note 37 Group cash flow			
Cash flow from investing activities			
Capital expenditure on the acquisition of intangible and tangible assets	30/7/8	-56,275	-17,039
Own work capitalized	8	-4,152	-3,517*
Cash receipts from the sale of intangible and tangible assets		96	4
Changes in the scope of consolidation		0	620
Payments from raising loans		-394	0
Investment in investments		0	-30
Receipts of loans	11	87	141
Repayment of capital reserve from associated companies		1,500	0
Receipts from the repayment of loans to affiliated companies	11	0	2,815
Interest received		156	63
Cash flow from investing activities		**-58,982**	**-16,943***
* see explanation concerning change in disclosure in note 37 Group cash flow			
Cash flow from financing activities			
Receipts/payments from capital measures		0	150,500
Payments for the costs of the IPO		0	-1,505
Payments from the repayment of interest-bearing financial liabilities		0	-15,751
Incurrence of financial liabilities	19	1,470	0
Repayment of current borrowings	19	-1,489	0
Payments from the assumption of the joint debt obligation		0	-11,193
Interest paid		-95	-474
CASH FLOW FROM FINANCING ACTIVITIES		**-114**	**121,577**
Net change in cash and cash equivalents		**10,750**	**126,654**
Cash and cash equivalents as of January 1	15/37	138,536	12,347
The effects of changes in foreign exchange rates		455	-465
Cash and cash equivalents as of December 31	15	**149,741**	**138,536**

Consolidated statement of changes in equity VARTA Aktiengesellschaft, Ellwangen (Jagst)

(IN K€)	SUBSCRIBED CAPITAL	CAPITAL RESERVE	RETAINED EARNINGS*	OTHER RESERVES CURRENCY DIFFERENCES	OTHER RESERVES HEDGING RESERVE	NON-CONTROLLING INTERESTS	TOTAL EQUITY
As of January 1, 2017	**29,600**	**2,681**	**27,434**	**5,548**	**28**	**0**	**65,291**
Restructuring							
Capital increase from the IPO	8,600	141,900	0	0	0	0	**150,500**
Transaction costs from the IPO	0	-1,419	0	0	0	0	**-1,419**
Effect of share-based payment	**0**	**3,557**	**0**	**0**	**0**	**0**	**3,557**
Changes in the scope of consolidation	**0**	**0**	**228**	**0**	**0**	**710**	**938**
Comprehensive income							
Profit/loss for the year	0	0	13,268	0	0	276	13,544
Other comprehensive income	0	0	913	-2,966	100	-6	-1,959
Comprehensive income	**0**	**0**	**14,181**	**-2,966**	**100**	**270**	**11,585**
As of December 31, 2017	**38,200**	**146,719**	**41,843**	**2,582**	**128**	**980**	**230,452**

*Revenue reserves including profit/loss for the year

(IN K€)	SUBSCRIBED CAPITAL	CAPITAL RESERVE	RETAINED EARNINGS*	OTHER RESERVES CURRENCY DIFFERENCES	OTHER RESERVES HEDGING RESERVE	NON-CONTROLLING INTERESTS	TOTAL EQUITY
As of December 31, 2017	**38,200**	**146,719**	**41,843**	**2,582**	**128**	**980**	**230,452**
IFRS 15 – Adjustment 01.01.2018	0	0	-633				**-633**
IFRS 9 – Adjustment 01.01.2018	0	0	151				**151**
As of January 1, 2018	**38,200**	**146,719**	**41,361**	**2,582**	**128**	**980**	**229,970**
Effect of share-based payment	**0**	**2,655**	**0**				**2,655**
Comprehensive income							
Profit/loss for the year	0	0	25,260	0	0	443	25,703
Other comprehensive income	0	0	266	1,342	-517	3	1,094
Comprehensive income	**0**	**0**	**25,526**	**1,342**	**-517**	**446**	**26,797**
As of December 31, 2018	**38,200**	**149,374**	**66,887**	**3,924**	**-389**	**1,426**	**259,422**

Consolidated Financial Statements 2018 of VARTA AG

as of December 31, 2018

1 GENERAL INFORMATION

VARTA Aktiengesellschaft (**VARTA AG**) is a company headquartered in Ellwangen (Jagst), Germany, registered in the Commercial Register of the Ulm District Court, Germany, under HRB 728059. The company's present interim consolidated financial statements comprise the company and its subsidiaries (collectively, "**VARTA AG** Group"). The reporting date for **VARTA AG**, all subsidiaries and for the consolidated accounts is December 31, 2018. These consolidated accounts are presented in euro, which is the company's functional currency. All financial information presented in euro were, unless specified otherwise, rounded up to the next thousand. The consolidated financial statements were prepared in compliance with the International Financial Reporting Standards (IFRS).

The business activities of **VARTA AG**, which it conducts through its operating subsidiaries, comprise production, sales, research and development in two business segments: "Microbatteries" and "Power & Energy". The **VARTA AG** Group is a globally operating international company with over 130 years' experience.

The **VARTA AG** Group is headquartered in Ellwangen, Daimlerstraße 1, Germany. The ultimate parent of **VARTA AG** is Montana Tech Components AG, subsequently "MTC", (Reinach, Switzerland).

The shares of **VARTA AG** are traded on the regulated market (Prime Standard) under the securities identification number (WKN) A0TGJ5, the international securities identification number (ISIN) DE000A0TGJ55 and the ticker symbol "VAR1".

In January 2018, a share option program for employees (MSOP) was launched by the parent company VGG (Vienna), under which participating employees of the **VARTA AG** Group, including the Executive Board, are entitled to purchase ordinary shares in **VARTA AG**. The vesting period taken as a basis amounts to four years and the precondition for exercise is that the beneficiaries are in an ongoing employment relationship with **VARTA AG** or with one of its affiliated companies as the date the option is exercised.

2 CHANGES IN THE SCOPE OF CONSOLIDATION

There were no corporate acquisitions or corporate divestments in financial year 2018.

	2018		2017	
	FULL CONSOLIDATION	EQUITY CONSOLIDATION	FULL CONSOLIDATION	EQUITY CONSOLIDATION
As of January 1	**11**	**2**	**9**	**2**
Acquisitions	0	0	2	0
Start-up	1	0	0	0
As of December 31	**12**	**2**	**11**	**2**

The companies included in the scope of consolidation are listed in Chapter 42 (see Note 42 “Investment companies”)

Changes in 2018
The company **VARTA** Micro Production GmbH was established as a subsidiary of **VARTA AG** on April 25, 2018. The company, which is based in Nördlingen, was registered in the Commercial Register under the number HRB 32477. The purpose of the company is the production, distribution and development of chemical, electro-chemical and electrotechnical products as well as metallurgical and other industrial products of all kinds, especially batteries. Furthermore, the company strives to drive forward manufacturing and distribution of products in the area of plant and apparatus construction as well as the production, installation, management and exploitation of plants and businesses as well as trade in third-party products in the areas mentioned above.

3 NOTES EXPLAINING THE CONSOLIDATED ACCOUNTING PRINCIPLES

3.1 DECLARATION OF COMPLIANCE
Pursuant to Section 315e (1) HGB, the consolidated financial statements of **VARTA AG** and its subsidiaries for financial year 2018 were prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the supplementary pro-visions of German commercial law contained in Section 315a (2) HGB. The standards of the IASB applicable on the reporting date, which have been endorsed by the European Union, are applied here. The term IFRS also comprises the International Accounting Standards (IAS), which are not yet valid. The interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), application of which is obligatory on December 31, 2018, were also applied.

3.2 GOING CONCERN
In compliance with IAS 1.25, the consolidated financial statements were prepared on the assumption that the company is a going concern.

3.3 CONSOLIDATION PRINCIPLES

The scope of consolidation comprises all companies which **VARTA AG** controls, either directly or indirectly. Control is deemed to exist if **VARTA AG** holds the majority of voting rights (including potential voting rights) or can determine the financial and business policy directly or indirectly on the basis of a controlling position and can therefore benefit from the business activity. These companies are fully consolidated. Subsidiaries are consolidated for the first time when control is acquired. Subsidiaries are deconsolidated when control ends.

Intragroup gains and losses, expenses and income as well as receivables and liabilities between consolidated companies are eliminated.

Joint ventures in which **VARTA AG** holds 50% directly or indirectly or for which management responsibility is performed equally are accounted for in accordance with the equity method, as specified in IAS 28.

The consolidated companies are presented in a table in the notes 42 “Investment companies”.

3.4 MEASUREMENT BASIS

Assets are accounted for in accordance with the acquisition method. Derivative financial instruments, if held, are the exception. Non-current assets held for sale and groups of assets are held at the lower of their carrying amount and fair value less anticipated costs to sell.

3.5 FUNCTIONAL AND PRESENTATIONAL CURRENCY

The Group currency is the euro. Unless indicated otherwise, all amounts are given in thousand euro (EURk).

As a rule, the functional currency of the respective Group companies is based on their primary economic environment and corresponds, in principle, to the national currency. For the majority of the activities, the euro (EUR or €) is the functional currency, which is why the present consolidated financial statement was prepared in euro (EUR or €).

3.6 MATURITIES

Current assets are assigned to asset items, which will either be realized or consumed within a year in the Group’s normal business cycle or are held for trading purposes. All other assets are assigned to non-current assets.

All obligations that the Group will repay as part of the normal business cycle using operating cash flows or which will fall due within a year of the reporting date are assigned to current liabilities. All other obligations are assigned to non-current liabilities.

4 KEY ACCOUNTING AND MEASUREMENT POLICIES

4.1 CURRENCY TRANSLATION

The individual companies prepare their financial statements in functional or local currency. In the present consolidated financial statements, assets and liabilities held in foreign currency are translated into euro at the rate on the reporting date. Equity is stated at historical rates. Expenses and income are translated into euro at average rates in the respective period. The differences resulting from translation are recognized in the consolidated statement of comprehensive income. Translation differences are only recognized through profit or loss on disposal or deconsolidation of a subsidiary.

Transactions in foreign currency are translated into the functional currency at the respective current rate. Outstanding amounts in foreign currencies are translated at reporting date rates for cash items and at historical rates for non-cash items. Non-cash foreign currency items accounted for at fair value are translated at the exchange rate at the remeasurement date. The foreign currency gains and losses resulting from translation at the reporting date rate are, with the exception of available-for-sale financial assets and net investments in foreign operations, reported in the income statement under other financial result.

The exchange rates used for foreign currency translation that have a significant impact on the consolidated financial statements are as follows:

1 EURO EQUALS	AVERAGE RATE		RATE ON THE CLOSING DATE	
	2018	2017	DECEMBER 31, 2018	DECEMBER 31, 2017
US Dollar (USD)	1.1810	1.1297	1.1450	1.1993

The Chinese yuan (CNY) and Romanian leu (RON) also affect the consolidated financial statements but the effect is not significant for the **VARTA AG** Group.

4.2 FINANCIAL INSTRUMENTS

4.2.1 Non-derivative and derivative financial instruments

The first-time application of IFRS 9 had no material effects on the Group's accounting methods in relation to financial liabilities and derivative financial instruments.

IFRS 9 includes three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTLP). The classification of financial assets according to IFRS 9 is carried out on the basis of the company's business model for the control of financial assets and the properties of contractual payment flows. IFRS 9 eliminates the existing IAS 39 categories of held to maturity, loans and receivables and avail-able for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset within the scope of IFRS 9 are not separated. Instead, the hybrid financial instrument as a whole is assessed for classification.
IFRS 9 largely retains the existing requirements under IAS 39 for the classification of financial liabilites.

Non- derivatives and derivative financial instruments are divided into the following categories in the Group's consolidated financial statements:

- Debt instruments measured at amortized cost;
- Debt instruments measured at fair value through other comprehensive income (FVOCI), where the cumulative gains and losses are reclassified into the income statement on derecognition of the financial asset;
- Debt instruments, derivatives and equity instruments measures at fair value through profit or loss (FVTPL);
- Equity instruments, which are classified as FVOCI, where the gains and losses remain in other comprehensive income (OCI) on derecognition of the financial asset (no recycling).

Non-derivative financial instruments comprise investments in equity and debt instruments, trade receivables, other receivables, cash and cash equivalents, credits ad loans, trade payables as well as other liabilities. For a financial asset to meet the criteria for measurement at amortized cost or for FVOCI measurement, it must generate cash flows, which solely constitute principal and interest payments on the outstanding capital amount. Purchases or sales of financial assets are stated or derecognized on the trading date.

In addition to checking the cahs flow characteristics test, the classification depends on the business model in which the company holds the financial asset.

Foreign currency and commodity risks are economically hedged against derivative financial instruments in the Group; in most cases the requirements for hedge accounting in accordance with IFRS 9 are met. Derivative financial instruments are solely used to hedge the risks arising from operating activities. For hedging planned cash flows against exchange rate risks, a 12-month liquidity planning is used as the basis for the cash flow hedges to be concluded.

Forward foreign exchange transactions and commodity swaps are stated at fair value when the deal is concluded with directly attributable transaction costs being posted through profit or loss. They are subsequently measured at fair value. Changes in the valuation of the effective part of a derivative are initially recognized in the reserve for cash flow hedges without affecting the income statement and only recognized through profit or loss when the underlying transaction is realized, if the hedged transaction leads to recognition of a financial asset. If the hedged expected transaction subsequently leads to recognition of a non-financial asset, the amount is derecognized from the cash flow hedge reserve and included directly in initial procurement costs. The ineffective part is recognized immediately through profit or loss. In comparison with IAS 39 no significant changes have occurred.

The effectiveness of these hedging transactions is reviewed prospectively. The critical terms match method is applied prospectively.

Derivatives are recognized on the trading date.

Debt instruments measured at amortized cost
As a rule, a debt instrument is measured at amortized cost if it is held in a business model, whose objective is to hold assets to receive the contractual cash flows if the debt instrument also meets the cash flow conditions.

Debt instruments measured at fair value through other comprehensive income (FVOCI)
As a rule, a debt instrument is measured at fair value through other comprehensive income (FVOCI), if it is held in a business model, whose objective is met if contractual cash flows are received and financial assets sold and if the cash flow conditions are also met.

Debt instruments, derivatives and equity instruments measures at fair value through profit or loss (FVTPL)
Financial assets, which are neither held in a business model, whose objective is to hold assets to receive contractual cash flows nor in a business model whose objective is fulfilled if contractual cash flows are received and financial assets sold.
For example, business models in which financial assets are held for trading purposes or are managed on a fair value basis lead to FVTPL measurement. In both cases, the company manages the financial assets with the objective of realizing cash flows through the sale of assets. In this respect, the company's objective ensures that the company buys and sells assets actively.

Equity instruments, which are classified as measured as FVOCI
Equity instruments are normally measured at fair value through profit or loss unless, a company opts on a case by case on initial recognition to present changes in fair value in other comprehensive income. This option is irrevocable and only applicable to equity instruments, which are not held for trading and which do not constitute conditional consideration in a business combination.

Fair value option
Regardless of the criteria for the classification of debt instruments into the categories "at amortized cost" or "at fair value through other comprehensive income" described above, a company may irrevocably classify a debt instrument as "measured at fair value through profit or loss" on initial measurement if this avoids or significantly reduces an accounting anomaly.

4.2.2 Share-based payment
The **VARTA AG** Group offers two share-based remuneration programs. The first is an employee stock option program (ESOP), which was established by VGG GmbH, Vienna, while the second relates to a Long-Term Incentive Program (LTI program) for a member of the Executive Board.

The ESOP is paid in shares or cash. At **VARTA AG**, personnel costs are recognized over the vesting period. They are offset under capital reserves. The LTI program can be paid in shares or in cash, and represents a combination of a share-based component and a component paid in cash. At **VARTA AG**, personnel costs are recognised over the vesting period and are offset either under capital reserves (for payment in shares) or under personnel liabilities.

The fair value of both share-based payment systems was determined in accordance with the Black-Scholes formula. For further details, please see Section 33 Share-based payment arrangements.

4.3 INTANGIBLE ASSETS

4.3.1 Research and development

Research expenditure is recognized as expenses with regard to obtaining new fundamental or technological knowledge and understanding. Development costs with respect to new products and processes is then capitalized if, in essence, the following conditions are demonstrably and cumulatively met:

- completion of the project in the sense that it can be utilized economically through own use or sale is technically feasible;
- intended completion of the project and utilization through sale or own use;
- capacity for own use or sale of the intangible asset;
- demonstration of future economic benefit. Inter alia, the company must provide evidence of the existence of a market for the intangible asset itself or the products to be generated from it. In the event of own use, evidence must be provided that the asset in question is useful.
- Availability of the technical, financial and other reserves needed to complete the project or to use or sell the asset;
- Reliable determination of the costs to be allocated to the intangible asset during the development phase.

Capitalized development costs are measured at cost of acquisition or manufacture less cumulative depreciation and other loss allowances (see notes 4.8 “Impairment test”). Otherwise development costs are recognized as expenditure. Determination of the useful life is dependent on the project and is based on expected technological progress.

4.3.2 Other intangible assets

Other intangible assets include commercial property rights, which comprise trademarks and patents, licenses as well as other intangible assets.

Intangible assets with determinable useful lives are accounted for at cost less cumulative depreciation and impairments (see notes 4.8 “Impairment test”). Intangible assets are capitalized if it is likely that an economic benefit will be attained from them. All other expenses are charged directly to the income state at the time they are recognized. Intangible assets are depreciated on a straight-line basis over their estimated useful lives; depreciation starts from the date they are available for use. The estimated useful life for commercial property rights, licenses and other intangible assets amounts to three to ten years.

Intangible assets with an unlimited useful life are not depreciated but subjected to an impairment test each year (see notes 4.8 “Impairment test”).

4.4 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is measured at cost of acquisition or manufacture less cumulative depreciation and cumulative impairments. Subsequent investments are only capitalized if they increase the future economic benefit of the fixed asset. All other expenses for property, plant and equipment are recognized immediately in expenditure.

Property, plant and equipment with the exception of land are written down on a straight-line basis through profit and loss over the following expected useful lives:

Buildings	20 – 33 years
Technical plant and machinery	5 – 20 years
Other equipment	2 – 15 years

The depreciation methods, useful lives and assumed residual values are reviewed each year, if not insignificant, and adjusted if necessary.

If plant is disposed of, the difference between the carrying amounts and the net sales proceeds are recognized through profit or loss in other operating income or in other operating expenses.

4.5 LEASES

Assets, which are components of leases, are accounted for if the Group as lessee bears all the material opportunities and risks from use of the lease asset and is consequently to be viewed as the beneficial owner (finance lease). In the case of a finance lease, the leased asset is capitalized in non-current assets at the lower of fair value or the present value of future minimum lease payments and a lease liability is recognized in the same amount. The leased assets are depreciated over the estimated useful life or shorter lease term. Following initial recognition, the lease asset is treated in compliance with the measurement principles applicable to the asset.
For all other leases, which the **VARTA AG** Group concludes as lessee, the lease assets are not capitalized rather the lease installments are recognized in profit or loss when they fall due. The new IFRS 16 shall be applied in the **VARTA AG** Group from January 1, 2019.

4.6 TRADE RECEIVABLES

Trade receivables are accounted for at amortized cost, which usually equates to the nominal value less loss allowances created for the credit risk (see notes 38.2 ”Financial risk management”).

In addition to individual loss allowances required for specific known credit risks, loss allowance based on past experience are also created in accordance with IFRS 9. IFRS 9 replaces the “losses incurred” model from IAS 39 with an “expected credit losses” (“ECL”) model. The new impairment model is applicable to financial assets, which are measured at amortized cost, to contract assets and debt instruments measured at FVOCI but not, however, to equity investments held as long-term investments. Credit losses are recognized more rapidly under IFRS 9 than under IAS 39 (see notes “Financial risk management”).

As soon as there is sufficient evidence that a receivable will definitely no longer be paid, the receivable is derecognized directly or netted off against the individual loss allowance created for this purpose.

4.7 INVENTORIES

Inventories are measured at cost of acquisition or manufacture or at the lower net realizable value. The net realizable value is the expected average sale price less completion and sales costs still to be incurred.

Self-manufactured products are measured at the cost of manufacture, purchased products at the cost of acquisition. The costs of manufacture include direct material and production costs as well as directly attributable overheads. Production overheads are determined on the basis of normal production capacity. Inventories are usually measured on the basis of the first-in-first-out process (FIFO process). They are written down if the net realizable value is below the carrying amount.

4.8 IMPAIRMENT TEST

4.8.1 Financial assets

The measurement of financial assets, which are not measured at fair value through profit or loss, is reviewed at each reporting date to determine whether the financial asset is impaired. An impairment is recognized if there is objective evidence that its carrying amount exceeds the recoverable amount.

