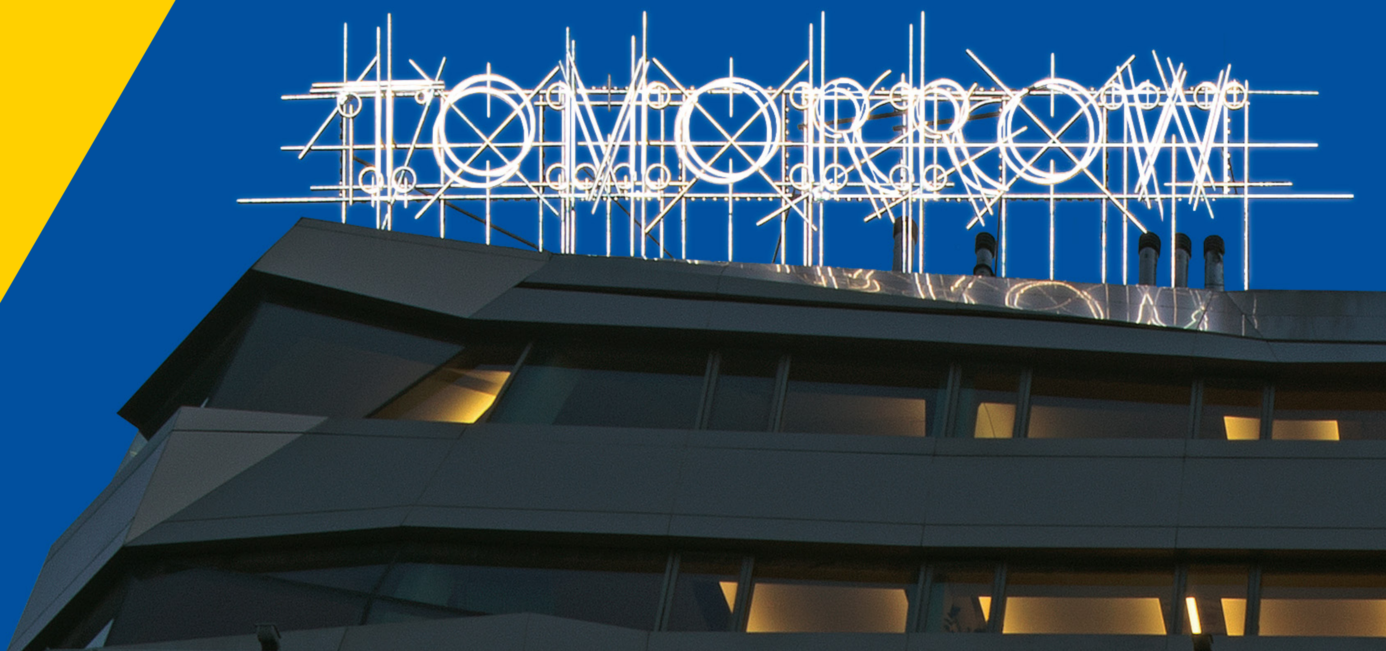
VARTA

Condensed management report and consolidated interim financial statement

for the first half of fiscal year 2018 VARTA AG

EMPOWERING



Content

Condensed management report for the first half of fiscal year 2018

VARTA Aktiengesellschaft, Ellwangen (Jagst)

GROUP STRUCTURE

VARTA Aktiengesellschaft, Ellwangen, Germany (**VARTA AG**) is the parent company of the Group.

BUSINESS MODEL

VARTA AG Group produces and markets microbatteries and smart battery solutions for a multitude of applications and end consumer markets. The Group is of the opinion that, measured on the basis of produced units, it is a market leader in the manufacture and sale of microbatteries for hearing aids. The Group assumes that it can also become a market leader for rechargeable lithium-ion button cells for entertainment electronics, e.g. for wireless premium headphones ("hearables") and a multitude of industrial applications. The Group is of the opinion that its market position is based on the high quality, reliability, and technology of its products, supported by its innovative ability as well as its own research and development activities. The Group considers itself well-positioned to profit from the growing markets for microbatteries and smart battery solutions. Growing markets are driven to various degrees by the aging world population and the inadequate supply of hearing-impaired people with hearing aids, increasing technological networking, advanced miniaturization, and the growing market for renewable energies.

Segments and organizational structure

The business activity of the **VARTA AG Group**, which it conducts through its operative subsidiaries, is divided into two business segments: Microbatteries and Power & Energy.

Microbatteries

The **Microbatteries** segment is chiefly controlled by **VARTA Microbattery GmbH** and focuses on the manufacture of microbatteries primarily for applications in the area of **Healthcare** and **Entertainment & Industrial**.

Zinc-air batteries are chiefly manufactured for applications in the area of **Healthcare** for hearing aids. The area **Entertainment & Industrial** chiefly focuses on high-end lithium-ion battery solutions for wireless premium headphones (**hearables**) and so-called "wearable" applications. This also includes, among other things, applications in growing consumer markets for electronic devices, e.g. Bluetooth headsets, medical devices for measuring blood pressure, blood sugar, and other body functions.

The Microbatteries segment was expanded by the **VARTA Micro Production GmbH** enterprise, which was established as a subsidiary of **VARTA AG** on April 25, 2018. The enterprise with its principal place of business in Nördlingen is recorded in the commercial register under number HRB 32477. The subject matter of the enterprise is the manufacture, distribution, and development of chemical, electro-chemical, electro-technical, and metallurgy and other industrial products of any kind, in particular of batteries. The manufacture and distribution of products in the area of engineering and apparatus engineering as well as the manufacture, set-up, operation, and exploitation of systems and operations as well as the trade with third party products in the above-stated areas is to be promoted as well.

Power & Energy

Mobile and stationary energy storage solutions are developed, produced, and sold in the **Power & Energy** segment, which is chiefly controlled by **VARTA Storage GmbH.** The segment focuses on the development, system integration, and assembly of power pack solutions for OEM customers in diverse markets.

This segment also develops and produces energy storage devices for private households and commercial applications.

STRATEGY AND OBJECTIVES

With both segments, the Group is well-positioned to profit from long-term growth trends, e.g. demographic changes, technological advances, increased connectivity (Internet of Things), and renewable energies (increased awareness on recyclability).

The **VARTA AG Group** here focuses on the following objectives and areas of growth:
- Strengthening and expanding the global market position in core products
- Expanding innovative and technological leadership
- Focusing on profitable growth based on a strong financial profile

BUSINESS STEERING

The **VARTA AG Group** is managed for sustainable value increase based on internally defined financial and nonfinancial parameters. Last year's consolidated annual report utilized the following key financial parameters to assess and evaluate management:
- Net revenue,
- adjusted EBITDA,
- Capital Expenditures (CAPEX)
- Net working capital

MANAGEMENT AND CONTROL

As has already been mentioned in the consolidated annual report per December 31, 2017, Mr. Steffen Munz joined the Executive Board on February 1, 2018. Since this time, the Executive Board of **VARTA AG**, Ellwangen (Jagst) consists of three members: Mr. Herbert Schein (CEO), Mr. Steffen Munz (CFO), and Dr. Michael Pistauer (Head of M&A and Investor Relations). The members of the Executive Board jointly have responsibility for the Group's executive management.

No changes took place in the Supervisory Board in the first half year 2018.

ECONOMIC REPORT

MARKETS AND INFLUENCING FACTORS

The macroeconomic framework conditions existing in 2018 in the markets relevant for the **VARTA AG Group** continue to be positive and stable.

In terms of battery for healthcare applications, it is the demographic development, in case of batteries for entertainment applications the trends in entertainment electronics, and in the Power & Energy segment it is the trend toward wireless products and renewable energies that is relevant for sales.