The following are deemed to be objective evidence that financial assets are impaired:
- Default or delay by a debtor
- Restructuring of an amount owed to the Group on terms, which the Group would not consider otherwise
- Indications that a debtor or issuer is becoming insolvent
- Detrimental changes in the payment status of borrowers or issuers
- The disappearance of an active market for a security because of financial difficulties or
- Observable data, which point to marked reduction in the expected payments of a group of financial assets

The impairment model separates between a general and a simplified approach.

General Approach IFRS 9.5.5.1:
- Risk provision
- Division into three levels required
- Interest received on the basis of the original contractual effective interest rate

Simplified Approach IFRS 9.5.5.15:
- For trade receivables, contract assets, leasing receivables
- Risk provisions from the time of acquisition with lifetime expected loss

According to the expected loss model, all assets are divided into three categories:
Initially, assets are allocated to level 1 irrespective of their credit quality. Only assets that have an explicit indication of expected losses are assigned to the second or third category (see 38.2 Financial risk management). In cases of a deterioration of creditworthiness, assets are re-assigned to CQS 2 or CQS3. Where possible, the **VARTA AG** Group undertakes to apply the simplified approach.

Financial assets at amortized cost

The Group considers indications of impairments for these financial assets both at the level of the individual asset and on a collective level. All assets, which are significant in their own right, are assessed with regard to specific impairments. Those, which do not prove to be specifically impaired, are subsequently assessed collectively for possible impairments, which could occur but have not yet been identified. Assets, which are not significant in their own right, are assessed collectively for impairments by combining assets with similar risk characteristics in a group.

For assessing collective impairments, the Group uses historical information about the timing of cash receipts and the amount of losses incurred, adjusted by a judgment by management of whether current economic conditions and credit terms are such that actual losses will probably be larger or smaller than the losses to be expected on the basis of historical trends.

An impairment is calculated as the difference between the carrying amount and the present value of the estimated future cash flows, discounted by the original effective interest rate of the asset. Losses are recognized in profit or loss and reproduced in an account for loss allowances. If the Group has no realistic prospect of recovering the asset, the amounts are written off. If an event occurring after the loss allowance is recognized results in a reduction in the amount of the loss allowance, the reduction in the loss allowance is recognized in profit or loss.

4.8.2 Non-financial assets

The carrying amounts of non-financial assets or cash-generating units within the scope of IAS 36 are assessed on each reporting date to discover whether there are indications of impairment. If there are such indications, an impairment test will be carried out.

For intangible assets, which have an indeterminable useful life or are not yet available for use, the recoverable amount is determined annually at the same time for the cash generating unit (CGU).

The recoverable amount of a CGU is determined using the discounted cash flow (DCF) method and is the higher of value in use and fair value less disposal costs. The DCF method reacts especially sensitively in relation to the discount rate chosen and the future cash flows estimated by the Executive Board. The discount rate is based on the weighted average cost of capital (WACC) of the respective CGUs. It is calculated from a risk-free interest rate and a market risk premium. The discount rate also reflects the current market assessment and risks of CGUs taking account of peer group information. When determining the value in use, the estimated future cash flows are discounted to the present value. To carry out impairment tests, the assets are divided into the smallest group of assets, which generate independent cash flows (cash generating units).

An impairment exists if the carrying amount of an asset or a cash generating unit exceeds the estimated recoverable amount. Impairments are posted in profit or loss. Impairments to a cash generating unit or a group of cash generating units are first allocated to goodwill and subsequently pro rata to the other assets of the unit or group. Individual assets of a unit or group whose fair values less costs to sell exceed their carrying amount are exempt from this rule.

Impaired assets (apart from goodwill) are assessed each reporting date to determine whether there are any indications that the loss has become smaller or no longer exists. Impairments are written up to the increased recoverable amount, but not to more than the updated original carrying amount of the asset.

4.9 DEFINED BENEFIT OBLIGATIONS AND DEFINED CONTRIBUTION COMMITMENTS

In addition to the state retirement benefits, the Group offers defined benefit and defined contribution pension plans for parts of the workforce. The pension plans offer age-related benefits and benefits in the event of death or invalidity. There are “Employee Benefits” defined benefit plans as defined in IAS 19 in Germany and Singapore.

Defined contribution plans

In the case of defined contribution plans, the expenses reported in the consolidated income statement equate to the employer’s contributions.

Defined benefit plans

For all material defined benefit plans, the defined benefit obligation (DBO) is determined each year by independent actuaries by calculating the present value of the DBO using the projected unit credit method. The fair value of the plan assets is then deducted. The discount rate is based on the interest rate for high quality corporate bonds with virtually identical maturities to the defined benefit obligations. The costs of the employee benefits that accrued in the current period are reported in the consolidated income statement.

Any increase in the plan costs from past employee benefits, which is attributable to new or improved plan benefits (past service cost) is recognized on a straight-line basis as expense from employment or other employee benefits until the benefits in question accrue.

The Group determines the net interest expenses (income) on the net defined benefit liability (asset) for the reporting period using the discount rate that was used to measure the defined benefit obligation at the beginning of the annual reporting period. This discount rate is applied to the net defined benefit liability (asset) at this time. In so doing, possible changes that occur to the net defined benefit liability (asset) during the reporting period as a result of contribution and benefit payments are taken into consideration. Net interest expenses and other expenses for defined benefit plans are recognized in profit or loss.

Revaluation of the net defined benefit liability is recognized directly in other comprehensive income. The revaluation includes the actuarial gains and losses, income from plan assets (without interest) and the impact of the possible asset ceiling (without interest).

If the benefits from a plan have changed or a plan is reduced, the resultant change in the benefit relating to past service or the gain or loss on reduction is recognized directly in profit or loss. The Group recognizes gains and losses from the settlement of a defined benefit plan at the time of settlement.

Surpluses are only recognized if they are actually available to the Group in the form of future contribution payments or reductions.

Assumption of a joint debt obligation

An agreement was concluded with a company in the previous year in which the company agreed to assume the pension obligations of a Group company as part of a joint debt obligation in return for payment of an agreed fee. In this connection, the accrued pension obligations existing as of December 31, 2016 are accounted for in the Group company in question and settled with the beneficiaries; at the same time a claim for reimbursement against the company and the regular netting off of paid pension claims is accounted for. The amortized claim to reimbursement is determined in accordance with IAS 19; the fair value of the asset is reviewed annually, taking account of the safeguards that have been implemented.

4.10 GOVERNMENT GRANTS

Government grants, which compensate for expenses incurred, are recognized as scheduled in profit or loss in the periods in which the expenses are incurred.

4.11 TRADE AND OTHER PAYABLES

Trade and other payables are measured at amortized cost.

4.12 DEFERRED LIABILITIES

Deferred liabilities cover future expenses where the amount or timing is uncertain but where there is less uncertainty than with provisions. These are liabilities for received or supplied items or services, which have neither been paid nor invoiced or formally agreed. These also include current liabilities to employees (such as bonuses or holiday entitlements). Deferred liabilities are recognized as liabilities in the amount of anticipated utilization.

4.13 OTHER FINANCIAL LIABILITIES

At initial recognition, these liabilities are accounted for at market value less directly attributable transaction costs. They are subsequently measured at amortized cost where the difference between the market value and the amount to be repaid is posted in profit and loss using the effective interest rate method.
Other financial liabilities are only reported as non-current if the repayment date is unconditionally more than 1 year after the reporting date. Amounts that are usable on a revolving basis are reported as non-current if the entire drawing period for the financing period exceeds the annual period.

4.14 PROVISIONS

Provisions are liabilities where the amount or timing is uncertain. They are recognized if the Group has a present obligation to third parties based on a past event, a cash outflow to meet this obligation is likely and the amount can be reliably determined. Provisions are discounted if the effect is material.

Provisions where the probable cash outflow will take place within the next year are classified as current, all other provisions as non-current.

4.15 REVENUE RECOGNITION

In accordance with IAS 18, revenue was recognized after deducting sales tax and credits for returns and rebates on the date on which the benefits and risks inherent in the goods sold were transferred to the customer. The transfer of benefits and risks depended on the underlying terms of delivery (Incoerms). In accordance with IFRS 15, revenue is recognized when a customer obtains control of goods and services. Revenue from product sales mainly contains revenue from the “Microbatteries” and “Power & Energy” segments.

Judgments are required to determine whether control passes at a specific point in time or over a period of time. Therefore, for example for revenue recognition over a period of time it is necessary to check whether products are “customer-specific” and whether there is a legal right to receive payment including an appropriate profit margin for services already supplied in the event of the contract being broken.

The majority of the revenue from product sales is recognised over a period of time, since in most cases no customer-specific products are sold without an alternative use. In the **VARTA AG** Group an alternative use also exists when specific products can be sold to other customers at negligible cost (e.g. change of packaging). The effects from the conversion to IFRS 15 that have been identified for the **VARTA AG** Group with regard to revenue recognition over a period of time relate to performance obligations in connection with customers, consignment stock and rebate in kind arrangements. The timing of revenue recognition in the case of consignment stock is determined according to when the customer acquires power of disposal, i.e. as soon as the goods are in the customer’s consignment warehouse. Under IAS 18 the passage of risk took place upon actual withdrawal from the consignment warehouse.

In accordance with IFRS 15 rebate in kind claims are taken into account as a decrease in revenues on the basis of the best estimate at the time of the product delivery from which the claim accrues. When the rebate in kind is supplied, the revenue-reducing contractual obligation is cancelled. Under IAS 18 provisions were made for estimated rebate in kind claims on the basis of production costs at the time of the product delivery from which the claim accrued.

The recognition of revenue over time mainly applies in the Power & Energy segment in the **VARTA AG** Group and essentially relates to research contracts over several years. In this case determination of the performance progress takes place using the input-based method.

The key payment terms include a maturity of 30 days net. Warranty and liability claims associated with the sale of products are based on the provisions of the law or market practices.

4.16 FINANCIAL RESULT

Net interest income contains income from investments and cash and cash equivalents as well as expenses from other financial liabilities. Interest income and expenses are recognized in the period in which they accrue in profit or loss using the effective interest method.

In accordance with IAS 23.4, financing costs that are incurred through the acquisition of qualified assets are capitalized in the Group. Assets are deemed qualified if their operational readiness can only be achieved over a considerable period.

The other financial result comprises gains from the sale of available-for-sale financial assets, changes in the fair value of financial assets measured at fair value through profit or loss, impairments of financial assets and translation differences from foreign currency translations.

4.17 INCOME TAXES

Income taxes contain both current and deferred income taxes. Normally, income taxes are recognized in profit or loss unless they are directly associated with an item that is recognized directly in the consolidated statement of comprehensive income.

Current income taxes are calculated on the basis of the taxable result using the tax rates applicable at the reporting date including expenses for taxes from previous periods.

In accordance with the balance sheet “liability method”, deferred taxes are calculated in principle on all temporary differences between the reported balance sheet values of assets and liabilities. They are measured at the tax rates applicable or probably applicable to the respective Group companies.

No deferred taxes are recognized for the following temporary differences: initial recognition of goodwill, assets or liabilities associated with a transaction, which affects neither the taxable result nor the profit/loss for the year, recognized for the first time and temporary differences on shares in subsidiaries if it is probable that the temporary differences will not be realized in the foreseeable future.

Deferred tax assets from offsettable loss carryforwards and temporary differences will only be considered in so far as it is likely that they can be offset against future taxable profits. The assessment is based on the corporate planning approved by the Supervisory Board.

4.18 SEGMENT REPORTING

Segment information is made available on the basis of the Group's internal reporting to be able to assess the type and the financial impact of the business activities carried out by the Group and the economic environment in which it operates. The internal management reporting is decisive here.

The Group is constructed as a matrix organization, as business activity is organized via the "Microbatteries" and "Power & Energy" on the one hand and also regionally on the other hand. However, there is no budget allocation from a regional perspective and no financial information is provided for regular management. This makes the perspective at product level and not the regional perspective decisive for segment reporting.

The CODM (Chief Operation Decision Maker) is responsible for the assessment. The CODM for the purposes of IFRS 8 is the Executive Board of **VARTA AG**, since it uses the internal management reporting to scrutinize the segments' performance and allocation of resources at regular intervals. Performance per segment is assessed on the basis of EBITDA or adjusted EBITDA. EBITDA denotes earnings before interest, taxes, depreciation of property, plant and equipment and amortization of intangible assets. This key figure does not therefore take account of any interest and financing elements. Neither does it take account of the shares of profits or losses of companies included in the consolidated financial statements under the equity method.

The following operating business segments, namely Microbatteries and Power & Energy, are identified and reported individually in accordance with IFRS 8.

Microbatteries

The Microbatteries segment is managed via **VARTA** Microbattery GmbH and focuses on the manufacture of microbatteries primarily for applications in the **Healthcare** and **Entertainment** segments. Here, **VARTA** uses the most innovative technologies specifically to produce the highest energy density in the smallest space. Depending on the product and application, **VARTA** focuses on the cutting-edge technologies here, such as zinc-air, lithium-ion, silver oxide and nickel metal hybrid for rechargeable and non-rechargeable battery solutions.

Zinc-air batteries are for hearing aids are mainly produced for applications in the **Healthcare** segment. These are marketed under the brands powerone and ecopack as well as own brands. Success in the hearing aid battery segment is based on the innovativeness, reliability, durability and consistency of our quality. Market position is secured through in-house production automation processes and the ability to supply customers with services from the product to the POS.

High-end lithium-ion battery solutions for premium wireless headphones (hearables) are manufactured for the **Entertainment** segment especially as well as for other wearable applications. These also include applications in the expanding consumer markets for electrical devices such as Bluetooth headsets, medical devices for high blood pressure, blood sugar and body monitors as well as other wearables applications.

Rechargeable battery solutions for industrial and original equipment manufacturers (OEMS) are mainly produced in the **Industrial** product group. These include applications such as servers, applications in car keys, alarm systems or smart meters.

Power & Energy
Mobile and stationary energy storage solutions are developed, produced and sold in the **Power & Energy** segment. Here, the segment concentrates on the development, system integration and assembly of battery storage (power pack solutions) for OEM customers in various markets. They are largely based on lithium-ion technology.

Both standardized and customer-specific rechargeable battery packs are manufactured. These can be seamlessly integrated into various industrial and wireless applications. Regardless of the respective technology or the complexity of the tasks, **VARTA** offers complete services from design to production for OEM customers. Here, the segment concentrates on applications for portable industrial applications, communication applications, power tool applications, home & garden and medical applications.
Energy storage devices for private households and commercial applications are also developed and produced. The energy storage devices are characterized by high quality and reliability. The product portfolio is modular in structure, meaning that each end consumer can find the right energy storage device for his requirements, from a compact, handy complete entry system to large-scale storage solutions for industrial facilities.

4.19 CHANGES TO ACCOUNTING STANDARDS

Accounting standards applied for the first time in 2018
The accounting and measurement policies applied in 2018 correspond largely to the policies applied in the previous year. Furthermore, the VARTA AG Group has only applied the new or revised standards for which application was compulsory for reporting year 2018.

4.19.1 IFRS 9 Financial instruments
The Group applied IFRS 9 for the first time as of January 1, 2018.

The effects from first time application of the standard are largely attributable to the adjustments to the loss allowances for trade receivables.
IFRS 9 sets requirements for the recognition and measurement of financial assets, financial liabilities as well as some contracts for the purchase or sale of non-financial contracts. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement

The impairment model of the **VARTA Group** differentiates between a general and a simplified procedure (see 4.8.1 Financial Assets).

The Group has determined that application of the impairment provisions of IFRS 9 as of January 1, 2018 are as follows:

(IN K€)	
Loss allowances as of December 31, 2017	495
Reduced impairment expense as of January 1, 2018 on: Trade receivables	-192
Loss allowance as of January 1, 2018 according to IFRS 9	303

For financial year 2018, the Group has also applied the consequential amendments to IFRS 7 Financial Instruments: Disclosures. However, generally speaking, these were not applied to the comparative information.

The following table shows the effects of the transition to IFRS 9 on the opening balances of other reserves, revenue reserves and non-controlling interests before taxes is shown in section.

	CLASSIFICATION			CARRYING AMOUNT	
(IN K€)	IFRS 9 JAN. 1, 2018	IAS 39 DEC. 31, 2017	IFRS 9 DEC. 31, 2018	IFRS 9 JAN. 1, 2018	IAS 39 DEC. 31, 2017
Cash and cash equivalents	AC	LaR	**149,741**	**138,536**	**138,536**
Other assets					0
Derivative financial instruments	FVOCI (cashflow hedge)	FVOCI (cashflow hedge)	0	142	142
Derivative financial instruments	FVTPL	FVTPL	31	0	0
Held for trading purposes			**31**	**142**	**142**
Loans	AC	LaR	359	444	444
Trade receivables and contract assets	AC	LaR	28,715	20,295	20,103
Other assets*	AC	LaR	25,863	23,173	23,173
Loans and receivables			**54,937**	**43,912**	**43,720**
Total financial assets			**204,709**	**182,590**	**182,398**

*excluding other tax receivables of K€ 2,295 (2017: K€ 4,992) and prepaid expenses and deferred charges of K€ 1,674 (2017: K€ 684).

Other financial liabilities					
Derivative financial instruments	FVOCI (cashflow hedge)	FVOCI (cashflow hedge)	587	0	0
Derivative financial instruments	FVTPL	FVTPL	129	178	178
Held for trading purposes			**716**	**178**	**178**
Other financial liabilities*	AC	LaR	8,204	8,223	8,223
Trade payables**	AC	LaR	31,869	32,417	32,417
Deferred liabilities***	AC	LaR	2,961	8,072	8,072
Other liabilities****	AC	LaR	2,002	5,609	5,609
Measured at amortized cost			**45,036**	**54,321**	**54,321**
Total financial liabilities			**45,752**	**54,499**	**54,499**

* excl. derivative financial instruments K€ 716 (2017: K€ 178); incl. a debt waiver of K€ 6,200 with an expected term of more than 5 years, which can be repaid earlier due to certain circumstances (see note to Item 19 "Other financial liabilities")
**excl. payments on account K€ 11,587 (2017: K€ 62) and contractual liabilities K€ 8,435 (2017: K€ 0)
*** excl. deferred liabilities for payments to employees K€ 9,084 (2017: K€ 8,501)
**** excl. accrued expenses and deferred income K€ 93 (2017: K€ 23), liabilities from funding projects K€ 6,418, customs liabilities K€ 793, other liabilities from taxes K€ 1,457 (2017: K€ 4,869) and in the context of social security K€ 348 (2017: K€ 232)

Classification and Measurement of Financial Assets and Financial Liabilities
IFRS 9 contains three basic categories for classifying financial assets: measured at amortized cost, measured at fair value with changes in value in other comprehensive income (FVOCI) and measured at fair value with changes in value in profit or loss (FVTPL). Financial assets are classified according to IFRS 9 on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. IFRS 9 eliminates the previous categories of IAS 39: held to maturity, loans and receivables as well as available-for-sale. According to IFRS 9, derivatives that are embedded in contracts where the basis is a financial asset within the scope of the standard are never accounted for separately. Instead, the hybrid instrument is assessed as a whole with regard to classification.
IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities.

The initial application of IFRS 9 had no material effects on the Group's accounting policies in relation to financial liabilities and derivative financial instruments.

The effects from the first-time application of IFRS 9 on the carrying amounts of financial assets as of January 1, 2018 resulted solely from the new provisions on the recognition of impairment losses.

A detailed explanation of the individual balance sheet items and the carrying amounts can be found under 38.2 "Financial risk management".

Hedge accounting

The Group has opted to apply the new general model for hedge accounting in accordance with IFRS 9. This requires that the Group ensures that hedges are coordinated with the objectives and strategy of risk management and that it applies a more qualified and forward-looking approach to assessing the effectiveness of hedging transactions.

The Group uses forward exchange transactions to hedge fluctuations in cash flows in connection with changes in exchange rates for loans, receivables, sales and purchases of inventories in foreign currency.
As a reserve for hedging cash flows, the effective part of the change in the fair value of the hedging instrument is reported as a separate component in equity.

In accordance with IAS 39, the amounts reported for all cash flow hedges in the reserve for cash flow hedges were reclassified as reclassification amounts in the profit or loss in the period in which the anticipated hedged cash flows influence the profit or loss. In accordance with IFRS 9, the same approach is also applied for the cumulative amounts in the reserve for hedging costs.
For an explanation of how the Group accounts for hedging transactions in accordance with IFRS 9, see 38.2 "Financial risk management".
As of December 31, 2018, the Group held no inventories, purchase of which had been the subject of a hedging transaction.

There were no material effects on the basic or diluted earnings per Group share for the financial years ending on December 31, 2017 or 2018.

As at December 31, 2017, all hedging relationships designated in accordance with IAS 39 fulfilled the criteria for hedge accounting as of January 1, 2018 according to IFRS 9 and are therefore considered as continuous hedging relationships.

4.19.2 IFRS 15 Revenue from Contracts with Customers

IFRS 15 specifies a comprehensive framework for determining whether revenue is to be recognized and, if so, the amount and timing. It replaces existing guidance on the recognition of revenue, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programs. In accordance with IFRS 15, revenue is recognized when a customer obtains control of goods and services.

Judgments are required to determine whether control passes at a specific point in time or over a period of time.

The Group applied IFRS 15 for the first time as of January 1, 2018.

On transition to IFRS 15, the Group applied the modified retrospective method (without simplification rules), under which the cumulative adjustment amounts are recognized as of January 1, 2018. Consequently, the comparative information for 2017 was not adjusted, i.e. they were presented was previously in accordance with IAS 18, IAS 11 and the corresponding interpretations. Furthermore, the disclosure obligations specified in IFRS 15 were generally not applied to comparative information. The conversion effects mainly related to revenue from product sales (consignment warehouses and bonuses in kind), which led to shifts between contract liabilities and provisions or between contract assets and inventories.

The effects from the first-time application of the standard are largely attributable to the following reasons:
- earlier revenue recognition from contracts with consignment warehouses (see a),
- earlier revenue recognition from contracts with customer-specific materials (see b),
- subsequent revenue recognition from sales contracts with bonus in kind agreement (see c).

The following table shows the effects of the transition to IFRS 15 on revenue reserves as of January 1, 2018 after taxes.

(IN K€)	NOTE	EFFECT FROM THE APPLICATION OF JANUARY 1, 2018
Revenue reserves		
Contracts with consignment warehouses	(a)	223
Contracts with customer-specific materials	(b)	275
Contracts with bonus in kind agreement	(c)	-1,390
Tax effect		259
Effect as of January 1, 2018.		-633

Non-controlling interests are not affected by IFRS 15.

The following table combines the effects of the application of IFRS 15 on the items of the consolidated balance sheet affected as of December 31, 2018 and of the consolidated statement of comprehensive income for financial year 2018. There was no major effect on the consolidated cash flow statement for financial year 2018.

Effects on the consolidated balance sheet

Dec. 31, 2018

(IN K€)	NOTE	AMOUNTS ACCORDING TO IAS 18	ADJUSTMENTS	AMOUNTS WITH APPLICATION OF IFRS 15
assets				
Inventories	(a), (b)	57,951	-1,252	56,699
Contract assets	(b)	0	2,370	2,370
Deferred tax assets		1,218	259	1,477
Total assets*		59,169	1,377	60,546
Equity				
Revenue reserves		42,260	-633	41,627
Net income		25,127	133	25,260
Total equity*		67,387	-500	66,887
Liabilities				
Other provisions	(c)	6,961	-2,657	4,304
Contract liabilities	(c)	0	8,435	8,435
Total liabilities*		6,961	5,778	12,739

*The subtotals relate to the amendments to IFRS 15 and are therefore not reconcilable with the consilidated balance sheet.

Effects on the consolidated statement of comprehensive income January – 31. December 2018

(IN K€)	NOTE	AMOUNTS IN ACCORDANCE WITH IAS 18	ADJUSTMENTS	AMOUNTS WITH APPLICATION OF IFRS 15
Sales revenue	(a), (b), (c)	270,580	1,070	271,650
Cost of materials	(a), (b)	-105,984	-883	-106,867
Income tax expenses		-10,725	-54	-10,779
Unchanged result		-128,301	0	-128,301
Profit		25,127	133	25,260
Comprehensive income		26,218	133	26,351

a) Contracts with consignment warehouses: in accordance with IAS 18, revenue was recognized for these contracts when the goods were withdrawn from the consignment warehouse. In the case of existing consignment warehouses, control is now obtained when the goods are placed in the warehouse, since the goods are customer-specific, and the transport times are immaterial.

b) Contracts with customer-specific materials: in accordance with IAS 18, revenue with customer-specific materials was recognized on transfer of the risks and benefits associated therewith. This means not until the goods were transferred to customers.
IFRS 15 focuses on the transfer of control. As a result, contracts with customer-specific materials must be analyzed more precisely to determine whether the contract must be accounted for over a period or at a specific point in time. In cases where they must be accounted for over time (e.g. if there is no alternative use), revenue is recognized on completion.

c) Contracts with bonus in kind agreement: in accordance with IAS 18, revenue with bonus and bonus in kind agreements was deferred until the time at which the product delivery is invoiced at the amount that is expected to be received.
The approach for current bonus agreements complies with the accounting provisions of IFRS 15 and therefore has no impact on the consolidated financial statements. Adjustment was required for the bonus in kind agreements. Previously provisions had been created here. A non-recurring negative effect was produced from the reversal of provisions with simultaneous creation of contract liabilities against revenue reserves.

IFRS 15 had no material effects on the Group's accounting policies with regard to other sources of income (see 31 "Other operating income").

See 4.15 Revenue recognition for more information on the Group's accounting policies associated with the recognition of revenue.

4.19.3 Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

The amendments relate to the consideration of vesting conditions as part of the measurement of cash-settled share-based payment transactions, the classification of share-based payment transactions, which envisage net settlement for taxes to be withheld and accounting in the event of the classification of the payment changing from "cash-settled" to "equity-settled".

The amendments have no material effects on the consolidated financial statements of **VARTA AG**.

4.19.4 IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses an issue relating to the application of IAS 21 The Effects of Changes in Foreign Exchange Rates. It clarifies the date, at which the exchange rate for the translation of transactions in foreign currencies, which include advance payments received or made, is to be determined. Accordingly, the date at which the asset or liability resulting from the advance payment is recognized for the first time is decisive for determining the translation rate.
This had no material effects on the consolidated financial statements of the **VARTA AG** Group.

4.20 NEW AND AMENDED IFRS STANDARDS AFTER DECEMBER 31, 2018

The following new and revised standards and interpretations were adopted but will not come into force until later and were not applied prematurely in the present consolidated financial statements. The company does not plan to apply them prematurely either. Unless specified otherwise below, the effects are currently being investigated.

New or amended standards and interpretations		ENACTMENT
Adoption under EU law		
Standards:		
IFRS 16	Leases	January 1, 2019
IFRIC 23	Uncertainty over income tax treatments	January 1, 2019
Amendments:		
IFRS 9	Prepayment Features with Negative Compensation	January 1, 2019
IAS 28	Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures	January 1, 2019
Not yet adopted in EU law:		
Amendments:		
IFRS 3/IFRS 11	Remeasurement of previously held shares	January 1, 2019
IAS 12	Income tax consequences of payments from financial instruments	January 1, 2019
IAS 19	Plan Amendment, Curtailment or Settlement	January 1, 2019
IAS 23	Borrowing costs eligible for capitalization	January 1, 2019
IAS 28	Long-term Investments in Associates	January 1, 2019
IAS 1/IAS 8	Amendments in relation to the definition of material	January 1, 2020
IFRS 10/IAS 28	Sale or contribution of assets between an investor and an associate or joint venture	Uncertain
IFRS 17	Insurance contracts	January 1, 2021

Application of the following innovations and amendments published by the IASB is not yet mandatory and **VARTA AG** has not yet applied them to date either. With the exception of IFRS 16 - Leases, the Group assumes that they will have no material effects on the consolidated financial statements either.

IFRS 16 – Leases

IFRS 16 introduces a standardized accounting model, under which leases must be recognized in the lessee's balance sheet. A lessee recognizes a right-of-use asset, which represents its right to use the underlying asset and a liability under the lease, which represents its obligation to make lease payments. There are exceptions for short-term leases and leases for minor value economic assets. Accounting by the lessor is comparable with the current standard – i.e. lessors continue to classify leases as financial leases or operating leases.

IFRS 16 replaces the existing guidance on leases, including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The Group shall apply the standard for the financial year starting January 1, 2019 in accordance with the modified retrospective approach.
To be able to quantify the accounting effects of the new standard governing leases, IFRS 16, on **VARTA AG**, a Group-wide survey of rental and lease agreements was carried out in financial year 2017 and updated in financial year 2018.

The Group has assessed the estimated effects of the application of IFRS 16 on the consolidated financial statements for the first time as shown below. The actual effects of applying this standard as of January 1, 2019 may deviate from this, since

- the Group has not yet completed tests and evaluations of the controls of its new IT systems and
- the new accounting policies up to publication of the first consolidated financial statements following the initial application date may be subject to changes.

Leasing contracts where the Group is the lessee are solely operating leases.
The Group will recognize new assets and liabilities for its operating leases covering property and land, vehicles and other plant and office equipment.

The type of expenses associated with leases will change since the Group will now recognize depreciation for right-of-use assets as well as interest expense arising from lease liabilities.

To date, the Group has recognized expenses from leases on a straight-line basis over the lease term and only recognized assets and liabilities in the amount in which there was a time difference between the actual lease payments and the expenses recognized.

On the basis of the information currently available, we expect an increase in the balance sheet total of around 6% and a reduction in the equity ratio from 64% to 60%. This will result from the expected recognition of right-of-use assets in the amount of EUR 22,000k and the recognition of the corresponding liability from the lease of around EUR 22,000k on the liabilities side of the statement of financial position.

IFRIC 23 - Uncertainty over Income Tax Treatments
Tax treatment of certain situations and transactions can depend on future acknowledgment by the tax authorities or the tax courts. IAS 12 Income Taxes governs how actual and deferred taxes are to be accounted for. IFRIC 23 supplements the regulations in IAS 12 with regard to how uncertainty over income tax treatments of situations and transactions is to be taken into account.

IFRS 17 – Insurance Contracts
IFRS 17 governs the principles in relation to the recognition, measurement, reporting and disclosures concerning insurance contracts. The standard is applicable to insurance contracts, reinsurance contracts and investment contracts with discretionary participation features.

IFRS 9 – Financial Instruments – Prepayment Features
The adjustments relate to a limited adjustment of the assessment criteria of relevance for the classification of financial assets. Financial assets with a prepayment feature with negative compensation may, under certain circumstances, be accounted for at amortized cost or at fair value in other comprehensive income without affecting profit or loss instead of at fair value through profit or loss.

IFRS 3/IFRS 11 – Remeasurement of previously held shares
The amendments to IFRS 3 and IFRS 11 clarify when the acquisition of control of a business, which is a jointly controlled operation and in which the acquirer as joint operator or other party to the joint agreement was already previously involved, constitutes a business combination achieved in stages. This means that the previously held shares must be remeasured at the date control is acquired. In contrast, shares in a joint operation, which constitutes a business, are not remeasured if control is not acquired and the shares are merely increased.

IAS 12 – Income tax consequences of payments from financial instruments
The rules of IAS 12 are to be applied to all income tax effects from dividends, i.e. actual income taxes resulting from dividend payments are to be recognized in stages in profit or loss.

IAS 19 – Plan Amendment, Curtailment or Settlement
According to IAS 19, pension obligations must be measured on the basis of updated assumptions in the event of any plan amendment, curtailment or settlement.

The amendment clarifies the fact that following such an event, the current service cost and net interest for the remaining period must be taken into account on the basis of updated assumptions.

IAS 23 – Borrowing costs eligible for capitalization
The amendments clarify the fact that if an asset is ready for its intended use or for sale, a company must treat any residual debt components that were explicitly raised to obtain this asset as part of the general debt raised when calculating the capitalization rate of general borrowings raised.

Amendments to IAS 28 – Long-term Investments in Associates
Clarification that long-term investments, which were not measured at-equity, are to be accounted for in accordance with IFRS 9 is expected to be provided. The impairment rules of IFRS 9 are also to be applied.

Amendments to IAS 1/IAS 8 – Amendments in relation to the definition of material
The amendments create a more uniform and more precisely delineated definition of the materiality of information in financial statements in IFRS and supplement it with accompanying examples. In this context, the definitions from the framework concept, IAS 1, IAS 8 and the IFRS Practice Statement 2 Making Materiality Judgments are harmonized. The amendments are applicable – subject to adoption in EU law – for the first time on January 1, 2020. Premature application is permissible.

Amendments to IFRS 10 and IAS 28 – Sale or contribution of assets between an investor and an associate or joint venture
The amendments address a known inconsistency between the provisions of IFRS 10 and IAS 28 (2011) in the event of assets being sold an associate or joint venture or assets being contributed to an associate or joint venture.

According to IFRS 10, a parent company has to recognize the gain or loss from the sale of a subsidiary in the full amount in the income statement if the possibility of control is lost. In contrast, the currently applicable IAS 28.28 demands that the disposal gain on disposals between an investor and an investment measured at equity – be it an associate or a joint venture – must only be recognized in the amount of the other's share in this company.

In future, the entire profit or loss from a transaction is only to be recognized if the assets sold or contributed constitute an operation within the meaning of IFRS 3. This will apply regardless of whether the transaction is structured as a share or asset deal. If, however, the assets do not constitute a business, the gain may only be recognized pro rata.

The initial application date for the changes was postponed indefinitely by the IASB.

Amendments to References to the Conceptual Framework in IFRS Standards
The revised conceptual framework consists of a new superordinate section Status and purpose of the conceptual framework as well as eight complete sections included from now on.

Sections on The reporting entity and Presentation and disclosure are now included; Derecognition was added to the section Recognition.

Content was also amended: differentiation of income into revenues and gains has been abandoned, for example.

References to the conceptual framework in various standards were adjusted along with the changes to the conceptual framework.

Improvements to IFRS 2015 – 2017
Four IFRSs were amended as a result of the Annual Improvements to IFRSs (2015-2017).

IFRS 3 clarifies that on attaining control of a business in which it was previously involved as a joint operation, a company must apply the principles for incremental business combinations. The share held by the purchaser to date must be reassessed.

IFRS 11 specifies that when a party attains joint control of a business in which it was previously involved as part of a joint operation, the share held previously must be remeasured.

IAS 12 is amended to the effect that all the effects of dividend payments on income tax must be taken into account in the same way as the income upon which dividends are based.

Finally, IAS 23 specifies that on determining the financing cost rate, if a company has raised funds generally to procure qualifying assets, costs of borrowed funds that were specifically raised in connection with the procurement of qualifying assets do not have to be taken into account until they are completed.

5 MATERIAL ASSUMPTIONS AND ESTIMATES

The consolidated financial statements contain the following material items, where the amount stated is crucially dependent on the underlying assumptions and estimates:

Useful lives of non-current assets
Property, plant and equipment and intangible assets acquired for consideration are stated at cost of acquisition or manufacture and depreciated on a scheduled, straight-line basis over their respective useful lives. In determining useful life, factors such as wear and tear, aging, technical standards, contract term and changes in demand are taken into consideration. Changes to these factors can entail a reduction or extension in the economic useful life of an asset. In this case, the remaining useful life would be depreciated over the remaining shorter or longer useful life and this would lead to higher or lower amounts of annual depreciation. The adjustments to the depreciation period required by a change in the expected useful life are, if applicable, treated as changes to estimates.

Certain intangible assets are categorized as indefinite in terms of their useful lives, if an analysis of all relevant factors does not indicate an end to the period for which the asset contributes to the generation of cash flows. This analysis is reviewed annually to determine whether the assessment of an indefinite useful life is still justified.

Loss allowances on non-current assets
The impairment test to measure the recoverable amount of a CGU is based on corporate planning figures, the discount rate, the growth rate, anticipated inflation and exchange rates.

More detailed information on the impairment tests conducted is provided under note 4.8 Impairment test. The assumptions reached for this purpose may, however, be subject to amendments, which might lead to loss allowances in future periods.

Defined benefit obligations
There are various pension plans for some of the employees in the Group. To be able to determine the resulting credit balances and/or obligations, the Group must first assess whether they are defined benefit or defined contribution plans. To estimate future development, statistical assumptions are made for defined benefit plans.

The actuarial measurement of provisions for employee benefits are based on discount rates, salary increases, staff turnover and the pensionable age (demographic and financial variables). If these assumptions change in response to changes in the economic situation or new market conditions, actual data may deviate significantly from actuarial opinions and calculations. These deviations may have a material influence on expenses and income from pension plans in the medium term. More detailed information on pension plans is provided in note 20.2 Pensions.

In connection with the joint assumption of the pension obligations, checks must be carried out at the reporting date to verify that the capitalized claim for reimbursement is not impaired. The recognized value of the claim for reimbursement is influenced by the recognized value of the individual assets, which Colibri Beratungsgesellschaft mbH has lodged with **VARTA** Microbattery Pensionsversicherungs e.V. on a fiduciary basis. Here, the greatest scope for discretion applies to the valuation of property and long-term investments.

Other provisions
Provisions are created for various circumstances as part of ordinary operating activities. The amount of the anticipated cash outflows is determined on the basis of assumptions and estimates for each specific circumstance. These assumptions may be subject to changes, which lead to a deviation in future periods.

Deferred taxes

Deferred taxes are recognized on temporary differences between the amounts in the consolidated balance sheet and the carrying amounts in the tax balance sheet and on tax loss carryforwards, where it is probable that they can be utilized. Deferred taxes are calculated on the basis of those tax rates, which apply according to the current legal position at the date at which the temporary differences will be offset and on the basis of an assessment of the future ability to generate taxable earnings based on the corporate planning approved by the Supervisory Board. Possible changes in tax rates or future taxable earnings that differ from the assumptions may lead to the realization of deferred tax assets becoming unlikely and an allowance having to be recognized for these assets. Changes in the tax rate may also lead to adjustments to deferred tax liabilities. The carrying amounts of deferred taxes emerge from the consolidated balance sheet and are assigned to the balance sheet items in the notes to 16 “Deferred taxes”.

6 SEGMENT REPORTING

Segment information is published on the basis of the management reporting for the “Microbatteries” and “Power & Energy“ segments (see notes 4.18 Segment reporting).

The accounting and measurement policies for the segment reporting are based on the IFRS used in the present consolidated financial statements. The Executive Board uses adjusted EBITDA for management purposes, as it allows it to assess operating performance despite increasing investment in property, plant and equipment and the resulting depreciation. Shares of profits or losses of companies included in the consolidated financial statements under the equity method are not included in segment reporting as they are not a component of reported EBIT and adjusted EBITDA and are not regularly reported to the CODM otherwise.

The elimination of intra-Group interrelations between the segments is combined in the reconciliation column. The reconciliation column also contains facts that cannot be directly allocated to any segment, such as the effects of share-based payment or of the IPO in the previous year (see notes 1 General information).

The management variables, which are used to assess the performance of the operating segments, are shown below:

Information by reportable segments:

	MICROBATTERIES		POWER & ENERGY		∑ TOTAL		RECONCILIATION		CONSOLIDATED FINANCIAL STATEMENTS	
(IN K€)	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenue with third parties*	218,863	203,578	51,756	37,663	270,618	241,242	1,031	915	271,650	242,157
Thereof Point-in-time	214,477	0	46,403	0	260,880	0	1,031	0	261,911	0
Thereof Point-over-time	4,386	0	5,353	0	9,739	0	0	0	9,739	0
Depreciation and amortization	-8,634	-8,097	-1,883	-1,341	-10,518	-9,438	0	-7	-10,518	-9,446
Material effects in income and expenses	0	0	0	0	0	0	-2,830	-6,043	-2,830	-6,043
EBIT	**38,640**	**35,606**	**1,057**	**-5,708**	**39,697**	**29,898**	**-2,826**	**-6,254**	**36,871**	**23,643**
(Adjusted) EBITDA	**47,274**	**43,703**	**2,940**	**-4,367**	**50,214**	**39,336**	**-2,826**	**-6,247**	**47,388**	**33,089**

*There are no material revenue links between the segments

The following facts are included in the reconciliation of Group EBITDA:

	2018			2017		
(IN K€)	*NOT ASSIGNABLE TO CORE BUSINESS*	*SPECIAL EFFECTS*	TOTAL	*NOT ASSIGNABLE TO CORE BUSINESS*	*SPECIAL EFFECTS*	TOTAL
Sales revenue	***1,031***	***0***	***1,031***	***915***	***0***	***915***
Effects in income and expenses	*0*	*-2,830*	***-2,830***	*-1,126*	*-6,043*	***-7,169***
EBIT	***1,031***	***-2,830***	***-1,799***	***-211***	***-6,043***	***-6,254***

Items that cannot be assigned to a segment are shown in “Not assignable to core business”. Sales revenue mainly contains the sales revenue from IT services of EUR 1,031k (2017: EUR 862k). The effects in income and expenses mainly consist of special effects, which cannot be assigned directly to a segment.

Circumstances which are taken into account in adjusting EBITDA are shown in the column “Special effects”. In financial year 2018, the effect from share-based payment with a counter entry in the capital reserve of EUR 2,655k and EUR 175k from other deferrals arose here, which is attributable to **VARTA AG** as the parent company.