MACROECONOMIC AND INDUSTRY-SPECIFIC FRAMEWORK CONDITIONS

The sale of hearing aid batteries is supported by the increased life expectancy of society as well as the improved acceptance of hearing aids. In the relevant markets in Europe, Asia, and North America, a greater emphasis on older generations within the population is assumed.

In the Entertainment segment, sales growth is characterized by new applications in the area of consumer electronics. The position of the **VARTA AG Group** is reinforced with the increasing development of wireless devices, in particular micro-applications (e.g. headsets). This trend also has positive effect on the Power & Energy segment.

Pursuant to Gartner, Inc. (2017), hearables will have a growth rate of approximately 40% by 2020. The trend toward interconnectivity supports this. Pursuant to Gartner, Inc., the market for hearables will grow in particular, in addition to smart watches, fashion, and medical.

Pursuant to the Avivenne Energy Report 2018, the segment for lithium-ion battery packs will grow from 120 GWh in 2017 to 490 GWh in 2025 in the Power & Energy segment. This corresponds to a CAGR of +19%. At the same time, the partial segment for medical devices, power tools, and gardening tools, which are target markets for the Power & Energy segment, will grow from approx. 14 GWh in 2017 to approx. 44 GWh. This represents a growth rate of approximately 16% per year. The market segment for stationary energy storage systems will grow by 22% per year from 2017 to 2025.

BUSINESS DEVELOPMENT

Summary statement of the Executive Board on the economic situation

The **VARTA AG Group** continues its profitable growth with a successful first half of 2018. Group revenue grew once again in the double-digit range over the previous year. Both segments Microbatteries and Power & Energy grew significantly in comparison to the previous year. The Microbatteries segment continued to experience very high demand for wireless premium headphones, which resulted in significant sales revenue increase for rechargeable lithium-ion batteries. The high growth dynamic in energy storage solutions continues in the Power & Energy segment. The new customer projects for battery packs also contributed to the dynamic growth in the Power & Energy segment.

The significant improvement of the adjusted EBITDA over the previous year was caused by business model scaling. This was chiefly caused by the increase of profitability in the Power & Energy segment with a simultaneous, disproportionately low increase of fixed costs. We must emphasize in particular that the Power & Energy segment reached the break-even point in the first quarter and also achieved positive results in the first half of 2018.

The large investment program for the expansion of production capacities is being implemented as planned.

Overall, the first half of 2018 met management's expectations.

DEVELOPMENT OF EARNINGS, FINANCIAL POSITION, AND NET ASSETS

EARNINGS SITUATION

Consolidated interim income statement for the period ended June 30, 2018 (unaudited)

(IN €K)	*SPECIAL EFFECTS*	PERIOD ENDED JUNE 30, 2018	*SPECIAL EFFECTS*	PERIOD ENDED JUNE 30, 2017*
Revenue		**133,953**		**119,741**
Decrease/Increase in finished and unfinished goods		3,035		-966
Own expenses capitalized		1,504		1,654
Other operating income		3,347		8,194
Cost of materials		-52,467		-48,066
Personnel costs		-45,404		-40,925
Other operating costs		-19,165		-16,626
EBITDA		**24,803**		**23,006**
Expenses for going public	*0*		*0*	
Reimbursement claim under pensions	*0*		*-3,629*	
Costs of share-based payment	*980*		*0*	
Adjusted EBITDA	***25,783***		***19,377***	
Depreciation		-5,077		-4,573
Operating result (EBIT)		**19,726**		**18,433**
Financial income		56		38
Financial charges		-207		-498
Sundry financial income		511		452
Sundry financial charges		-405		-877
Financial result		**-45**		**-885**
Profit and loss shares in enterprises recognized in the balance sheet under the equity method, after taxes		31		-2,106
Result before taxes (EBT)		**19,712**		**15,442**
Income tax expenses		-5,431		-4,255
Consolidated result		**14,281**		**11,187**
Appropriation of profit:				
Shareholders of **VARTA AG**		13,981		11,187
Non-controlling shares		300		0

*Previous year values not adjusted.