In the previous year, the costs of the successful IPO of EUR 6,115k were included here, in particular, which were assignable to **VARTA AG**, as the parent company, as well as income of EUR 3,629k in connection with the claim to reimbursement from the assumption of a joint debt obligation for pensions in the Microbatteries segment. The effect from share-based payment against capital reserve of EUR 3,557k in the previous year was also attributable to **VARTA AG** as the parent company.

The following table shows the reconciliation of the segments’ EBIT to earnings before taxes.

(IN K€)	2018	2017
EBIT	36,871	23,643
Financial result	-519	-922
Result from joint ventures	130	-1,696
Earnings before taxes	**36,482**	**21,025**

Geographical segment information

The following statement shows the Group’s revenue divided according to specific geographical locations. In the presentation of this information on a geographical basis, a segment’s revenue is based on the geographical locations of customers and a segment’s assets on the geographical locations of the assets.

	2018		2017	
(IN K€)	REVENUE*	NON-CURRENT ASSETS**	REVENUE*	NON-CURRENT ASSETS**
Europe	137,424	131,015	118,686	83,266
Of which in Germany	62,480	129,725	56,974	83,139
America	56,217	54	55,811	60
Asia	72,870	2,908	63,394	1,677
Other	5,139	0	4,266	0
Total Group	**271,650**	**133,977**	**242,157**	**85,003**

*Revenue is based on the registered office of the customer.
**Non-current assets contain investment property, property, plant and equipment and intangible assets.

The revenue of the “Power & Energy” segment is mainly contained in the item for Europe. Accordingly, the other revenue of Europe region comprises the revenue of the “Microbatteries” segment. Revenue from the Asia and America regions is also mainly attributable to the “Microbatteries” segment.

Products and services

The Group’s revenue and trade receivables are split as follows between products and services:

	2018		2017	
(IN K€)	SALES REVENUE	TRADE RECEIVABLES	SALES REVENUE	TRADE RECEIVABLES
Of which from product sales	266,139	27,375	238,706	19,677
Of which from the sale of services	5,511	1,340	3,451	426
Total Group	**271,650**	**28,715**	242,157	20,103

Significant customers

In 2018, revenue in the “Microbatteries” and “Power & Energy” segments with a specific customer amounted to EUR 30,022k, which equates to a share of revenue of more than 10%. This business relationship existed to a similar extent in the previous year.

7 PROPERTY, PLANT AND EQUIPMENT

(IN K€)	LAND	BUILDINGS	TECHNICAL PLANT AND MACHINERY	OTHER EQUIPMENT	EQUIPMENT UNDER CONSTRUCTION AND ADVANCE PAYMENTS	PROPERTY, PLANT AND EQUIPMENT
Acquisition values						
As of Jan. 1, 2017	**0**	**234**	**59,488**	**21,383**	**12,692**	**93,797**
Foreign exchange differences	0	-16	-386	-243	-1	**-646**
Change in the scope of consolidation	0	0	0	34	0	**34**
Additions	0	42	2,151	1,555	15,429	**19,177**
Disposals	0	0	-2,500	-214	0	**-2,714**
Reclassifications	0	0	8,955	2,319	-11,274	**0**
As of Dec. 31, 2017	**0**	**260**	**67,708**	**24,834**	**16,846**	**109,648**
Foreign exchange differences	0	-2	142	88	-2	**226**
Additions	0	0	5,330	3,102	49,149	**57,581**
Disposals	0	0	-261	-386	0	**-647**
Reclassifications	0	0	3,469	2,166	-5,657	**-22**
As of Dec. 31, 2018	**0**	**258**	**76,388**	**29,804**	**60,336**	**166,786**

Cumulative depreciation and impairment losses

(IN K€)	LAND	BUILDINGS	TECHNICAL PLANT AND MACHINERY	OTHER EQUIPMENT	EQUIPMENT UNDER CONSTRUCTION AND ADVANCE PAYMENTS	PROPERTY, PLANT AND EQUIPMENT
As of Jan. 1, 2017	**0**	**89**	**29,236**	**12,491**	**0**	**41,816**
Foreign exchange differences	0	-6	-233	-204	0	**-443**
Additions	0	20	5,069	2,353	0	**7,442**
Disposals	0	0	-2,467	-147	0	**-2,614**
Reclassifications	0	0	-23	23	0	**0**
As of Dec. 31, 2017	**0**	**103**	**31,582**	**14,516**	**0**	**46,201**
Foreign exchange differences	0	-1	89	70	0	**158**
Additions	0	20	5,654	2,496	0	**8,170**
Disposals	0	0	-254	-292	0	**-546**
Reclassifications	0	0	19	-19	0	**0**
As of Dec. 31, 2018	**0**	**122**	**37,090**	**16,771**	**0**	**53,983**
Carrying amounts						
Carrying amounts on Jan. 1, 2017	0	145	30,252	8,892	12,692	**51,981**
Carrying amounts on Dec. 31, 2017	0	157	36,126	10,318	16,846	**63,447**
Carrying amounts on Dec. 31, 2018	0	136	39,298	13,033	60,336	**112,803**

The major part of investment in property, plant and equipment served to expand production capacity of lithium-ion button cells in response to demand. Replacement investment to renew production equipment, to develop new products and for quality assurance measures is also required at regular intervals.

There were no restrictions on rights of ownership or disposal for property, plant and equipment during financial years 2018 and 2017. Order commitments from the purchase of property, plant and equipment amounted to EUR 14,800k (2017: EUR 25,019k).

8 INTANGIBLE ASSETS

(IN K€)	GOODWILL	TRADEMARK RIGHT AND OTHER INTANGIBLE ASSETS	COMMERCIAL PROPERTY RIGHTS	DEVELOPMENT COSTS	LICENSES	TOTAL
Acquisition values						
As of Jan. 1, 2017	**0**	**11,585**	**958**	**13,348**	**0**	**25,891**
Foreign exchange differences		-4	0	0	0	**-4**
Change in the scope of consolidation	500	29	0		0	**529**
Additions	0	124	0	2,064	0	**2,188**
As of Dec. 31, 2017	**500**	**11,734**	**958**	**15,412**	**0**	**28,604**
Additions	0	191	0	1,753	0	**1,944**
Reclassifications	0	22	**0**	**0**	**0**	**22**
As of Dec. 31, 2018	**500**	**11.947**	**958**	**17,165**	**0**	**30,570**
Cumulative depreciation and amortization						
As of Jan. 1, 2017	**0**	**2,326**	**167**	**2,554**	**0**	**5,047**
Foreign exchange differences	0	-3	0	0	0	**-3**
Additions	0	218	132	1,654	0	**2,004**
Reclassifications	0	-354	0	354	0	**0**
As of Dec. 31, 2017	**0**	**2,187**	**299**	**4,562**	**0**	**7,048**
Foreign exchange differences	0	0	0	0	0	**0**
Additions	0	326	132	1,890	0	**2,348**
As of Dec. 31, 2018	**0**	**2,513**	**431**	**6,452**	**0**	**9,396**
Carrying amounts						
Carrying amounts on Jan. 1, 2017	0	9,259	791	10,794	**0**	**20,844**
Carrying amounts on Dec. 31, 2017	500	9,547	659	10,850	**0**	**21,556**
Carrying amounts on Dec. 31, 2018	500	9,434	527	10,713	**0**	**21,174**

Of the income from own work capitalized (see note 31 „other operating expenses") of EUR 4,152k (2017: EUR 3,517), self-constructed intangible assets, which are not yet ready for use, were recognized in the amount of EUR 1,753k (2017: EUR 2,064k) or capitalized.

Research and development expenses amounting to EUR 12,948k (2017: EUR 12,298k) were recognized in the income statement.

There were no restrictions on rights of ownership or disposal for intangible assets during financial years 2018 and 2017.

Impairment test
An impairment test is carried out each year on December 31 for goodwill and intangible assets, which have an indeterminable useful life, and for self-constructed intangible assets, which are not yet ready for use.

The carrying amount of the brand worth EUR 9,094k was allocated to the individual CGUs as follows: “Microbatteries” EUR 6,894k and “Power & Energy” EUR 2,200k. Capitalized development services, which were not yet completed on the reporting date and have therefore not yet been used were attributable in the amount of EUR 384k to the CGU “Microbatteries” and with an amount of EUR 1,369k to the CGU “Power & Energy”.

The key assumptions used in estimating the values in use were as follows:

(IN %)	CGU MICROBATTERIES	CGU POWER & ENERGY
Discount rate (WACC)	**8.83**	**8.87**
Growth rate	**2.10**	**2.10**
Tax rate	**29.04**	**28.94**

Data from the current long-term planning for the years from 2019 to 2021 were used for the calculation, where 2019 corresponds to detailed budget planning, while 2020 and 2021 are updated. The most significant planning variable to determine cash flows is income development, which is essentially driven by the trend in sales. Furthermore, CAPEX is key to calculating the cash flow situation.

For the CGU “Microbatteries”, the key assumptions here are that the market leading position for zinc-air hearing aid batteries in a structurally expanding market will be further extended and that strong demand for wireless lifestyle products, such as headsets, will lead to a sharp increase in revenue from lithium-ion batteries.

In the CGU “Power & Energy”, it was assumed that the sales volumes in stationary energy storage would rise very sharply thanks to entering attractive foreign markets and the new products introduced, such as “**VARTA** pulse”. Revenue was also recognized from projects acquired with major customers for battery packs. The large volumes also led to assembly of battery packs being further automated.
The last available period (for both segments 2021) from the long-term planning was used as the basis for perpetuity. The discount rate is adjusted by a risk premium, which reflects the increased overall risk of the participation and the specific risk of the CGUs.

A uniform growth rate was defined for the calculation of the free cash flows in perpetuity, which equates depreciation and amortization and capital expenditure (CAPEX), and which sets the net working capital change to 0.

No impairment losses were discernible under the above-mentioned assumptions.

9 LONG-TERM INVESTMENTS AND OTHER PARTICIPATIONS RECOGNIZED IN THE BALANCE SHEET UNDER THE EQUITY METHOD

(IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
VW-VM Forschungsgesellschaft mbH & Co. KG i.L., Ellwangen, Germany	293	1,662
VW-VM Verwaltungsgesellschaft mbH, Ellwangen, Germany	12	12
Total carrying amounts of investments accounted for using the equity method	**305**	**1,674**
VARTA Micro Innovation GmbH, Graz, Austria	13	13
Connexio alternative investment & holding AG, Vienna, Austria	30	30
Total carrying amounts of other participations	**43**	**43**
Total carrying amounts of investments accounted for using the equity method and other participations	**348**	**1,717**

The joint venture VW-VM Forschungsgesellschaft mbH & Co. KG i.L., provided the Group with research services, which were primarily intended to develop high-performance battery cells to drive electrical or plug-in hybrid vehicles. In accordance with the joint venture agreement and the resolution by the partners, the company's business activity was terminated on December 31, 2017. The company will probably be liquidated as scheduled in the first quarter of 2019.

The balance sheet and income statement of VW-VM Forschungsgesellschaft mbH & Co. KG i.L. as the most important investment accounted for using the equity method is presented below:

Balance sheet (IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
Assets		
Intangible assets	0	123
Property, plant and equipment	0	979
Fixed assets	**0**	**1,102**
Receivables and other assets	2	1,445
Cash and cash equivalents	672	1,412
Current assets	**674**	**2,857**
Total assets	**674**	**3,959**
Liabilities		
Capital accounts I and II	400	400
Contributions/obligations to make contributions	26,143	29,143
Special loss account	-25,958	-26,096
Equity	**585**	**3,447**
Provisions	**84**	**61**
Trade payables	5	354
Other liabilities	0	97
Liabilities	**5**	**451**
Equity and total liabilities	**674**	**3,959**
Income statement	**2018**	**2017**
Revenue / total output	151	1,500
Other operating income	775	2,229
Cost of material	2	-472
Depreciation and amortization	-124	-1,591
Other operating expenses	-663	-5,426
Net income /net loss for the year	**138**	**-3,760**
Credit/charge to limited partners' special loss accounts	-138	3,760
Result according to the cash flow statement	**0**	**0**

The investment value is compared with equity for VW-VM Forschungsgesellschaft mbH & Co. KG i.L. below.:

(IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
Equity of VW-VM Forschungsgesellschaft mbH & Co.KG	**585**	3,447
Of which attributable to the Group (50%)	292	1,723
Eliminations	1	-61
Carrying amount of the participation	293	1,662

Reconciliation of the carrying amount of the participation:

(IN K€)	
January 1, 2018	1,662
Net income	69
Change in elimination of interim profits	62
Capital repayment	-1,500
December 31, 2018	293

10 LEASES

There were no assets in the current financial year, which had to be capitalized on the basis of a financial lease.

In the reporting year, expenses for operating leases of EUR 4,998k (2017: EUR 4,813k) were recognized in the income statement (see notes 32 Other operating expenses).

Future minimum lease payments based on non-terminable leases total:

(IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
Lease commitment up to 1 year	4,745	4,409
Lease commitment 1 to 5 years	12,433	11,133
Lease commitment over 5 years	9,226	7,769
Total minimum lease payments	**26,404**	**23,311**

Montana Tech Components, as the ultimate parent company, decided to restructure properties across all Group companies in 2015. As a result of this, in 2015, the property owned by **VARTA** Microbattery GmbH was sold as part of a land sale to WertInvest Ellwangen Immobilien GmbH, which constitutes a related party from the perspective of the consolidated Group (see note 39 Related parties). **VARTA** Microbattery GmbH ultimately leased the property back from WertInvest Ellwangen Immobilien GmbH at typical local rents (sale & lease back). The future lease commitments relate mainly to expenses under this tenancy. An indefinite term was agreed in the lease, as was an option to buy back the property at market value.

11 OTHER FINANCIAL ASSETS

(IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
Loans	**359**	**444**
Of which non-current	359	444

In the previous year, non-current receivables from affiliated companies of EUR 444k were reported under loans. These stood at EUR 359k as of December 31, 2018.

12 INVENTORIES

Inventories can be divided into the following items:

(IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
Raw materials and supplies	24,512	22,393
Unfinished goods	11,908	11,137
Finished goods and merchandise	19,507	18,815
Advance payments made	772	1,425
Inventories	**56,699**	**53,770**
Impairment income (+) / expense (-) recognized in the income statement	-1,347	1,217

The amount of impairment of inventories recognized as expense in the reporting period amounted to EUR 1,575k (2017: EUR 21k). The amount of reversals undertaken, which was recognized as impairment of the cost of materials in the reporting period, amounted to EUR 228k (2017: EUR 1,238k).

The carrying amount of inventories after impairment totalled to EUR 8,514 (2017: 6,767).

13 TRADE RECEIVABLES AND CONTRACT ASSETS

(IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
Receivables due from third parties (gross)	26,591	20,228
Receivables due from related parties	188	101
Receivables due from joint ventures and companies in which participations are held:	5	269
Contract assets (IFRS 15)	2,369	0
Gross trade receivables and contract assets	**29,153**	**20,598**
Less loss allowances	-438	-495
Net trade receivables and contract assets	**28,715**	**20,103**

The existing net receivables are reduced by EUR 8,546k by the framework agreement for the sale of receivables December 31, 2018 (December 31, 2017: EUR 8,541k) (see 38.2 “financial risk management”). Contract assets increased in financial year 2018 to K€ 2,370 based on the changeover effect as of January 1, 2018 of K€ 1,448 at a consumption rate of K€ 1,139.

14 OTHER ASSETS

(IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
Other assets	**29,831**	**28,849**
Of which current	14,161	13,069
Of which non-current	15,670	15,780

The claim to reimbursement from the assumption of a joint debt obligation for pensions in June 2017 is reported in the amount of EUR 15,633k under non-current other provisions (see note 20.2 Pensions).

Current other assets consisted of the following:

(IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
Receivables from development projects	7,093	5,304
Other tax receivables	2,295	4,992
Other receivables	3,054	1,865
Miscellaneous other assets	1,719	908
Other assets	**14,161**	**13,069**

Receivables from promotional projects are largely due from the European Commission and relate to government subsidies for a project in which the Group acts as coordinator and receives and manages the subsidies on a fiduciary basis from the funding authority. Advance payments passed on to the cooperation partners involved amounted to EUR 5,566k as of December 31, 2018 (2017: EUR 3,058k). There is another obligation corresponding to this based on the repayment obligation to the funding authority (see note 23 Other liabilities). The increase in receivables from promotional projects of EUR 1,789k was the result of new additional development projects.

Miscellaneous other assets rose by EUR 811k. Receivables from derivative financial instruments of EUR 31k and other loans of EUR 14k were included here.

15 CASH AND CASH EQUIVALENTS

Cash and cash equivalents can be broken down as follows:

(IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
Cash equivalents	56,977	0
Cash	12	12
Credit balances with banks	92,752	138,524
Total	**149,741**	**138,536**

The item “Credit balances with banks” contains fixed deposits with a term of up to three months of EUR 74k (2017: EUR 74k).

A short-term investment of free liquidity of EUR 56,977k was made in an related company at normal arm’s length terms (see note 39.1 Related parties). These are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to only an insignificant risk of changes in value (cash equivalents).

16 DEFERRED TAXES

Deferred taxes can be assigned to the following items:

(IN K€)	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	DEC. 31, 2018 NET	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	DEC. 31, 2017 NET	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	JAN. 1, 2017 NET
Intangible assets	1,214	5,755	-4,541	1,214	4,383	-3,169	1,243	4,830	-3,587
Property, plant and equipment	3	210	-207	-12	555	-567	-27	563	-590
Financial assets	0	4	-4	0	0	0	0	0	0
Other non-current assets	0	4,545	-4,545	0	4,582	-4,582	0	0	0
Inventories	1,554	50	1,504	1,598	187	1,411	1,092	89	1,003
Trade receivables	0	325	-325	42	5	37	142	2	140
Other current assets	3,241	214	3,027	2,600	0	2,600	2,641	0	2,641
Other non-current liabilities	1,942	2,176	-234	1,826	1,548	278	1,847	1,547	300
Non-current liabilities from pension plans	4,744	0	4,744	4,779	0	4,779	3,081	0	3,081
Current liabilities to banks	13	0	13	0	47	-47	0	56	-56
Current provisions	104	0	104	104	44	60	0	0	0
Other current liabilities	509	0	509	367	0	367	448	0	448
Tax loss carryforwards	1,432	0	1,432	1,146	0	1,146	441	0	441
Offsets	-13,279	-13,279	0	-11,351	-11,351	0	-7,087	-7,087	0
Total	**1,477**	**0**	**1,477**	**2,313**	**0**	**2,313**	**3,821**	**0**	**3,821**

17 EQUITY

There were the following changes to the equity of the **VARTA AG** Group in 2018:

				OTHER RESERVES			
(IN K€)	SUBSCRIBED CAPITAL	CAPITAL RESERVE	REVENUE RESERVES*	CURRENCY DIFFERENCES	HEDGING RESERVE	NON-CONTROLLING INTERESTS	TOTAL EQUITY
As of December 31, 2017	**38,200**	**146,719**	**41,843**	**2,582**	**128**	**980**	**230,452**
IFRS 15 – Adjustment 01.01.2018	0	0	-633	0	0	0	**-633**
IFRS 9 – Adjustment 01.01.2018	0	0	151	0	0	0	**151**
As of January 1, 2018	**38,200**	**146,719**	**41,361**	**2,582**	**128**	**980**	**229,970**
Effect of share-based payment	**0**	**2,655**	**0**	**0**	**0**	**0**	**2,655**
Comprehensive income							
Profit/loss for the year	0	0	25,260	0	0	443	25,703
Other comprehensive income.	0	0	266	1,342	-517	3	1,094
Comprehensive income	**0**	**0**	**25,526**	**1,342**	**-517**	**446**	**26,797**
As of December 31, 2018	**38,200**	**149,374**	**66,887**	**3,924**	**-389**	**1,426**	**259,422**

*Revenue reserves including net income

The Executive Board was authorized by resolution of the Annual General Meeting on October 6, 2017 to increase the share capital on one or more occasions up to October 5, 2022 in return for cash or contributions in kind up to an amount of EUR 11,840k (authorized capital 2017).

The Executive Board was authorized by resolution of the Annual General Meeting on October 6, 2017 to increase the share capital on one or more occasions up to October 5, 2022 in return for cash or contributions in kind up to an amount of EUR 2,960k (authorized capital 2017).

The Annual General Meeting on October 6, 2017 also resolved the contingent increase in the share capital of up to EUR 11,840k to grant shares when option or conversion rights were exercised or to fulfill option or conversion obligations.

The subscribed capital of **VARTA AG** amounted to 38,200,000 shares.

For the current financial year, a total of EUR 2,655k was recognized in equity as share-based payment. These share-based payment components are explained under Section 33 Share-based payment arrangements.

Notification of changes in the voting rights in accordance to Securities Trading Act (WpHG) is reported as follow:

The SAMLLCAP World Fund Inc. (Baltimore, USA) has on August 1, 2018 notified that it has increased its voting rights of VARTA AG shares from 3.13% to 5.24%.

18 EARNINGS PER SHARE

The calculation of earnings per share* is based on the profit attributable to shareholders and a weighted average of the shares in circulation. There was no dilution, triggered by the issue of new shares, for example, which must be reported separately in the reporting period.

	2018	2017
Earnings, attributable to shareholders in KEUR	25,703	11,315
Weighted average of ordinary shares in circulation (‘000 shares)	38,200	31,320
Basic earnings per share in EUR	0.66	0.36
Diluted earnings per share in EUR	0.66	0.36

*Earnings per share represent **VARTA AG** shares

The number of shares has changed as follows in 2017 and 2018:

	NUMBER OF SHARES
Jan. 1, 2017	29,600,000
Dec. 31, 2017	38,200,000
Dec. 31, 2018	38,200,000

The subscribed capital is divided into 38,200,000 shares. These are par-value shares, which represent a pro rata amount of EUR 1 of the share capital.

19 OTHER FINANCIAL LIABILITIES

Other financial liabilities consisted of the following:

(IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
Other financial liabilities	**8,920**	**8,401**
Of which current	2,720	2,201
Of which non-current	6,200	6,200
Composition of other financial liabilities		
Loans	0	0
Other financial liabilities	8,920	8,401

(IN K€)	12/31/2017	CASH CHANGE		NON-CASH CHANGE	12/31/2018
		REPAYMENT	ASSUMPTION		
Non-current financial liabilities	6,200	0	0	0	6,200
Current financial liabilities	2,023	-1,489	1,470	0	2,004
Derivatives	178	-178	0	716	716
Liabilities from financing activities	**8,401**				**8,920**

At the reporting date, there was a liability to companies owned by the Montana Tech Components Group of EUR 6,200k (December 31, 2017: EUR 6,200k).

In financial year 2015, VGG GmbH, Vienna, waived part of its claim of EUR 6,000k against **VARTA** Storage GmbH, Nördlingen, from a loan issued against a debtor warrant. Furthermore, in financial year 2016, VGG GmbH, Vienna, waived a further part of its claim of EUR 200k against **VARTA** Micro AG, Ellwangen, from a loan issued against a debtor warrant. This waiver passes to **VARTA** Storage GmbH because of the merger of **VARTA** Micro AG. Both debtor warrants envisage the loan liability plus interest being revived if a minimum profit for the year is achieved within ten years of the claim being waived. If the waiver amount is not repaid in full by December 31, 2025 and June 30, 2026 respectively, the remaining difference shall lapse finally and irrevocably.

Following the debt waiver, the original loan liability of EUR 6,200k was derecognized and, at the same time, an obligation from the anticipated repayments from the debtor warrant was reported as a liability. The obligation from the debtor warrant, which is measured at fair value, amounted to EUR 6,200k on the reporting date. A discounted cash flow model involving risk-dependent interest rates is used to calculate the fair value. The anticipated future cash flows are based on internal business planning. Since the applicable credit line is based on internal data, the debtor warrant is classified as level 3 of the fair value hierarchy.

Since December 2015, there has been a framework agreement for the sale of receivables, from which paid receivables of EUR 1,453k (December 31, 2017: EUR 1,459k) were reported as financial liabilities due to the bank (factor) as of December 31, 2018 (see Section 38.2 Financial risk management).

There are also other financial liabilities to foundations of EUR 551k (December 31, 2017: EUR 564k).

There are no leases that qualify as financial leases in the consolidated financial statements.

20 PROVISIONS FOR EMPLOYEE BENEFITS

20.1 COMPOSITION OF PROVISIONS FOR EMPLOYEE BENEFITS

(IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
Total	**24,687**	**23,862**
Of which current	1,048	1,087
Of which non-current	23,639	22,775
Composition of provisions for employee benefits		
Pensions	17,362	16,872
Severance payments	5,458	4,936
Service anniversary bonuses	577	553
Partial retirement	1,290	1,501

20.2 PENSIONS

There are both defined benefit and defined contribution pension schemes for some employees within the scope of consolidation. For the defined contribution commitments, the companies pay contributions to government or private pension insurance schemes based on statutory or contractual provisions or on a voluntary basis. On payment of the contributions, the company has no additional benefit obligations. The current contribution payments are reported as expenditure in the respective year. The pension schemes are largely based on defined benefit plans where a distinction is made between provisions and externally financed pension schemes.

In accordance with IAS 19, the pension provisions for defined benefit commitments are determined in accordance with the internationally accepted projected unit credit method by independent actuaries. Here, future obligations are measured on the basis of the benefit entitlement acquired pro rata at the reporting date. On measurement, actuarial assumptions for the discount rates, pay and pension trends, staff turnover rates and life expectancy are taken into consideration, which are determined for each Group company depending on the economic framework conditions. Actuarial gains or losses result from deviations between actual developments and the previous year's assumptions. These are recognized in equity without impacting the income statement in the period in which they accrue, taking account of any deferred taxes.

These pension plans provide benefits in the event of old age, death and invalidity. There are defined benefit pension plans in Germany and Singapore, the most significant plan being in Germany. There are plan assets for only a minor share of the obligations.

In the previous year, **VARTA** Microbattery GmbH concluded an agreement with Colibri Beratungsgesellschaft mbH Fürstenfeldbruck (Germany) in which Colibri Beratungsgesellschaft mbH agreed to assume the pension obligations of **VARTA** Microbattery GmbH within the framework of a joint debt obligation against payment of EUR 11,500k. The following agreements were reached in this connection:

- Colibri Beratungsgesellschaft mbH will guarantee all pension claims of **VARTA** Microbattery GmbH, which were already acquired as of December 31, 2016 and fall due after January 1, 2017, and
- will honor fulfillment of these payment obligations vis-à-vis **VARTA** Microbattery GmbH.

Safeguards were implemented with regard to the financial assets (EUR 11,500k), which were assigned in connection with the joint debt assumption to Colibri Beratungsgesellschaft mbH.

For the pension obligations (DBO) assumed in accordance with IAS 19, the amortized value on the reporting date amounted to EUR 15,633k (previous year: EUR 15,780k); a claim for reimbursement against Colibri Beratungsgesellschaft mbH was recognized in this amount.

In financial 2018, a revaluation reserve of EUR 180k was booked in other comprehensive income as a result of joint debt assumption.

The claim for reimbursement is secured by the following collateral with an unlimited term, which is unchanged on the previous year:

- a private irrevocable guarantee by the partner in Colibri Beratungsgesellschaft mbH to fulfil the payment obligation of Colibri Beratungsgesellschaft mbH limited to a maximum of EUR 4,900k
- subordinate guarantee from VGG GmbH, Vienna (Austria) in connection with the above-mentioned guarantee for the partner in Colibri Beratungsgesellschaft mbH limited to a maximum of EUR 8,000k, reduced by all payments by Colibri Beratungsgesellschaft mbH
- additional bank guarantee in the amount of EUR 4,000k for the partner's private guarantee

Colibri Beratungsgesellschaft mbH entered into a fiduciary agreement in financial year 2018 with **VARTA** Microbattery Pensions-Treuhand e.V. As a result exiting secured assets against pension obligations were transfered to the Pensions-Treuhand e.V.

The Group's defined benefit plans have a net obligation with the following components:

(IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
Present value pension obligation (DBO) on the reporting date	19,478	19,011
Fair value of plan assets	-2,116	-2,139
Net obligation (+) / Net assets (-) in the balance sheet	**17,362**	**16,872**

The plan assets of the material pension obligations break down as follows:

(IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
VARTA Microbattery GmbH and VARTA Storage GmbH		
Reinsurance	2,116	2,139
Total	**2,116**	**2,139**

For the companies based in Germany, the plan assets consist solely of reinsurance policies; there are no plan assets for the companies abroad. The general risk is minimized by the different characteristics in the composition of the plan assets.

Payments, which are due within the next financial year because of pension commitments, come to EUR 550k (2017: EUR 537k). The duration of the pension plans comes to a period of around 18 years as a weighted average.

The defined benefit German pension plan mainly provides systematic cover for the employees of **VARTA** Microbattery GmbH as well as **VARTA** Storage GmbH against the risks of old age, death and invalidity.

The retirement benefits are organized in the form of a life-long annuity, which results from multiplying the pension capital available at retirement age (created from salary-dependent employee and employer contributions) by the statutory conversion rate. Death benefits amount to 60% of the (anticipated) old age pension, while invalidity benefits amount to 40% of the insured salary.

The persons working for **VARTA** Microbattery GmbH and **VARTA** Storage GmbH covered by the pension plan are shown below:

	DECEMBER 31, 2018	DECEMBER 31, 2017
Current employees	872	822
Claimants (former employees)	128	117
Current pensioners	224	216
Total	**1,224**	**1,155**

There have been the following changes in the pension obligation and the plan assets for the defined benefit pension plans:

	NET OBLIGATION		FAIR VALUE OF PLAN ASSETS		PRESENT VALUE OF THE PENSION OBLIGATIONS		REIMBURSEMENT CLAIM	
(IN K€)	2018	2017	2018	2017	2018	2017	2018	2017
Fair value or present value as of January 1	**16,872**	**16,926**	**-2,139**	**-2,063**	**19,011**	**18,989**	**15,780**	**0**
Included in the income statement	**0**							
Employer's current service cost	**476**	**467**			**476**	**467**	**0**	**0**
Past service cost	**0**	**0**			**0**	**0**	**0**	**0**
Interest income/interest expenses	**315**	**293**	**-39**	**-36**	**354**	**329**	**0**	**0**
	791	**760**	**-39**	**-36**	**830**	**796**	**0**	**0**
Included in other comprehensive income								
(i) Re-measurements:								
Actuarial gains/losses	**65**	**-476**	**0**	**0**	**65**	**-476**	**180**	**0**
- of which adjustments to the pension obligation based on experience	98	-476	0	0	98	-476	4	0
- of which change in demographic assumptions for the pension obligation	-199	0	0	0	-199	0	206	0
- of which change in financial assumptions about the pension obligation	36	0	0	0	36	0	-30	0
Income/expenses from net assets, excluding interest income/expenses	**-7**	**-8**	**-7**	**-8**	0	0	**0**	**0**
	58	**-484**	**-7**	**-8**	**65**	**-476**	**180**	**0**
Other	**0**							
Other accruals	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**16,087**
Retirement benefits paid direct by the employer	**-359**	**-330**	**0**	**0**	**-359**	**-330**	**0**	**0**
Employee contributions	**0**	**0**	**-88**	**-57**	**88**	**57**	**0**	**0**
Benefits paid	**0**	**0**	**157**	**25**	**-157**	**-25**	**-327**	**-307**
	-359	**-330**	**69**	**-32**	**-427**	**-298**	**-327**	**15,780**
Fair value or present value as of December 31	**17,362**	**16,872**	**-2,116**	**-2,139**	**19,478**	**19,011**	**15,633**	**15,780**
Of which pension entitlements covered by reserves					16,884	16,448		
Of which funded pension entitlements					2,594	2,563		

Actuarial assumptions

The actuarial assumptions of the major pension plans were as follows according the Heubeck 2018G mortality tables in financial year 2018 (2017: 2005G):

	DECEMBER 31, 2018	DECEMBER 31, 2017
Discount rate (in %)	1.90	1.89
Expected increases in salaries (in %)	2.50	2.50
Expected increases in pensions (in %)	1.50	1.50
Male pensionable age (years)	65	65
Female pensionable age (years)	65	65

The turnover rate of employees of **VARTA** Microbattery GmbH broke down as follows in financial year 2018:

	DECEMBER 31, 2018	DECEMBER 31, 2017
Staff turnover by age:		
Up to 39	4.5%	4.5%
Up to 49	0.5%	0.5%
50 and above	0%	0%

The actuarial assumptions are redetermined at the end of the respective financial year. The actuarial assumptions determined in the process are used to determine the liabilities are the end of the year and the personnel pension costs for the following year.

Sensitivity analyses

Any change in the above-mentioned actuarial assumptions used to determine the DBO as of December 31, 2018, would increase or reduce the corresponding DBO of the respective company, assuming all other parameters remain unchanged:

Change in the DBO resulting from an increase/decrease in the parameters:

(IN K€)	INCREASE	DECREASE
Discount rate (+/- 0.25%)	-860	925
Pension trend (+/- 0.25%)	574	-547
Life expectancy (+/-1)	605	-606

20.3 PROVISIONS FOR SEVERANCE PAYMENTS

Provisions for severance payments are created for legal and contractual claims of employees in Indonesia. Severance payments mainly constitute termination benefits. The provisions are calculated in the same way as pensions, namely in accordance with the projected unit credit method.

The provision for severance payments in the consolidated balance sheet is made up as follows:

(IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
Present value of provision for severance payments at the reporting date (DBO)	5,458	4,936
Obligation in the balance sheet (provision for severance payments)	**5,458**	**4,936**

There have been the following changes in the provision for severance payments:

(IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
Present value of the provisions for severance payments as of January 1	**4,936**	**4,617**
Foreign exchange differences	251	-605
Employer's current service cost	555	795
Actuarial gains (-) / losses (+)	-254	141
Benefits paid	-30	-12
Present value of the provisions for severance payments as of December 31	**5,458**	**4,936**

The cost of severance payments is made up as follows:

(IN K€)	2018	2017
Employer's current service cost	555	795
Expenses recognized in the income statement	**555**	**795**
Actuarial gains (-) / losses (+)	-246	141
Re-measurements recognized in the statement of comprehensive income	**-246**	**141**
Cost of severance payments in the period	**309**	**936**

The actuarial assumptions which were used for the calculation in Indonesia were as follows:

	DECEMBER 31, 2018	DECEMBER 31, 2017
Discount rate (in %)	8 %	7.8 %
Expected increases in salaries (in %)	11.5 %	11.5 %
Factory/office staff turnover (in %)	0.0 %	0.0 %
Male pensionable age (years)	55	55
Female pensionable age (years)	55	55

21 TAX LIABILITIES

Liabilities from income taxes of EUR 7,261k exhibit the following age structure:

(IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
Income tax liabilities		
… relating to 2018	4,352	2,449
… relating to 2017	270	874
… relating to 2016	982	0
… relating to 2015	100	6
… dating back further than 2015	1,557	1,395
	7,261	**4,724**

22 TRADE PAYABLES, CONTRACT LIABILITIES AND ADVANCE PAYMENTS RECEIVED

Trade payables and advance payments received were composed as follows:

(IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
Advance payments received	30,247	0
Non-current liabilities	**30,247**	**0**
Trade payables to third parties	20,825	29,068
Contract liabilities	8,435	0
Liabilities from the acquisition of property, plant and equipment and intangible assets	2,322	3,222
Liabilities due from related parties	287	127
Advance payments received	11,587	62
Current liabilities	**43,456**	**32,479**
Total trade payables and advance payments received	**73,703**	**32,479**
- of which due immediately	*6,207*	*9,664*
- of which residual term of up to 1 year	37,249	*22,815*
- of which residual term over to 1 year	30,247	0

Trade payables including advance payments received have increased by EUR 10,977k in total. This is attributable to the increase in business volume, the increase caused by IFRS 15 and advance payments received from customers.

The advance payments received came to EUR 41,834k in total and were associated with obligations from pending transactions by the **VARTA AG** Group to deliver batteries in future. The resultant liabilities of the **VARTA AG** Group are repaid as part of future deliveries and meet the requirements for recognition in accordance with IFRS 15.16. This presentation is based on the assessment that the advance payments will be covered in full by subsequent call-offs and consequently do not contain a financing component. The cash inflow is included in net cash flow from ongoing operating activities.

Because of the new IFRS 15, EUR 8,435k was reported as contract liabilities as of December 31, 2018, which was largely included in other deferred liabilities in the previous year (see 25 Deferred liabilities).

As of January 1, 2018 (transition date to IFRS 15) contract liabilities amounted to K€ 10,055 and related to content from customer contracts with consignment warehouse handling, with bonus and rebate agreements, with revenue recognition over a period of time, with redemption obligations and revenue from the project business. The issues listed above are mainly of a short-term nature and are recognized within a period of 12 months and reported as revenue. Only in the case of bonus and rebate agreements is an amount of K€ 573 spread over a period of three to four years.

23 OTHER LIABILITIES

(IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
Other non-current liabilities	93	448
Other current liabilities	11,018	10,285
Other liabilities	**11,111**	**10,733**

Other current liabilities rose from EUR 10,285k to EUR 11,018k.

Other non-current liabilities mainly contained liabilities from promotional projects of EUR 6,418k (December 31, 2017: EUR 3,435k), customs liabilities of EUR 793k (December 31, 2017: EUR 905k) and other tax liabilities of EUR 1,457k (December 31, 2017: EUR 4,869k).

24 OTHER PROVISIONS

(IN K€)	ONEROUS CONTRACTS AND IMPENDING LOSSES	WARRANTIES, GUARANTEES	DISPOSAL, RESTORATION & SIMILAR OBLIGATIONS	OTHER PROVISIONS	TOTAL 2018
Maturity					
Current	0	2,749	12	1,543	4,304
Non-current	0	0	0	243	243
Total provisions	**0**	**2,749**	**12**	**1,786**	**4,547**
Change in other provisions in 2018					
As of Jan. 1, 2018	**0**	**2,777**	**11**	**1,468**	**4,256**
Allocation	0	1,627	0	402	2,029
Consumption	0	-1,494	0	-183	-1,677
Reversal	0	-176	0	55	-121
Foreign exchange differences	0	15	1	44	60
As of Dec. 31, 2018	**0**	**2,749**	**12**	**1,786**	**4,547**

(IN K€)	ONEROUS CONTRACTS AND IMPENDING LOSSES	WARRANTIES, GUARANTEES	DISPOSAL, RESTORATION & SIMILAR OBLIGATIONS	OTHER PROVISIONS	TOTAL 2017
Maturity					
Current	0	2,777	11	1,468	4,256
Non-current	0	0	0	0	0
Total provisions	**0**	**2,777**	**11**	**1,468**	**4,256**
Change in other provisions in 2017					
As of Jan. 1, 2017	**3**	**2,060**	**13**	**931**	**3,007**
Allocation	0	2,068	0	1,009	3,077
Consumption	-3	-749	0	-225	-977
Reversal	0	-557	0	-133	-690
Foreign exchange differences	0	-45	-2	-114	-161
As of Dec. 31, 2017	**0**	**2,777**	**11**	**1,468**	**4,256**

Warranties, guarantees

Product guarantees are provided when products are sold. Provisions are created for this purpose each year. Guarantee provisions are calculated as a percentage of sales, with the percentage rate being calculated on the basis of actual returns in the past and on the basis of claims. The provisions usually cover an appropriate guarantee and cooling off period. Allocation takes place when the product is sold, at the percentage rate deduced from the past. The Group expects to settle the majority of the provisions outstanding as of December 31, 2018 in the coming year.

Disposal, restoration and similar obligations

At the end of financial year 2018, there were disposal and restoration provisions of EUR 12k, which had been created at **VARTA** Microbattery Inc. (New York, USA).

Miscellaneous provisions

Miscellaneous provisions largely consisted of a possible residual liability resulting from the spin-off of the pensions of EUR 497k. There were also restoration liabilities of EUR 431k (December 31, 2017: EUR 412k), provisions for commissions of EUR 47k (December 31, 2017: EUR 45k) and the costs of annual financial statements of EUR 60k (December 31, 2017: EUR 60k).

25 DEFERRED LIABILITIES

Deferred liabilities comprise the following material items:

(IN K€)	DECEMBER 31, 2018	DECEMBER 31, 2017
Employee bonuses	4,056	3,234
Holiday entitlements, overtime and time off in lieu	3,870	4,135
Other deferred liabilities for personnel	1,158	958
Audit, tax advice and legal advice	876	888
Outstanding invoices	1,074	828
Customer bonuses, rebates and discounts	0	5,428
Miscellaneous deferred liabilities	1,011	1,102
Deferred liabilities	**12,045**	**16,573**

The item for customer bonuses, rebates and discounts was reclassified in accordance with IFRS 15 and is included in contract liabilities in future.

26 SALES REVENUE

The effect from first-time application of IFRS 15 on revenue from contracts with customers is described in note 4.19.1 IFRS 15 Revenue from Contracts with Customers. The comparative information was not adjusted to the new provisions because of the transition method applied for IFRS 15.

The following revenue was achieved from the sale of products and the supply of services:

(IN K€)	2018	2017
Sales revenue	**271,650**	**242,157**
Of which from product sales	266,139	238,706
Of which from the sale of services	5,511	3,451

Revenue from product sales largely contained sales revenues from “Microbatteries” and “Power & Energy” (see note 6 Segment reporting). Sales from the “Microbatteries” segment contained sales revenue from “Healthcare” of EUR 139,301k (2017: EUR 134,371k) and “Entertainment & Industrial” of EUR 79,561k (2017: EUR 69,332k).