Revenue

The sales revenue of the **VARTA AG Group** grew in the first half of 2018 by 11.9%, from € 119,741K to € 133,953K.

Both segments Microbatteries and Power & Energy grew significantly in comparison to the previous year. The sales revenue in Microbatteries increased by 8.0% over the previous year; the sales revenue in the Power & Energy segment grew by 30.5% over the first half of 2017.

Costs and other operating expenses

In the reporting period, material costs amounted to € 52,467K compared to € 48,066K year-on-year. This corresponds to an increase of 9.2%. The disproportionately low increase compared to the sales growth affects both segments and is chiefly based on a more profitable sales mix with simultaneously stable prices for metal resources and the purchased components.

Personnel expenses increased by 10.9% from € 40,925K in the first half of 2017 to € 45,404K in 2018. In addition to personnel expense increases from collective agreements, direct employees were increased in the Lithium-Ion Battery and the Power & Energy growth segments in order to satisfy the great market demand in the future. The number of employees (FTE) grew by 8.8% from 2,063 per June 30, 2017 to 2,244 per June 30, 2018. The non-cash personnel costs from the employee stock option program was reflected as a special effect in the current fiscal year in the amount of € 980K.

Other operating expenses increased from € 16,626K to € 19,165K. This is in particular the result of growth-based higher commissions, outgoing freight, and customs duties, as well as other operating expenses.

The other operating income decreased from € 8,194K in the first half of 2017 to € 3,347K in 2018. This decrease is based on the reimbursement claim from the earnings-impacting assumption of a joint debt obligation for pensions in the previous year, which was categorized as a special effect in the first half of 2017. At the same time, the decrease results from decreased income from rent and services in the amount of € 1,553K in connection with the discontinuation of the operative activity of a joint venture per December 31, 2017.

Adjusted EBITDA

The adjusted EBITDA increased in the first half of 2018 from € 19,377K to € 25,783K. This corresponds to a growth of 33.1% over the previous year. The adjusted EBITDA thus grew disproportionately in comparison to the growth of sales revenue.
The increase of the adjusted EBITDA is in particular the result of the profitable growth in lithium-ion cell sales, the profitability increase in the Power & Energy segment, as well as the disproportionately low increase of fixed costs from business model scaling.
The non-cash personnel costs from the employee stock option program was reflected as a special effect in the current fiscal year in the amount of € 980K. The effect is allocated to **VARTA AG** as holding. In the previous year, the reimbursement claim from the earnings-impacting assumption of a joint debt obligation for pensions was categorized as a special effect in the amount of € 3,629K.

Operating result (EBIT)

In the first half of 2018, the EBIT improved from € 18,433K in the previous year to € 19,726K, which corresponds to an increase of 7.0% year-on-year. The EBITDA increased by 7.8% from € 23,006K in 2017 to € 24,803K in 2018, whereby a material special effect affected the EBITDA positively in the previous year. Depreciations from the massive investment program to expand production capacities also increased by 11.0% from € 4,573K in the first half of 2017 to € 5,077K year-on-year.

Financial result

The financial result improved in the reporting year from € -885K in 2017 to € -45K in 2018. This was caused by the reduction of interest expenses as well as the reduction of other financial expenses.

Taxes

Tax expenses increased from € 15,442K in the first half of 2017 to € 19,712K in 2018 due to the increased EBT. As in the previous year, this results in an effective tax rate of 27.6% based on the EBT.

Consolidated result

The profitable growth of sales revenue in both segments in conjunction with the disproportionately low increase of fixed costs based on the business model scaling also had a positive effect on the consolidated result. The consolidated result grew from € 11,187K in 2017 to € 14,281K in 2018 by 27.7% in comparison to the previous year.