Sales revenue from sales of services mainly contained revenue from providing IT services of EUR 1,031k (2017: EUR 862k) and product design of EUR 1,922k (2017: EUR 306k). In the current year, revenue of EUR 2,536k from the sale of services to research institutes was included.

27 DECREASE / INCREASE IN FINISHED AND UNFINISHED GOODS

(IN K€)	2018	2017
Change in unfinished goods	712	1,554
Change in finished goods	3,187	1,591
Increase / decrease in finished and unfinished goods	**3,899**	**3,145**

Changes in finished and unfinished goods cannot be reconciled directly with the changes apparent from the consolidated balance sheet. This was due to existing foreign exchange differences and one-off conversion effects in IFRS 15 that affect these items.

28 COST OF MATERIAL

(IN K€)	2018	2017
Expense for raw materials and supplies and goods purchased	94,103	87,878
Other material expenses	7,379	4,480
Material processing and refining by third parties	4,458	6,475
Other	927	1,095
Cost of materials	**106,867**	**99,928**

The item “Other” contains consumables which were purchased direct for production or customer orders and consumed without being stored. Expenses for packaging, temporary staff, waste disposal and packaging material are also included under “Other”.

29 PERSONNEL EXPENSES

Personnel expenses contained the following items:

(IN K€)	2018	2017
Wages and salaries	77,504	71,497
Expense for severance payments	988	662
Expense for statutory social security contributions	7,060	6,758
Pension expense	5,149	4,847
Other personnel expenses	1,739	2,283
Total	**92,440**	**86,047**

Pension expenses comprised the following:

(IN K€)	2018	2017
Defined contribution plans	4,673*	4,380
Defined benefit plans	476	467
Total	**5,149**	**4,847**

*Employer contributions are included in expenses for defined contribution plans.

In January 2018, a share option program for employees (MSOP) was launched by the parent company VGG (Vienna), under which participating employees of the **VARTA AG** Group, including the Executive Board, are entitled to purchase ordinary shares in **VARTA AG**. The vesting period taken as a basis amounts to four years and the precondition for exercise is that the beneficiaries are in an ongoing employment relationship with **VARTA AG** or with one of its affiliated companies as at the date the option is exercised. Non-cash expense from the employee share option program of EUR 2,830k was recognized as a special effect in "Wages and salaries".

Expenses for defined contribution plans include the employer's contributions to the German statutory pension insurance scheme. Total expenses for these contributions amounted to EUR 4,454k in financial year 2018 (2017: EUR 4,107k). These are employer contributions to the statutory pension insurance scheme. As of the reporting date, contributions not yet calculated or not yet paid are deferred and reported under other liabilities or provisions.

The Group employed 2,284 staff at the end of 2018 (2017: 2,171). On average, 2,242 employees were employed in 2018 (2017: 2,091). Of these, 1,708 were wage earners, 518 were salaried employees and 16 were senior managers.

30 DEPRECIATION AND AMORTIZATION

Depreciation and amortization comprised the following:

(IN K€)	2018	2017
Scheduled depreciation and amortization of property, plant and equipment	8,170	7,442
Scheduled depreciation and amortization of intangible assets	2,348	2,004
Total depreciation and amortization	**10,518**	**9,446**

31 OTHER OPERATING INCOME

Other operating income contained the following items:

(IN K€)	2018	2017
Grants and public donations	3,781	4,004
Income from offsetting rental and services vis-à-vis joint ventures	108	3,151
Reversal of provisions and deferred liabilities	697	1,071
Income from the sale of property, plant and equipment	21	0
Other	2,502	6,246
Other operating income	**7,109**	**14,472**

Public donations received related to **VARTA** Microbattery GmbH and **VARTA** Storage GmbH and were not linked to any conditions. These donations were provided for projects sponsored by the Federal Ministry of Education and Research and by the European Commission. In financial year 2018, public donations amounted to EUR 3,781k (2017: EUR 4,004k) and were mainly used for research projects involving microbatteries and energy storage. Donations are recognized as other operating income when the receivable accrues.

The fall in the item "Income from offsetting rental and services vis-à-vis joint ventures" resulted from the scheduled termination of operations by a joint venture.

The fall in the item “Other” was largely the result of the special effect of the claim to reimbursement of EUR 3,629k in connection with the agreement on the assumption of the joint debt obligation in 2017 (See section 1 General information).

32 OTHER OPERATING EXPENSES

Other operating expenses contained the following items:

(IN K€)	2018	2017
Rent, leases and tenancies	4,998	4,813
Maintenance	4,983	4,006
Cost of energy	3,440	3,329
Commission	3,009	2,087
Marketing, advertising and representation	2,966	3,149
Outward freight and customs duties	2,937	2,766
Legal, audit and consultancy fees	2,260	2,530
Telephone, postage & IT	1,947	1,627
Travel expenses	1,932	1,984
Warranties	1,638	2,082
Licenses & patent fees	1,248	1,202
Engineering and professional fees	1,187	1,458
Expenses with related companies	865	230
Other distribution costs	550	528
Insurance contracts	454	461
Cleaning	440	358
Impairment losses from trade receivables	438	495
Apprenticeship and training costs	365	333
Contributions and fees	299	238
Bank charges / fund transfer fees	270	216
Consumer credit insurance	182	181
Costs of the IPO	0	6,115
Miscellaneous other operating expenses	3,706	4,039
Other operating expenses	**40,114**	**44,227**

Other operating expenses have fallen in total by EUR 4,113k from EUR 44,227k to EUR 40,114k. This was mainly the result of the elimination of the costs of the IPO in 2017. The increase in commission is due to higher revenue. Maintenance expenses have risen by EUR 977k in response to the expansion in production capacity.

33 SHARE-BASED PAYMENT ARRANGEMENTS

Description of share-based payment

In financial year 2018, there are two share-based payment arrangements within the **VARTA AG** Group: the Employee Share Option Program (ESOP) and the Long Term Incentive Program (LTIP).

The Employee Share Option Program (ESOP) was launched by the parent company VGG GmbH (Vienna, Austria) to allow employees to subscribe to ordinary shares in **VARTA AG**. The vesting period on which the program is based amounts to four years. The share-based payment arrangement requires employees to be in an active employment relationship with the company whenever options are exercised.

There is also a Long Term Incentive (LTI) Program for the Executive Board. This LTI Program constitutes a long-term investment-like component, which aims to foster long-term collaboration between **VARTA AG** and the Executive Board. The program has been set up for five years. The key condition for exercising rights is an existing employment relationship of at least three years.

Determination of fair values

The fair value of both share-based payment systems was determined in accordance with the Black Scholes formula.

The following parameters were used to determine the fair values on the date share-based payment with settlement by equity instruments was granted:

	EMPLOYEE STOCK OPTION PLAN (MSOP)	LONGTERM INCENTIVE PLAN (LTIP)
Fair value (average, in EUR)	8,07	7,51
Share price on grant date (in EUR)	21,6	20,6
Exercise price (in EUR)	14,0	14,0
Expected volatility (in %)	30,9 %	28,9 %
Expected term (in years)	4,0	5,0
Expected dividends (average, in %)	0,55 %	0,55 %
Risk-free interest rate (in %)	-0,691 %	0,043 %

Expected volatility is based on an assessment of historical volatility in the company's share price, especially over a period corresponding to the anticipated maturity. The anticipated maturity of the instruments is based on historical experience and the general conduct of option holders.

Impact of share-based payments on profit/loss for the period and net assets and financial position

The expense recognized in the income statement for share option plans came to EUR 2,830k in financial year 2018. The effects in equity amounted to EUR 2,587k (see Section 17 Equity) plus deferred tax assets of EUR 68k related to the LTI program portion. A total of EUR 243k was also recognized from the LTI program as deferred liabilities (see Section 25 Deferred liabilities).

34 NET INTEREST INCOME

(IN K€)	2018	2017
Financial income	160	63
Financial expense	-416	-783
Net interest income	**-256**	**-720**

Interest income was largely generated in 2018 through making loans available to related companies. Interest expenses were significantly reduced in the current financial year. As a result of the IPO, the **VARTA AG** Group was completely refinanced and consequently net interest income improved significantly.

35 NET FINANCIAL RESULT

Sundry financial income and sundry financial expenses comprised the following:

(IN K€)	2018	2017
Foreign exchange gains	368	687
Sundry financial income	**368**	**687**
Foreign exchange losses	-631	-889
Sundry financial expense	**-631**	**-889**

36 INCOME TAX EXPENSES

The effective tax rate amounted to 29.55% in the reporting year (2017: 35.58%). The corporation tax rate amounted to 15%, the solidarity surcharge on top of this was 5.5% and the combined trade tax was 13.24% (2017: 13,21%) The combined trade tax increases as a result of an increased collection rate of the municipality of Nördlingen. The reconciliation of the expected tax expense with actual tax expense is shown below:

(IN K€)	2018	2017
Earnings before taxes (EBT)	36,482	21,025
Companies income tax rate	29.07%	29.04%
Expected (theoretical) tax expense	-10,605	-6,106
Effects of different tax rates in the Group	1,127	686
Tax-free income	96	140
Capitalization of previously unreported loss carryforwards	0	22
Expense and interest not recognized under tax law	-1,368	-1,514
Tax expense / tax income for previous years	630	-580
Other	-659	-129
Income tax expense	**-10,779**	**-7,481**

Income tax expense included current taxes of EUR 9,498k (2017: EUR 5,428k) and deferred tax expenses of EUR 1,281k (2017: EUR 1,473k) which resulted solely from temporary differences.

As a result of the profit transfer agreements concluded in the Group as of July 1, 2016, there was an income tax group on the reporting date involving **VARTA** Microbattery GmbH, Ellwangen, Germany, and **VARTA** Storage GmbH, Nördlingen, Germany, as controlled companies and **VARTA AG**, Ellwangen, Germany, as the controlling company.

The consolidated statement of comprehensive income contained income tax effects from cash flow hedged of EUR 212k (2017: EUR -42k). Income tax on the re-measurement of defined benefit plans in accordance with IAS 19 amounted to EUR -41k (2017: EUR -381k). Both items were recorded in other comprehensive income.

The following non-capitalized and unused tax loss carryforwards from corporation tax were included in the Group:

(IN K€)	DEC. 31, 2018	DEC. 31, 2017
Expiry date:		
In the coming financial year - within 1 year	0	0
No expiry	3,284	3,284
Allowable tax loss carryforwards as of December 31	**3,284**	**3,284**

No deferred taxes were capitalized for loss carryforwards of EUR 3,284k (2017: EUR 3,284k). In the relevant companies, the likelihood that future profits could be netted off against accrued loss carryforwards was rated low at the reporting date.

Capitalization of tax deductible loss carryforwards is reassessed each year and is based on current assumptions and estimates by management. In the process, those loss carryforwards that can be utilized within the next five years on the basis of the results of operations of individual companies or tax groups are capitalized. In countries or companies in which utilization of loss carryforwards is not conceivable, utilization is therefore waived.

37 GROUP CASH FLOW STATEMENT

Other non-cash expenses and income mainly resulted from non-cash changes in the claim to reimbursement from the joint debt obligation of EUR 180k and the non-cash effects from share-based payment of EUR 2,830k (see note 29 Personnel expenses). Currency effects of EUR -633k (2017: EUR -305k) and from changes in the consolidated statement of comprehensive income of EUR -361k (2017: EUR 1,436k) were also included in non-cash changes, which were recognized directly in equity. The new standards also resulted in a non-recurring effect of EUR -699k.

The item “Acquisition of property, plant and equipment and intangible assets” cannot be reconciled with the additions of “intangible assets and property, plant and equipment” because of outstanding items where there was no payment obligation. The difference mainly resulted from liabilities of EUR 901k (December 31, 2017: EUR 806k). The outstanding items from the previous year’s investment were paid in full in the following year and allocated to the item “Acquisition of property, plant and equipment and intangible assets”.

Cash outflows from the capitalization of self-constructed property, plant and equipment and from the capitalization of development costs, presented in the line “Own work capitalized” in the amount of EUR 3,517k was adjusted in the previous year’s comparative column in accordance with IAS 8.41 and have been reported in cash flow from financing activities since the financial year (previous year: net cash flow from ongoing operating activities).

For the development of financial liabilities, we refer to our comments under Section 19 Other financial liabilities.

Of the cash and cash equivalents reported, EUR 74k (December 31, 2017: EUR 74k) are subject to a restriction on rights of disposal.

38 RISK MANAGEMENT

38.1 INTERNAL CONTROL SYSTEM

The management of **VARTA AG** has established internal control and management systems for financial reporting to guarantee that the consolidated financial statements of **VARTA AG** comply with the applicable accounting principles and that Group reporting is correct. This ensures that an appropriate degree of certainty regarding the reliability of financial reporting is guaranteed to facilitate as reliable an assessment of the company's net assets, financial position and results of operations as possible.

The Audit Committee monitors both compliance with the policies and processes of Group risk management by the Executive Board and the efficacy of the risk management system with regard to the risks to which the Group is exposed. The setup of an Internal Audit mechanism was started in financial year 2018 in order to ensure that audits can be carried out on a regular basis, the results of which are reported directly to the Audit Committee.

Each internal control system has its limits, however well it may have been designed. Therefore, even those internal control and management systems that were considered effective do not offer complete security as far as the preparation and presentation of financial statements is concerned.

Estimates and assumptions regarding the future are made when accounting for and measuring items. Estimates and assumptions which represent a significant risk in the form of a material adjustment to the carrying amounts of assets and liabilities within the next financial year are shown under the individual items in the notes. Overall, however, no risks were identified in the past financial year, which could lead to a material correction of the company's net assets, financial position and results of operations.

38.2 FINANCIAL RISK MANAGEMENT

During the periods shown, the Group's financial risk management was directed by the Executive Board of **VARTA AG** or the management of **VARTA** Microbattery GmbH and the management of Montana Tech Components GmbH ("MTC GmbH") (see note 39 "Related parties"). The paramount aim of financial risk management is to identify the financial risks to which the Group is exposed, to monitor them and to establish efficient security measures. Financial risks emerge from operating activities and the financing structure. These include, in particular, credit, liquidity, foreign exchange and interest rate risk as well as the market price risk of commodities.

In addition to the identification, analysis and measurement of financial risks, decisions about the use of financial instruments to manage these risks are made in principle by the management of MTC GmbH as well as **VARTA** Microbattery GmbH and the Executive Board of **VARTA AG**, which generally pursue a strategy of seeking to avoid risk.

The following sections provide an overview of the extent of the individual risks as well as the objectives, principles and processes for measuring, monitoring and hedging financial risks.

Credit risk

The Group is exposed to credit risk through loans, trade receivables, other receivables and cash and cash equivalents with credit risk being concentrated in trade receivables. The default risk from receivables based on liquidity risks is countered through targeted measures such as ongoing credit assessment, insuring receivables against insolvency in some cases, agreeing payments in advance and dunning processes.

The Group policy of only investing cash and cash equivalents throughout the world as deposits with financial institutions of impeccable financial standing means that the credit risk arising from credit balances with banks is also limited.

The carrying amount of financial assets equates to the maximum credit risk, which essentially comprised the following as of the reporting date:

	CARRYING AMOUNTS	
(IN K€)	DEC. 31, 2018	DEC. 31, 2017
Cash and cash equivalents	149,741	138,536
Contract assets	2,370	0
Trade receivables	26,345	20,103
Other financial assets	359	444
Other assets*	25,863	23,173
Total financial assets	**204,678**	**182,256**

* excl. other tax receivables EUR 2,295k (2017: EUR 4,992k) and prepaid expenses EUR 1,674k (2017: EUR 684k).

In financial year 2018, there was a framework agreement with a bank for the sale of receivables, which was due to expire in September 2019. This was extended for a further year in mid-2018. Under the agreement, trade receivables due as part of ordinary operating activities are sold on receipt of the relevant invoice by the respective debtor with details of the agreed payment term. Receivables are sold at the end of the month. At this date, the bank decides the amount of receivables it is prepared to buy up to a total figure of EUR 10,000k. The receivables measured at fair value at this date are sold to the bank at 90% of the transaction price. The receivables paid in the course of a month are reported under other financial liabilities due to the bank (see note 19 Other financial liabilities. As of December 31, the Group has sold receivables amounting to EUR 8,546k (December 31, 2017: EUR 8,541k). The Group is exposed to no further risks from the receivables sold.

On the reporting date, short term deposits including deferred interest of EUR 359k (December 31, 2017: EUR 444k) were granted third parties.

On December 31, 2018, other assets mainly related to the claim for reimbursement from the joint liability assumed on June 30, 2017 of EUR 15,633k (see note 1 “General information”) and receivables from promotional projects of EUR 7,093k as well as receivables from deposits due from related companies of EUR 750k.

In calculating the credit risk, the company starts from carrying amounts less loss allowances recognized in accordance with IFRS 9. Collateral received or other improvements in creditworthiness are not taken into account in the process.

The maximum credit risk must be rated low, since the default risk inherent in basic business with business partners was partly covered by credit insurance of EUR 13,302k (December 31, 2017: EUR 10,867). The criteria to be applied for assessing creditworthiness are laid down in contracts with credit insurers and in internal guidance. In addition, the credit risk is not concentrated, as the Group’s customer base consists of a large number of customers.

Receivables outstanding at the reporting date must stand up to the Group’s risk assessment criteria regardless of when they are due. In principle, a risk is considered for all financial assets based on internal and external experience. There are no financial assets where terms were renegotiated.

Trade receivables after loss allowances comprised the following:

(IN K€)	DEC. 31, 2018	DEC. 31, 2017
Contract assets	2,370	0
Trade receivables	26,783	20,598
Loss allowances	-438	-495
Trade receivables and contract assets – net	**28,715**	**20,103**

The probability of future defaults must be rated low.

There have been the following changes in total loss allowances for trade receivables:

(IN K€)	2018	2017
As of the beginning of the financial year	303	671
Allocation	655	94
Consumption	-215	0
Reversal	-320	-219
Foreign exchange differences	15	-51
Total loss allowances	**438**	**495**

The receivables or financial asset is written down by 100% as soon as the company becomes aware that it is not recoverable, or the receivable is more than 90 days past due. For receivables past due by between 31 and 90 days, a loss allowance is posted for the anticipated default taking into account the respective country risk and average default rate:

- > 31 days: 0.00-0.17% loss allowance

To take account of experience from previous years, material outstanding receivables less those where insurance is in place that have already been written down and public sector receivables are reported after deduction of a flat rate loss allowance each year. The loss allowance rate stated is calculated each year from a 10-year average in relation to receivables outstanding and defaults plus a country risk premium.

The probability of future incoming payments on receivables already written down at the date they were accounted for is rated low.

The following illustration discloses information on past due in accordance with simplified approach of trade receivables:

	DEC. 31, 2018			DEC. 31, 2017		
(IN K€)	CARRYING AMOUNT BEFORE LOSS ALLOWANCES	LOSS ALLOWANCES	NET	CARRYING AMOUNT BEFORE LOSS ALLOWANCES	LOSS ALLOWANCES	NET
0 to 10 days past due	2,528	0	2,528	1,798	-33	1,765
11 to 30 days past due	1,212	0	1,212	2,953	-6	2,947
31 to 60 days past due	520	-75	445	814	-46	768
61 to 180 days past due	137	-14	123	0	0	0
181 to 360 days past due	408	-250	158	127	-61	66
More than 360 days past due	98	-99	-1	201	-200	1
Total Group	**4,903**	**-438**	**4,465**	**5,893**	**-346**	**5,547**

The past due net trade receivables are primarily receivables from longstanding customer relationships. Based on past experience, the Group does not expect any significant defaults.

Financial assets to which the general approach applies were not written down, as no significant defaults linked to collateral are expected under the current circumstances.

Liquidity risk

Liquidity and the safeguarding thereof are monitored on an ongoing basis by Treasury at MTC GmbH, **VARTA AG** and **VARTA** Microbattery GmbH. Management ranges from constantly comparing forecast and actual cash flows to reconciling the maturity profiles of financial assets and liabilities. The key liquidity risks consist of general economic risks, the default of customer payments and foreign exchange risks.

The undiscounted contractual maturities of non-derivative and derivative financial liabilities are shown below. The default risk of financial liabilities does not change over time. The table contains both interest and principal payments:

Dec. 31, 2018

(IN K€)	CARRYING AMOUNTS	CONTRACTUAL CASH FLOWS	IMMEDIATE	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	MORE THAN 5 YEARS
Non-derivative financial liabilities							
Other financial liabilities*	8,204	8,204	0	1,459	545	0	6,200
Trade payables**	23,434	23,434	6,207	17,227	0	0	0
Deferred liabilities***	2,961	2,961	0	0	2,961	0	0
Other liabilities****	2,002	2,002	152	1,850	0	0	0
Total non-derivative financial liabilities	**36,601**	**36,601**	**6,359**	**20,536**	**3,506**	**0**	**6,200**

* Excl. derivative instruments of EUR 716k; incl. a debt waiver of EUR 6,200k with an expected term of more than five years which cannot be repaid earlier because of certain circumstances. (See notes 29 “Other financial liabilities”)

** Excl. Current advance payments received of EUR 11,587k and contract assets of EUR 8,435k

*** Excl. deferred liabilities for employee benefits of EUR 9,084k

**** Excl. accrued expenses and deferred income of EUR 93k, liabilities from development projects EUR 6,418k, custom liabilities EUR 793k, other liabilities from taxes of EUR 1,457k and social security charges EUR 348k.

(IN K€)	CARRYING AMOUNTS	CONTRACTUAL CASH FLOWS	IMMEDIATE	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	MORE THAN 5 YEARS
Derivative financial liabilities							
Forward exchange transactions (cash flow hedge)	716	10,000	0	10,000	0	0	0
Total derivative financial liabilities	**716**	**10,000**	**0**	**10,000**	**0**	**0**	**0**
Total Group	**37,317**	**46,601**	**6,359**	**30,536**	**3,506**	**0**	**6,200**

Dec. 31, 2017

(IN K€)	CARRYING AMOUNTS	CONTRACTUAL CASH FLOWS	IMMEDIATE	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	MORE THAN 5 YEARS
Non-derivative financial liabilities							
Other financial liabilities*	8,223	8,240	0	1,463	577	0	6,200
Trade payables**	32,417	32,417	9,664	22,753	0	0	0
Deferred liabilities***	8,072	8,072	0	0	8,072	0	0
Other liabilities****	5,609	5,609	972	4,533	0	104	0
Total non-derivative financial liabilities	**54,321**	**54,338**	**10,636**	**28,749**	**8,649**	**104**	**6,200**

* Excl. derivative instruments EUR 178k; incl. a debt waiver of EUR 6,200k with an expected term of more than five years which cannot be repaid earlier because of certain circumstances. (See notes 19 “Other financial liabilities”)

** Excl. current advance payments received of EUR 62k (trade payables > 1 year are reported in other non-current liabilities in the statement of financial position)

*** Excl. deferred liabilities for employee benefits of EUR 8,501k

**** Excl. other liabilities from taxes of EUR 4,869k and social security charges of EUR 232k

(IN K€)	CARRYING AMOUNTS	CONTRACTUAL CASH FLOWS	IMMEDIATE	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	MORE THAN 5 YEARS
Derivative financial liabilities							
Forward exchange transactions (cash flow hedge)	178	16,340	0	16,340	0	0	0
Total derivative financial liabilities	**178**	**16,340**	**0**	**16,340**	**0**	**0**	**0**
Total Group	**54,499**	**70,678**	**10,636**	**45,089**	**8,649**	**104**	**6,200**

Market risk
Market risk includes currency, commodity and interest rate risk, which are explained in more detail below.

Commodity risk
The Group buys commodities in different quantities and these are subject to the risk of prices changing. The key commodities are determined by analyzing the planned quantities of commodities and hedged through commodity swaps. The remaining commodity risk for the Group is rated low.

Currency risk
The Group settles its purchases and sales of goods on the basis of the functional currency of three regions, mainly in euro (Europe) and US dollar (USA, Asia). It is only exposed to currency risks from trade payables to a very minor degree since outgoing invoices at foreign companies are largely billed in the respective local currency. Likewise, purchases of inventories and/or services are mainly conducted in the local currency of subsidiaries.

On the reporting date, interest bearing liabilities are predominantly reported in EUR and USD, which correspond to the local currencies of the respective Group companies, meaning that, according to the assessment carried out by the Group, there is no material currency risk in this respect either.

The following illustration shows financial assets and liabilities per currency pair, where the currency differs from the functional currency of the respective Group company that holds these financial instruments.

	DEC. 31, 2018	DEC. 31, 2017
(IN K€)	EUR/USD	EUR/USD
Cash and cash equivalents	7,117	6,965
Trade receivables	3,370	3,179
Receivables from related companies	6,783	11,280
Trade payables		151
Loans from related companies	11,048	16,176
Liabilities to related companies	3,294	3,107
Total currency exposure gross	**4,614**	**1,990**
Forward exchange transactions	11,048	16,176
Total currency exposure net	**15,662**	**18,166**

Sensitivity analysis
A change in the following functional currency against the foreign currency from the currency pair in the amount of the percentage points listed below would have increased (reduced) the profit/loss of the consolidated financial statements by the amounts shown below as of December 31. The other variables, especially interest rates, were kept constant in this analysis.

(IN K€)		PROFIT (+) / LOSS (-)	
Dec. 31, 2018			
EUR/USD	+/- 7.3%	-775	860

(IN K€)		PROFIT (+) / LOSS (-)	
Dec. 31, 2017			
EUR/USD	+/- 6.9%	-840	951

The volatility for the individual relevant currency pairs was calculated from historical data for the last 250 trading days (before the respective reporting date). On the basis of the daily exchange rate trend (change in current rates compared with the previous day), the annual volatility shown was determined by upscaling this daily volatility.

The sensitivity analysis showed that the currency pairs would not have had any material effects on the Group's equity.

Interest rate risk

Interest rate risk is divided into changes in future interest payments based on fluctuations in market interest rates and into an interest rate-related risk of a change in market value de facto that the market value of a financial instrument changes in response to fluctuations in the market interest rate.

The Group is exposed to interest rate risk resulting from raising and investing financial resources at fixed and variable interest rates, whereby the **VARTA AG** Group invests funds in the parent group on the basis of the surplus.

There were the following interest bearing financial instruments on the reporting date:

	CARRYING AMOUNTS	
(IN K€)	DEC. 31, 2018	DEC. 31, 2017
Fixed interest financial instruments		
Financial assets*	57,063	530
Financial liabilities**	8,204	8,223
Variable interest financial instruments		
Financial assets*	92,678	138,524
Financial liabilities**	0	0

* include credit balances with banks and fixed deposits as well as short-term investments
** include other financial liabilities excl. derivative financial instruments EUR 715k

Sensitivity analysis for fixed interest financial instruments

In the Group, neither financial assets (fixed deposits) nor financial liabilities (liabilities to banks), which carry a fixed rate of interest, are measured at fair value through profit or loss. These financial instruments are measured at amortized cost. Any increase in interest rates would therefore have no impact on the consolidated result.

Sensitivity analysis for variable interest financial instruments

An increase in interest rates of one percentage point would have – taking account of hedging variable interest financial instruments through fixed interest – increased the consolidated result by EUR 658k (2017: by EUR 981k). A reduction in the interest rate of one percentage point would have resulted in a reduction in the Group result of EUR -658k (2017: reduction of EUR -981k). A possible reduction in interest rates below 0% was also taken into account here. It is assumed, in the context of this analysis, that all other variables, especially foreign currency effects, remain constant.

Derivative financial instruments

The Group essentially uses derivative financial instruments to reduce the risks of changes in exchange rates and commodity prices. It uses forward exchange transactions and commodities swaps to reduce the short-term effects of fluctuations in exchange rates and commodity prices. All the counterparties it uses for this purpose are well-known international banks, with which the Group maintains ongoing business relationships. Accordingly, the Group views the risk of non-performance by a counterparty and consequently the risk of losses here as low. As of December 31, 2018, the gain on the derivative financial instruments shown amounted to EUR 1,028k (December 31, 2017: loss EUR 1,829k)

The Group designates the forward exchange transactions for hedging currency risks and applies a hedge ratio of 1:1. The critical conditions correspond to the forward exchange transaction and the underlying transaction. The Group determines the existence of an economic relationship between the hedging instrument and the hedged underlying transaction on the basis of the currency, amount and timing of the respective cash flows.

Derivatives are concluded within the German master agreement for financial derivative transactions, which allows outstanding positions to be offset. The underlying contract does not meet the criteria of IFRS 9 for offsetting. Despite this, there is a legal right to offset outstanding transactions subject to certain requirements, such as default or insolvency on the part of a counterparty. No financial items were offset at the reporting date. The potential netted amount, which would be possible under a master agreement, therefore equates to the reported gross carrying amount of derivatives.

The following table shows holdings of derivative financial instruments on the reporting date:

Dec. 31, 2018

	CURRENCY	AVERAGE HEDGING RATE 1-12 MONTHS	NOMINAL AMOUNT (IN THOUSAND ORIGINAL CURRENCY)	FAIR VALUE (IN K€)	OF WHICH NO EFFECT ON PROFIT OR LOSS	MATURITY
Commodity Swap	USD	11.990	432	-38	-38	Up to 1 year
Forward exchange transaction	USD	1.1411	21,900	-106	0	Up to 1 year
Forward exchange transaction	USD	1.1434	10,000	-23	0	Up to 1 year
Forward exchange transaction	USD	1.2292	8,000	-229	-229	Up to 1 year
Forward exchange transaction	USD	1.2292	11,200	-320	-320	Up to 1 year
Forward exchange transaction	USD	1.1496	12,650	31	0	Up to 1 year
Total Group				**-685**	**-587**	

The neutral financial year result of K€ -729 comprises the effect from the current year of K€ -587 in addition to a settlement effect in 2017 K€ -142.

Dec. 31, 2017

	CURRENCY	NOMINAL AMOUNT (IN THOUSAND ORIGINAL CURRENCY)	FAIR VALUE (IN K€)	OF WHICH NO EFFECT ON PROFIT OR LOSS	MATURITY
Forward exchange transaction	USD	19,400	-178	0	Up to 1 year
Forward exchange transaction	USD	444	142	142	Up to 1 year
Total Group			**-36**	**0**	

Hedging transactions are concluded over the maturity at average hedging rates. In financial year 2018, EUR 31k (2017: EUR 142k) was reclassified from the statement of comprehensive income to the income statement.

DTG are reported at a value of EUR -678k in the balance sheet item other liabilities and at a value of EUR 31k in the balance sheet item other receivables. Commodity hedging is shown at a value of EUR -38k in the balance sheet item other liabilities.

The liquidity analysis of derivative instruments was presented in the upper part of this section under “liquidity risk”.

Categories of financial instruments

The following table shows the carrying amounts of financial instruments by category. The carrying amounts of derivative financial instruments differ from their fair values, while the carrying amount of other financial instruments equates to their fair value.

(IN K€)	2018	LEVEL 1	LEVEL 2	LEVEL 3
Financial instruments measured at fair value through profit or loss				
Derivative financial instruments – assets	31	0	31	0
Derivative financial instruments – liabilities	-129	0	-129	0
Total	**-98**	**0**	**-98**	**0**

(IN K€)	2017	LEVEL 1	LEVEL 2	LEVEL 3
Financial instruments measured at fair value through profit or loss				
Derivative financial instruments – assets	142	0	142	0
Derivative financial instruments – liabilities	-178	0	-178	0
Total	**-36**	**0**	**-36**	**0**

(IN K€)	DEC. 31, 2018	DEC. 31, 2017
Derivative financial instruments	31	142
Derivative financial liabilities measured at fair value through profit or loss	**31**	**142**
Cash and cash equivalents	149,741	138,536
Loans	359	444
Trade receivables and contract assets	28,715	20,103
Other assets*	25,863	23,173
Loans and receivables	**54,937**	**43,578**
Total financial assets	**204,709**	**182,256**
Derivative financial instruments	129	178
Derivative financial liabilities measured at fair value through profit or loss	**129**	**178**
Other financial liabilities**	8,204	8,223
Trade payables***	31,869	32,417
Deferred liabilities****	2,961	8,072
Other liabilities*****	2,002	5,609
Measured at amortized cost	**45,036**	**54,321**
Total financial liabilities	**45,165**	**54,499**

* excl. other tax receivables of EUR 2,295k (December 31, 2017: EUR 4,992k) and prepaid expenses EUR 1,674k (December 31, 2017: EUR 684k).
**excl. derivative financial instruments EUR 716k (2017: EUR 178k); incl. a debt waiver of EUR 6,200k with an expected term of more than 5 years, which can be repaid earlier due to certain circumstances (see note to Item 19 "Other financial liabilities")
***Excl. Current advance payments received of EUR 11,587k
****Excl. deferred liabilities for employee benefits of EUR 9,084k
*****Excl. accrued expenses and deferred income of EUR 93k, liabilities from development projects EUR 6,418k, custom liabilities EUR 793k, other liabilities from taxes of EUR 1,457k and social security charges EUR 348k.

Calculation of fair value:
A number of accounting policies and disclosures by the Group require determination of the fair values for financial and non-financial assets and liabilities. The fair value is the price which would be received in a normal transaction between market participants on the measurement day when selling an asset or would have to be paid when transferring a liability (IFRS 13.9).

When determining the fair value of an asset or liability, the Group uses data that is observable on the market where possible. Based on the input factors used in the measurement techniques, fair values are categorized in different levels in the fair value hierarchy:

- *Level 1*: listed prices (unadjusted) on active markets for identical assets and liabilities
- *Level 2*: measurement parameters, which are not the listed prices taken into account in level 1 but which can be observed for the liability either directly (as a price) or indirectly (as derived from prices)
- *Level 3*: measurement parameters for assets or debts that are not based on observable market data.

If the input factors used to determine the fair value of an asset or a liability can be can be categorized in different levels of the fair value hierarchy, measurement at fair value in its entirety will be allocated to the level of the fair value hierarchy, which corresponds to the lowest input factor of significance for the measurement as a whole.

On the reporting date, the Group only had financial instruments from Level 2 and Level 3 measured at fair value.

Capital management
The **VARTA AG** Group has had a high equity base or equity ratio since the IPO.
This capitalization allows the Group to finance the investment still needed to expand production capacity from its own resources.
In the medium-term, the Group aspires to a cost and risk-optimized balance between equity and debt.

39 RELATED PARTIES

The following persons and companies were identified as related parties for the reporting periods 2018 and 2017:

- MTC as the ultimate parent company and all companies that are controlled directly or indirectly by MTC, controlled jointly or subject to significant influence;
- All companies that are directly or indirectly controlled by members of the management, controlled jointly or subject to significant influence;
- DDr. Michael Tojner as the ultimate supervisory authority and all companies that are controlled directly or indirectly by DDr. Michael Tojner, controlled jointly or subject to significant influence;
- Executive and Supervisory Board members of **VARTA AG** and their family members;
- We also refer to the disclosures on **VARTA** Microbattery Pensions-Treuhand e.V. under 20.2 Pensions

Transactions with related parties are conducted on the basis of normal market conditions. Transactions with the Group's related parties are reported in the following categories:

Related companies:
- Companies that are controlled by MTC, controlled jointly or subject to significant influence and MTC itself (hereinafter “MTC companies”);
- Companies that are controlled by DDr. Michael Tojner or subject to significant influence (hereinafter “DDr. Tojner companies”);
- The Group‘s joint ventures;
- Companies in which participations are held;

Related persons:
- Persons, who have the authority and responsibility, directly or indirectly, for planning, directing and controlling the Group’s activities.

39.1 RELATED COMPANIES

Sales and acquisitions of assets and services from and to related companies are included in the consolidated financial statements shown:

	2018		2017	
(IN K€)	TRANSACTION VOLUME		TRANSACTION VOLUME	
TRANSACTIONS	REVENUE FROM THE SALE OF PRODUCTS AND SERVICES	PURCHASE OF GOODS AND SERVICES	REVENUE FROM THE SALE OF PRODUCTS AND SERVICES	PURCHASE OF GOODS AND SERVICES
Transactions with MTC companies	1,148	578	1,002	230
Transactions with DDr. Tojner companies	176	1,795	22	2,010
Transactions with joint ventures	112	1,522	3,896	1,577
Transactions with companies in which participations are held	149	1	4	419
Total	**1,585**	**3,896**	**4,924**	**4,236**

The following receivables and liabilities are outstanding as of December 31, 2018:

	DEC. 31, 2018		DEC. 31, 2017	
(IN K€)	OUTSTANDING ITEMS		OUTSTANDING ITEMS	
TRANSACTIONS	RECEIVABLES	LIABILITIES	RECEIVABLES	LIABILITIES
Transactions with MTC companies	57,165	216	101	127
Transactions with DDr. Tojner companies	0	551	0	0
Transactions with joint ventures	0	0	268	442
Transactions with companies in which participations are held	0	0	1	14
Total	**57,165**	**767**	**370**	**583**

There is still a financial liability to MTC companies from the debtor warrant (see notes 19 Other financial liabilities) of EUR 6,200k (2017: EUR 6,200k).

The outstanding securities and liabilities are not collateralized.

Transactions with MTC companies

The following transactions were conducted with MTC companies in financial year under review:

(IN K€)	2018		2017	
	TRANSACTION VOLUME		TRANSACTION VOLUME	
TRANSACTIONS	REVENUE FROM THE SALE OF PRODUCTS AND SERVICES	PURCHASE OF GOODS AND SERVICES	REVENUE FROM THE SALE OF PRODUCTS AND SERVICES	PURCHASE OF GOODS AND SER-VICES
Services	1,148	578	1,002	230
Total	**1,148**	**578**	**1,002**	**230**

The outstanding receivables and liabilities with associated MTC companies included the following items as of December 31, 2018:

(IN K€)	DEC. 31, 2018		DEC. 31, 2017	
	OUTSTANDING ITEMS		OUTSTANDING ITEMS	
TRANSACTIONS	RECEIVABLES	LIABILITIES	RECEIVABLES	LIABILITIES
Services	188	216	101	127
Loan including interest	56,977	0	0	0
Total	**57,165**	**216**	**101**	**127**

As a result of the increase in cash and cash equivalents resulting from the IPO, short term deposits were Montana Tech Components GmbH to avoid negative interest rates.

There is a subordinate guarantee from VGG GmbH of EUR 8m. In this context, we would refer you to section 20.2 Pensions.

Transactions with DDr. Tojner companies

As part of the sale and leaseback transaction in 2015 with a company controlled by DDr. Michael Tojner (see notes 10 Leases), rental expenses of EUR 1,500k were incurred from the leaseback of land and buildings in financial year 2018 (previous year: EUR 1,500k) and EUR 57k from other costs charged on:

(IN K€)	TRANSACTION VOLUME 2018		TRANSACTION VOLUME 2017	
TYPE OF TRANSACTION	SALE OF GOODS AND SERVICES	PURCHASE OF GOODS AND SERVICES	SALE OF GOODS AND SERVICES	PURCHASE OF GOODS AND SERVICES
Services	176	1,795	22	2,010
Total	**176**	**1,795**	**22**	**2,010**

On the reporting date, the following receivables and liabilities from transactions on the reporting date are outstanding in the consolidated financial statements:

(IN K€)	DEC. 31, 2018		DEC. 31, 2017	
	OUTSTANDING ITEMS		OUTSTANDING ITEMS	
TRANSACTIONS	RECEIVABLES	LIABILITIES	RECEIVABLES	LIABILITIES
Loan including interest	0	551	0	564
Services	0	0	0	0
Total	**0**	**551**	**0**	**564**

There is also a guarantee from Global Equity Beteiligungs-Management GmbH, Vienna for EUR 20,000k for contingent liabilities (see Chapter 41 Contingent liabilities).

Transactions with joint ventures
Transactions with joint ventures in the reporting period were essentially conducted with the joint venture VW-VM Forschungsgesellschaft mbH & Co.KG i.L. Such transactions include the following items:

(IN K€)	2018 TRANSACTION VOLUME		2017 TRANSACTION VOLUME	
TYPE OF TRANSACTION	SALE OF GOODS AND SERVICES	PURCHASE OF GOODS AND SERVICES	SALE OF GOODS AND SERVICES	PURCHASE OF GOODS AND SERVICES
Provision of personnel	96	0	3,143	16
Services	0	0	47	484
Rental income	4	0	403	0
Other	12	1,522	303	1,077
Total	**112**	**1,522**	**3,896**	**1,577**

There were no transactions with joint ventures in 2018 once operating activity ended.

Other purchases of EUR 1,522k (2017: EUR 1,077k) included asset purchases of EUR 1,522k (2017: EUR 213k). The other transaction volume of EUR 112k resulted from the company being liquidated

Transactions with companies in which participations are held
In the financial years under review a participation was held in **VARTA** Micro Innovation GmbH. In financial year 2018, a transaction volume from purchases of materials of EUR 149k and purchases of services and patents of EUR 1k was generated.
There were no receivables or liabilities as of December 31, 2018.

39.2 RELATED PERSONS
Managers received the following remuneration:

(IN K€)	2018	2017
Short-term employee benefits	4,470	3,560
Other long-term employee benefits	1,900	3,602
Management remuneration in total	**6,370**	**7,162**

“Other long-term employee benefits” contained expenditure against the capital reserve of EUR 1,900 from share-based payment. A total of K€ 2,544 was attributable to the Executive Board in the form of short-term benefits and K€ 537 in long-term benefits.