ASSET AND FINANCIAL POSITION

Consolidated statement of financial position per June 30, 2018 (unaudited)

(IN €K)	JUNE 30, 2018	DECEMBER 31, 2017
ASSETS		
Non-current assets	127,458	105,258
Current assets	225,713	226,222
Total assets	**353,171**	**331,480**

(IN €K)	JUNE 30, 2018	DECEMBER 31, 2017
EQUITY AND LIABILITIES		
Equity	246,259	230,452
Non-current liabilities	29,643	29,423
Current liabilities	77,269	71,605
Liabilities	106,912	101,028
Total equity an liabilities	**353,171**	**331,480**

Non-Current assets

Long-term assets increased by € 22,200K from € 105,258K per December 31, 2017 to € 127,458K per June 30, 2018. This increase was chiefly the result of the increased tangible assets from € 63,447K to € 86,785K per June 30, 2018. The production capacities were expanded massively based on the great demand in particular for lithium-ion batteries.

Current assets

Short-term assets did not change materially overall.

Equity/Equity ratio

The equity increased from € 230,452K per December 31, 2017 to € 246,259K per June 30, 2018. This is in particular based on the increased revenue reserve from € 28,575K to € 41,847K. The equity ratio increased from 69.5% to 69.7%.

Non-current liabilities

Non-current liabilities did not change materially overall in comparison to December 31, 2017.

Current liabilities

Current liabilities increased in particular due to the increase of trade payables in combination with the increased business volume by € 5,664K from € 71,605K to € 77,269K.

Net working capital

The Net Working Capital grew by € 15,399K from € 41,394K as at December 31, 2017 to € 56,793K as at June 30, 2018. This corresponds to an increase of 37.2% over December 31, 2017. The increase is based on the temporary higher inventory for realizing the planned growth in the second half-year as well as on the revenue-related higher receivables.

Additional details concerning the financial information are available in the notes to the consolidated financial statement.

Cash flow statement (unaudited)

(IN €K)	PERIOD ENDED JUNE 30, 2018	PERIOD ENDED JUNE 30, 2017
Cash and cash equivalents per January 01	**138,536**	**12,347**
Cash Flow from ongoing business activities	5,414	14,585
Cash Flow from investment activities	-21,794	-3,991
Cash Flow from financing activities	-49,879	-13,424
Net change in cash and cash equivalents	**-66,259**	**-2,830**
Effects of exchange rate fluctuations	156	-322
Cash and cash equivalents per June 30	**72,433**	**9,195**

Cash flow from operating activities in the first half of 2018 amounted to € 5,414K and is thus € 9,171K under the previous year. The reduction is chiefly caused from working capital changes, in particular from the temporary increase of inventory for realizing the planned growth in the second half-year as well as the revenue-related higher receivables.

Cash flow from investments increased from € -3,991K in the first half of 2017 to € -21,794K per June 30, 2018. This is the result of the increased disbursements from the acquisition of intangible and tangible assets (CAPEX) from € -7,033K in 2017 to € -21,922K in the first half of 2018.

The negative cash flow of € -13,424K from financing activities of the first half of 2017 chiefly resulted from the repayment of the loan from affiliated enterprises in the amount of € 12,964K. For the first half of 2018, the cash flow from financing activities increased to € -49,879K. This increase is the result of the disbursement of a short-term loan in the amount of € -50,004K to an affiliated enterprise at common third-party terms.

This results in a cash fund and cash equivalent balance of € 72,433K per June 30, 2018 over € 9,195K per June 30, 2017.