40 MANAGEMENT OF VARTA AG

The Executive Board of **VARTA AG** is composed as follows:

- Herbert Schein, CEO
  Additional board memberships:
  - Managing Director **VARTA** Microbattery GmbH
  - Managing Director **VARTA** Storage GmbH
  - Managing Director **VARTA** Micro Production GmbH
  - Member of the Board of Trustees of the Fraunhofer Institute for Production Technology and Automation IPA

- Dr. Michael Pistauer,
  CFO (until January 31, 2018),
  Head of M&A and Investor Relations (from February 1, 2018 – December 31, 2018)
  Additional board memberships:
  - Member of the Supervisory Board of Aluflexpack Novi d.o.o
  - Member of the Supervisory Board of Connexio alternative investment & holding AG
  - Member of the Board of Directors of Alu Menziken Extrusion AG
  - Member of the Supervisory Board of **VARTA** Microbattery GmbH
  - Debuty board of the **VARTA** Microbattery Pensions-Treuhand e.V.

- Steffen Munz, CFO
  CFO (since February 1, 2018),
  plus Head of M&A and Investor Relations from January 1, 2019
  Additional board memberships:
  - Managing Director **VARTA** Microbattery GmbH
  - Managing Director **VARTA** Storage GmbH
  - Managing Director **VARTA** Micro Production GmbH

The Supervisory Board of **VARTA AG** is composed as follows:

- DDr. Michael Tojner (Chairman)
  CEO Montana Tech Components GmbH
  Additional board memberships:
  - Chairman of the Supervisory Board of ASTA Energy Transmission Components GmbH
  - Member of the Supervisory Board of Universal Alloy Corporation USA
  - Chairman of the Board of Directors of Montana Tech Components AG
  - Chairman of the Board of Directors of Montana AS Beteiligungs Holding AG
  - Chairman of the Board of **VARTA** Microbattery Pensions-Treuhand e.V.

- Dr. Harald Sommerer (Deputy Chairman of the Supervisory Board, Chairman of the Audit Committee)
  CEO H.F.R.C. Private Trust
  Additional board memberships:
  - Member of the Supervisory Board of Kapsch Traffic Com AG
  - Chairman of the Executive Board H.F.R.C. Private Foundation

- Frank Dieter Maier
  Pensioner
  Additional board memberships:
  - Member of the Supervisory Board of ASTA Elektrodraht GmbH & Co. KG
  - Member of the Supervisory Board of Vishay Intertechnology Inc.
  - Member of the Supervisory Board of Vishay Europe GmbH

- Sven Quandt
  Managing Director of S. Qu.- Vermögensberatung GmbH & Co. KG
  Additional board memberships:
  - Member of the Advisory Board of Montana Tech Components AG

- Dr. Franz Guggenberger
  Attorney and partner in Sozietät Hasch & Partner
  No additional board memberships

- Dr. Georg Blumauer
  Attorney and owner of B-legal
  - Chairman of the Supervisory Board of WertInvest Entertainment und Veranstaltungs AG

41 CONTINGENT LIABILITIES

(IN K€)	2018	2017
Tenancies and leases		
Due up to 2019 / 2018	3,155	3,264
Due up to 2020 - 2024 / 2019 – 2023	10,770	8,596
Due after 2024 / 2023	8,892	7,500
Service obligations		
Due up to 2019 / 2018	864	650
Due up to 2020 - 2024 / 2019 – 2023	1,590	1,636
Due after 2024 / 2023	27	27
Purchase commitment from approved investments		
Due up to 2019 / 2018	14,800	25,019
Other purchase obligations		
Due up to 2019 / 2018	58,380	47,841
Due up to 2020 - 2024 / 2019 – 2023		
Total	**98,477**	**94,533**

The other purchase obligations mainly relate to orders and supply contracts, which were prepared with various suppliers to cover requirements for commodities, primary products and semi-finished goods at short notice.

Attention must also be drawn to the risks of contaminated sites at **VARTA AG**. Land formerly owned by **VARTA AG** or its former subsidiaries was largely used as production sites for the production of batteries and are contains virtually all the sector-specific contaminants. A purchaser of all former participations abroad and a participation in Germany has assumed these risks and possible risks arising in future and has indemnified **VARTA** against these risks; however, **VARTA AG** remains liable in relation to third parties. The purchaser has been liquidated in the meantime. Global Equity Partners Beteiligungs-Management GmbH, Vienna, a company affiliated with the purchaser and a related company of **VARTA AG**, has provided additional protection for this indemnification with a guarantee of EUR 20,000k, which will expire in 2031. **VARTA AG** has assessed the remaining risks and, allowing for the contractually guaranteed claims to reimbursement, has not created any provisions. **VARTA AG** will only be charged accordingly if these risks exceed the guarantor's potential cover or the latter cannot fulfil its contractual obligations.

On January 30, 2014, the Annual General Meeting of **VARTA AG** resolved to transfer the shares of the minority shareholders at the time to the majority shareholder, Gopla Beteiligungsgesellschaft mbH (Gopla) in return for cash compensation of EUR 4.51 per share. The amount of compensation was based on an external valuation report. The squeeze-out became effective upon registration in the Commercial Register on March 12, 2014. As a result, a further 210,379 shares were transferred to Gopla. The total compensation amount amounted to EUR 948,809.29. Following the squeeze-out, former minority shareholders initiated proceedings against Gopla – following the merger with **VARTA AG** against the latter – before the Stuttgart District Court. The Stuttgart District Court rejected all applications in its ruling on May 15, 2017. Some applications and their joint representatives lodged an appeal against this ruling. The Stuttgart District Court refused the appeal in its ruling of December 21, 2017. The proceedings are now pending with the Stuttgart Higher Regional Court for a decision. It is currently not possible to give any indication of the outcome and duration of proceedings before the court (in the second instance), as the Higher Regional Court has not so far commented on whether it will take things forward or the content of the proceedings. On the basis of the judicial decisions to date, no claim is expected.

42 INVESTMENT COMPANIES

The following companies were included for the periods presented in the consolidated financial statements in accordance with section 315e (1) in conjunction with section 313 (2) No. 1 – 6 HGB):

SINCE/UP TO	COMPANY NAME	REGISTERED OFFICE	COUNTRY	CURRENCY	PARTICIPATION STAKE
Since 2012/09	**VARTA** Aktiengesellschaft	Ellwangen	Germany	EUR	100.00%
Since 2007/12	**VARTA** Microbattery GmbH	Ellwangen	Germany	EUR	100.00%
Since 2012/04	**VARTA** Storage GmbH	Nördlingen	Germany	EUR	100.00%
Since 2018/04	**VARTA** Micro Production GmbH**	Nördlingen	Germany	EUR	100.00%
Since 2007/12	**VARTA** Microbattery Pte Ltd	Singapore	Singapore	USD	100.00%
Since 2007/12	**VARTA** Microbattery Ltd Shanghai	Shanghai	China	CNY	100.00%
Since 2007/12	PT **VARTA** Microbattery Indonesia	Batam	Indonesia	USD	100.00%
Since 2014/10	**VARTA** Microbattery Japan K.K.	Tokyo	Japan	USD	100.00%
Since 2014/01	**VARTA** Microbattery S.R.L.	Brasov	Romania	RON	100.00%
Since 2007/12	**VARTA** Microbattery Inc.	Rye, NY	United States of America	USD	100.00%
Since 2009/10	VW-VM Forschungsgesellschaft mbH & Co. KG i.L.*	Ellwangen	Germany	EUR	50.00%
Since 2009/09	VW-VM Verwaltungsgesellschaft mbH*	Ellwangen	Germany	EUR	50.00%
Since 2017/06	Auditas GmbH	Nördlingen	Germany	EUR	25.10%
Since 2017/06	Auditas Inc.	Ridgefield	United States of America	USD	25.10%
Since 2017/09	Connexio alternative investment & holding AG	Vienna	Austria	EUR	20.00%
Since 2009/08	**VARTA** Micro Innovation GmbH**	Graz	Austria	EUR	17.74%

* Accounted for at equity
** See notes 2 changes in the scope of consolidation

43 ADDITIONAL DISCLOSURES IN ACCORDANCE WITH GERMAN COMMERCIAL CODE

Exemptions in accordance with section 264 (3) HGB

The companies included in the consolidated financial statements in accordance with IFRS, namely **VARTA** Microbattery GmbH, Ellwangen, (Germany), and **VARTA** Storage GmbH, Nördlingen, (Germany) make use of the exemptions provided in section 264 (3) HGB for disclosure and non-preparation of notes to the financial statements and management report. The consolidated financial statements of **VARTA AG** are the exempting consolidated financial statements for these companies.

Parent company

Following the successful IPO, the subscribed capital of **VARTA AG** is held by ETV Montana Tech Holding GmbH (1.55%) and by VGG GmbH, Vienna (62.67%). The remaining 35.78% is held in free float. The ultimate parent company of the two main shareholders is Montana Tech Components AG in Reinach, Switzerland. The consolidated financial statements of Montana Tech Components AG can be accessed at www.montanatechcomponents.com.

Liabilities

The debt waiver by a related company in the amount of EUR 6,200k described in notes 19 Other financial liabilities has a residual term of more than five years. There are no other significant liabilities with a residual term of more than five years.

There are no collateralized Group liabilities.

Number of employees

Please refer to the Note 29 Personnel expenses.

Executive Board remuneration

The total remuneration of the Executive Board in financial year 2018 amounted to EUR 4,153k (previous year: EUR 1,612k). Details of Executive Board remuneration in 2018 are provided in the remuneration report (see management report). According to the resolution of the extraordinary Annual General Meeting of October 6, 2017, individualized disclosure of the emoluments of Executive Board members required by section 285 (1) No. 9 letter a) sentence 5 et seq. HGB and section 314 (1) No. 6 letter a) sentence 5 et seq. HGB was waived.

Supervisory Board remuneration

Details of Supervisory Board remuneration in 2018 are provided in the remuneration report (see management report).

Total fee for the auditor of the consolidated financial statements

According to section 314 (1) No. 9 HGB, the fees for the auditor of the consolidated financial statements, KPMG AG Auditors, recognized as expense for the current financial year are to be broken down as follows:

(IN K€)	2018	2017
Audit services	425*	332
Other certification services	0	325
Tax consultancy services	115	252
Total	**540**	**909**

*of which EUR 70k relate to previous years

Tax consultancy services relate to the preparation of business tax returns, consultancy services in connection with legal documentation requirements for transfer prices and tax assessments for individual items related to the company’s business activities.

German Corporate Governance Code

The Executive Board and Supervisory Board of **VARTA AG** submitted a statement pursuant to section 161 AktG on March 18, 2019 and made it permanently accessible to the shareholders on the website at www.varta-ag.com.

44 EVENTS AFTER THE REPORTING DATE

No events have occurred after the end of the financial year on December 31, 2018 that are of particular significance for the company's assets, financial position and results of operations.

Ellwangen, March 26, 2019

VARTA Aktiengesellschaft

CEO	CFO
- Herbert Schein -	- Steffen Munz -

Independent Auditor's Report

To VARTA Aktiengesellschaft, Ellwangen (Jagst)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE COMBINED MANAGEMENT REPORT

Opinion

We have audited the consolidated financial statements of VARTA Aktiengesellschaft (hereinafter referred to as VARTA AG) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report (hereinafter the "Management report") of VARTA AG for the financial year from January 1 to December 31, 2018.

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

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018, 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. Our opinion on the group management report does not cover the content of the non-financial statement and the corporate governance statement mentioned above.

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 opinion

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

Key audit matters in the Audit of the consolidated financial statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Exempting assumption of debt on pension obligations of the subsidiary VARTA Microbattery GmbH

Concerning the applied accounting and valuation policies, we refer to the notes to the consolidated financial statements under Section 4.9. Pension obligation disclosure information is available under Section 21.2 of the notes to the consolidated financial statements.

THE FINANCIAL STATEMENT RISK

On June 30, 2017 an agreement concerning assumption of debt and obligations for the pension obligations of VARTA Microbattery GmbH, a wholly-owned subsidiary of VARTA AG, was concluded between VARTA Microbattery GmbH and a third party to the Group, Colibri Beratungsgesellschaft mbH. In return, VARTA Microbattery GmbH paid EUR 11,500k to the debt-assuming company. The debt-assuming company contributed the assets acquired as security for the assumed obligations to VARTA Microbattery Pensions-Treuhand e. V. in a trusteeship. In financial year 2017, a reimbursement right against Colibri Beratungsgesellschaft mbH was recognized in the profit and loss statement for the difference between the value of the transferred pension obligation and the transfer fee. The reimbursement right amounted to a total of EUR 15,633k as of 31 December 2018 and corresponds to the pension obligations recognized in the consolidated financial statements. The reimbursement right is subject to an annual impairment test.

The assessment of the value of the contractually agreed reimbursement right is discretionary and requires an assessment of the assets of VARTA Microbattery Pensions-Treuhand e. V. as well as the existence and value of any additionally granted securities.

There is a financial statement risk that the reimbursement right is impaired.

OUR AUDIT APPROACH

We have gained an understanding of the transaction based on inspection of the contractual agreements underlying the transaction. We have evaluated the assessment of the legal representatives in regard to the recoverability of the reimbursement right. To test the recoverability of the reimbursement right against Colibri Beratungsgesellschaft mbH, VARTA Microbattery GmbH has provided us with an adequacy assessment issued by an auditing company on the value of the assets of VARTA Microbattery Pensions-Treuhand e.V. According to this, based on the assets of VARTA Microbattery Pensions-Treuhand e.V. and with the utilization of a contractual performance bond from UniCredit Bank AG of EUR 2,283k in favor of VARTA Microbattery GmbH, the reimbursement right of EUR 15,633k is recoverable as a whole. We have evaluated the credentials of the auditing company and the adequacy assessment. In addition, the existence of a contractual performance bond from UniCredit Bank AG in the amount of up to EUR 4,000k was proven to us via a bank confirmation and we also satisfied ourselves of the existence of a subordinate guarantee from VGG GmbH, Vienna, for a maximum amount of EUR 8,000k.

OUR OBSERVATIONS

The approach taken by the VARTA AG Group to assess the recoverability of the reimbursement right is appropriate.

The valuation of the trademark right and capitalized development costs

Concerning the applied accounting and valuation policies, we refer to the notes to the consolidated financial statements under Section 4.3.2 and 4.8. Disclosure information about intangible assets is available under Section 8 of the notes to the consolidated financial statements.

THE FINANCIAL STATEMENT RISK

The capitalized trademark right amounted to EUR 9,094k as of December 31, 2018 and the capitalized development costs amounted to EUR 10,713k. Their share of the total assets amounts to 2.2% and 2.7% respectively.

An annual impairment test is carried out for the trademark right and the capitalized development costs at the level of the cash-generating units (CGU) “Microbattery” and “Power & Energy”. For this purpose, the carrying amount is compared to the recoverable amount of the respective CGU. If the carrying amount is higher than the recoverable amount, an impairment loss needs to be recorded. The recoverable amount is the higher of fair value less costs of disposal and the value in use of the CGU.

The impairment test of the trademark right and the capitalized development costs is complex and based on a number of discretionary assumptions. These include, in particular, the expected future cash flows, the expected long-term growth and the applied discounting rate.

As a result of the impairment tests the company has not identified any need for impairment.

There is a financial statement risk that the trademark right and the capitalized development costs of the respective cash-generating units are impaired.

OUR AUDIT APPROACH

We have, among other procedures, assessed the appropriateness of the main assumptions and the valuation method of the company, among other factors. We have evaluated the planning process and the significant assumptions concerning business and profit development as well as the assumed long-term growth rates based on the explanations of the parties responsible for planning. With regard to the cash-generating units “Microbattery” and “Power & Energy”, we have reconciled the expected future cash flows with the plans approved by the Supervisory Board for the first planning year. Furthermore, we have performed a plausibility check of the derived company value based on the calculated value in use according to the stock market capitalization value of VARTA AG (number of shares multiplied by the stock market price).

Moreover, we have satisfied ourselves of the company's projection accuracy to date by comparing plans from previous financial years with the financial results achieved in reality for sales revenue and pre-tax result as well as analyzing differences. With the assistance of our valuation experts, we have assessed the appropriateness of the assumptions and parameters underlying the discounting rate.

To ensure the mathematical accuracy of the applied valuation model, we have re-performed the company's calculations based on selected risk-oriented elements.

OUR OBSERVATIONS

The calculation method underlying the impairment test of the trademark right and the capitalized development costs is appropriate and complies with the applicable valuation principles. The assumptions and parameters underlying the valuation are appropriate.

Cut-off for revenue recognition

Concerning the applied accounting and valuation methods, we refer to the notes under Sections 4.15 And 4.19.2. Disclosure information with regard to revenue is available under Section 26 of the notes.

THE FINANCIAL STATEMENT RISK

In financial year 2018, the principles of IFRS 15 – Revenue from Contracts with Customers was applied for the first time.

Group revenue totaled EUR 271.7m in financial year 2018.

The VARTA AG Group recognizes revenue when it fulfils a performance obligation through the transfer of a promised asset to a customer. An asset is considered transferred at the time when the customer obtains control of that asset. In line with the transfer of control, revenue is to be recognized either at a point in time or over time in the amount to which the VARTA AG Group expects to be entitled.

The majority of the revenue of the VARTA AG Group results from the sale of products. This amounts to EUR 260.9m. The revenue from these sales was recognized at a point in time based on the following indicators:

- The VARTA AG Group has a current entitlement to receive payment for the asset,
- The customer has a right of ownership of the asset,
- The VARTA AG Group has transferred the physical ownership of the asset,
- The significant risks and rewards associated with ownership of the asset have been transferred to the customer
- The customer has accepted delivery of the asset.

The changeover effect as at January 1, 2018 resulting from the changed revenue recognition for transactions based on recognition of revenue at a point in time amounts to EUR 828k after taking into account deferred taxes and has been recorded under revenue reserves.

The Group's key markets are in Europe, North America and Asia. For global product deliveries, Group companies reach varying agreements with their customers, occasionally containing complex contractual arrangements. On account of the application of differing contractual arrangements in the various markets and the degree of discretion applied when assessing the indicators to determine the time at which control was transferred, there is a financial statement risk that revenue may be improperly recognized as of the cut-off date.

OUR AUDIT APPROACH

To assess revenue recognition cut-off, we reviewed the structure, implementation and effectiveness of internal controls, in particular relating to the determination and verification of the correct or actual transfer of control.

As a result of the first-time application of IFRS 15 we focused our audit on reviewing the interpretation and weighting of the indicators adopted by the legal representatives for assessing the timing of the transfer of control. For this purpose, we assessed the requirements of the Group-wide accounting guideline. On the basis of contracts selected from a risk-oriented perspective we evaluated the appropriate implementation of the accounting guideline.

Furthermore, we assessed the appropriate cut-off point for revenue recognition by obtaining confirmations from third parties or, alternatively, by reconciling invoices with the respective orders, external proof of delivery and payment receipts. This was based on a sample of revenue items recorded in a specific period prior to the balance sheet date, chosen by a mathematical/statistical model. We have also examined all revenue items posted by risk-oriented, selected IT system users in a specified period prior to the balance sheet date. We looked into a sample of credit notes issued after the balance sheet date and were satisfied by the actual existence of revenue.

OUR OBSERVATIONS
The VARTA AG approach to a cut-off point for revenue recognition from product sales is appropriate.

Other Information
Management is responsible for "other information". This comprises the annual report that will presumably be provided to us after the date of this audit opinion, with the exception of the audited consolidated financial statements and group management report and our auditor's report.
Our opinions on the consolidated financial statements and on the group management report do not cover other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.
In connection with our audit, our responsibility is to read other information and, in so doing, to consider whether it

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

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

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

Furthermore, management is responsible for the preparation of the 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, management is 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 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 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 the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or on an aggregated basis, 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 opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) 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 opinion on the efficacy of these systems.
- evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the Group management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the Group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- evaluate the consistency of the 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 management in the Group management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and assess the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

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

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information pursuant to Article 10 of the EU Audit Regulation
We were elected as Group auditor at the annual general meeting on June 19, 2018. We were engaged by the supervisory board on November 22, 2018. We have been the Group auditor of VARTA AG without interruption since financial year 2017.

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

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Petra Mayran.

Stuttgart, March 26, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Mayran	Hundshagen
Wirtschaftsprüferin	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Financial calendar

Preliminary Figures FY 2018	15.02.2019
Final figures FY 2018	28.03.2019
Interim statement Q1 2019	07.05.2019
Annual General Meeting	21.05.2019
Half-year report 2019	06.08.2019
Interim statement Q3 2019	29.10.2019

Imprint

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