CAPITAL EXPENDITURES (CAPEX)

CAPEX – Capital Expenditures – is a material parameter. CAPEX is a component of cash flows from investments. The disbursements from the acquisition of intangible and tangible assets (CAPEX) in the first half of 2018 amounted to € -21,922K (June 30, 2017: € -7,033K).
Of this, investments in tangible assets amounted to € -27,389K in the first half of 2018 (June 30, 2017: € -6,636K). The massive investments into the expansion of production capacities were the focal point of the disbursements from the acquisition of tangible assets, in particular the expansion of production capacities for lithium-ion batteries based on the continued great demand.
The large investment program for the expansion of production capacities is being implemented as planned.

SEGMENT EARNINGS SITUATION

VARTA AG Group segment reporting occurs based on management findings for the segments Microbatteries and Power & Energy.

Microbatteries	PERIOD ENDED JUNE 30, 2018	CHANGE OVER THE PREVIOUS YEAR (%)	PERIOD ENDED JUNE 30, 2017
Revenue (IN €K)	108,849	8.0	100,818
Adjusted EBITDA (IN €K)	24,849	9.4	22,721
Adjusted EBITDA margin in %	22.8		22.5

The revenue in the Microbatteries segment increased in the first half of 2018 from € 100,818K to € 108,849K. This corresponds to a revenue growth of 8.0% over the previous year. The sales growth is in particular the result of the dynamic growth of rechargeable lithium-ion batteries. The continued high demand for wireless entertainment products like headsets and other wearables has resulted in a very significant increase in sales revenue. The adjusted EBITDA grew from € 22,721K to € 24,849K, which corresponds to an increase of 9.4%. The increase in profits can chiefly be allocated to the profitable growth of sales revenue. This results in an adjusted EBITDA margin of 22.8% in proportion to the sales revenue in comparison to 22.5% in the first half of 2017.

Power & Energy	PERIOD ENDED JUNE 30, 2018	CHANGE OVER THE PREVIOUS YEAR (%)	PERIOD ENDED JUNE 30, 2017
Revenue (IN €K)	24,553	30.5	18,818
Adjusted EBITDA (IN €K)	1,504	148.8	-3,085
Adjusted EBITDA margin in %	6.1		-16.4

Revenue in the Power & Energy segment grew from € 18,818K to € 24,553K. This corresponds to a sales revenue growth of 30.5%. This sales revenue increase is on the one hand based on the continued excellent growth dynamic in energy storage solutions. This pertains in particular to the development of stationary energy storage for private households, which continues to be very successful. On the other hand, the new customer projects for battery packs also contributed to the dynamic growth in the Power & Energy segment. The adjusted EBITDA has improved from € -3,085K in the first half of 2017 by € 4,589K to € 1,504K in the first half of 2018. The break-even point was reached already in the first quarter. The increase of the adjusted EBITDA can in particular be based on the sales revenue increase with the simultaneous improvement of the contribution margin as well as the disciplined management of fixed costs. This results in an adjusted EBITDA margin of 6.1% in proportion to the sales revenue, which corresponds to an improvement of the EBITDA margin by 22.5 percentage points in comparison to the previous year.
Additional details on segment reporting are available in the consolidated interim financial reporting in Chapter 5.

PROGNOSIS, OPPORTUNITIES AND RISK REPORT

The interim half-year management report does not contain any comprehensive information concerning the outlook, opportunity and risk report. These explanations must thus be read in combination with the consolidated annual accounts published per December 31, 2017.

The risk management system is evaluated at an overall Group level and is focused on strategic, operative, financial, and other risks. Here, risks are assessed as low, medium, and high based on net expected loss.

The CFO is responsible for **Opportunity and Risk Management**, which is an integral component of corporate management. It is the assessment of the Executive Board that the risks are unchanged manageable at the time of publication. Specific existential risks are still not recognizable. Simultaneously, the Executive Board is convinced that the **VARTA AG Group** continues to be in an excellent strategic and financial position to exploit upcoming opportunities.

An extensive review of the risk situation was perform per June 30, 2018.

No material changes arose in the area of operative, strategic, financial, and default risks in comparison to December 31, 2017.

OUTLOOK

Based on the stable development of the economic environment and the strong market position in the relevant markets, a continued positive development is expected for the second half-year and for the overall year 2018.

Overall statement VARTA AG Group
Significant sales growth (in constant currencies) is assumed for Group sales for the overall year 2018 in comparison to the previous year.

The adjusted EBITDA for the overall year 2018 is still expected to increase significantly over the previous year based on scale effects.

CAPEX – Capital Expenditures – will increase significantly in fiscal year 2018 due to the demand-based expansion of production capacities.

Segment Microbatteries
In the Microbatteries segment, a significant sales growth (in constant currencies) is expected for fiscal year 2018, and a continued significant increase of the adjusted EBITDA in comparison to the sales growth is expected based on the further scaling of our business model.

Segment Power & Energy
A very significant sales growth is expected in the Power & Energy segment for the overall year 2018. We are assuming that the Power & Energy segment will achieve a highly positive adjusted EBITDA for the overall year 2018.

The long-term experiences in the battery business are included in the outlook for opportunities and risks for the continued business development. This report contains statements and forecasts which refer to the future development of the enterprise. Please note that the actual results may deviate significantly from the expectations of anticipated developments.

Ellwangen, August 28, 2018

VARTA Aktiengesellschaft

Herbert Schein   Steffen Munz   Dr. Michael Pistauer

Interim financial reporting

Condensed consolidated interim financial statement of VARTA AG

as of and for the six month period ended June 30,2018 (unaudited)

Consolidated interim statement of financial position per June 30, 2018 (unaudited)

VARTA Aktiengesellschaft, Ellwangen (Jagst)

(IN €K)	NOTES	JUNE 30, 2018	DECEMBER 31, 2017*
ASSETS			
Tangible assets	**6**	86,785	63,447
Intangible assets	**7**	21,497	21,556
Long-term investments and other participations recognized in the balance sheet under the equity method		1,749	1,718
Other financial assets	**8**	403	444
Deferred tax assets		1,540	2,313
Other assets		15,484	15,780
Non-current assets		**127,458**	**105,258**
Inventories	**9**	63,338	53,770
Trade receivables	**10**	26,699	20,103
Tax refund claims		313	744
Other assets		12,926	13,069
Other financial assets	**8**	50,004	0
Cash and cash equivalents	**11**	72,433	138,536
Current assets		**225,713**	**226,222**
Total assets		**353,171**	**331,480**

*Previous year values not adjusted.

(IN €K)	NOTES	JUNE 30, 2018	DECEMBER 31, 2017*
EQUITY AND LIABILITIES			
Subscribed capital		38,200	38,200
Capital reserve		147,699	146,719
Earnings reserves		41,847	28,575
Net income		13,981	13,268
Other reserves		3,249	2,710
Equity of the VARTA AG Group	**12**	**244,976**	**229,472**
Non-controlling shares	**12**	1,283	980
Equity	**12**	**246,259**	**230,452**
Other financial liabilities		6,200	6,200
Provisions for employee benefits	**14**	23,330	22,775
Other liabilities	**16**	113	448
Non-current liabilities		**29,643**	**29,423**
Tax liabilities		6,958	4,724
Other financial liabilities		2,679	2,201
Provisions for employee benefits	**14**	1,127	1,087
Trade payables and advance payments received	**15**	33,244	32,479
Other liabilities	**16**	10,611	10,285
Other provisions		4,436	4,256
Deferred liabilities		18,214	16,573
Current liabilities		**77,269**	**71,605**
Liabilities		**106,912**	**101,028**
Total equity and liabilities		**353,171**	**331,480**

*Previous year values not adjusted.

Consolidated interim income statement for the period ended June 30, 2018 (unaudited)

VARTA Aktiengesellschaft, Ellwangen (Jagst)

(IN €K)	NOTES	*SPECIAL EFFECTS*	PERIOD ENDED JUNE 30, 2018	*SPECIAL EFFECTS*	PERIOD ENDED JUNE 30, 2017*
Revenue	**5**		**133,953**		**119,741**
Decrease / increase in finished and unfinished goods	**17**		3,035		-966
Own expenses capitalized			1,504		1,654
Other operating income	**18**		3,347		8,194
Cost of materials	**19**		-52,467		-48,066
Personnel costs	**20**		-45,404		-40,925
Other operating costs	**21**		-19,165		-16,626
EBITDA			**24,803**		**23,006**
Expenses for going public		*0*		*0*	
Reimbursement claim under pensions		*0*		*-3,629*	
Costs of share-based payment	*13/20*	*980*		*0*	
Adjusted EBITDA		***25,783***		***19,377***	
Depreciation			-5,077		-4,573
Operating result (EBIT)			**19,726**		**18,433**
Financial income	**22**		56		38
Financial charges	**22**		-207		-498
Sundry financial income	**23**		511		452
Sundry financial charges	**23**		-405		-877
Financial result			**-45**		**-885**
Profit and loss shares in enterprises recognized in the balance sheet under the equity method, after taxes			31		-2,106
Result before taxes			**19,712**		**15,442**
Income tax expenses			-5,431		-4,255
Consolidated result			**14,281**		**11,187**
Appropriation of profit:					
Shareholders of VARTA AG			13,981		11,187
Non-controlling shares			300		0

*Previous year values not adjusted.

Consolidated interim statement of profit and loss and other comprehensive incomefor the period ended June 30, 2018 (unaudited)

VARTA Aktiengesellschaft, Ellwangen (Jagst)

(IN €K)	NOTES	PERIOD ENDED JUNE 30, 2018	PERIOD ENDED JUNE 30, 2017*
Profit/loss for the year		**14,281**	**11,187**
Items not reclassified under profit or loss			
Revaluation of the net debt from performance-related pension plans		144	1,323
Revaluation of reimbursement claim		-135	0
Tax effect		-5	-385
		4	**938**
Items that were reclassified or may be reclassified later under profit or loss			
Currency conversion differences		791	-1,829
Result of the fair-value changes of cash flow hedges		-351	159
Tax effect		102	-46
		542	**-1,716**
Other results after taxes		**546**	**-778**
Total result		**14,827**	**10,409**
Attribution of profit:			
Shareholders of **VARTA AG**		14,529	10,409
Non-controlling shares		298	0

Profit/loss per share** (EUR)	NOTES	PERIOD ENDED JUNE 30, 2018	PERIOD ENDED JUNE 30, 2017
Undiluted profit/loss per share		0.38	0.35
Diluted profit/loss per share		0.38	0.35

*Previous year values not adjusted.
**The profit/loss per share concerns only shares of VARTA AG.

Consolidated interim cash flow statement for the period ended June 30, 2018 (unaudited)

VARTA Aktiengesellschaft, Ellwangen (Jagst)

(IN €K)	NOTES	PERIOD ENDED JUNE 30, 2018	PERIOD ENDED JUNE 30, 2017*
Cash flow from ongoing business activities			
Result before taxes		19,712	15,442
Net financial result less sundry financial charges/sundry financial income		151	460
Result from the at-equity valuation		-31	2,106
Depreciation and amortization	**6/7**	5,077	4,573
Profit and loss from the sale of tangible and intangible assets		0	6
Own expenses capitalized	**7**	-1,504	-1,654
Sundry income and expenses with no effect on liquidity		743	825
Changes in working capital			
Inventories	**9**	-8,951	-2,686
Trade receivables and sundry current assets	**10**	-5,928	-8,405
Trade payables and sundry current liabilities	**15**	-2,386	6,883
Provisions and liabilities from employee pensions	**14**	434	-550
Paid income taxes		-1,903	-2,415
Net cash flow from ongoing business activities		**5,414**	**14,585**
Cash flow from investment activities			
Monies disbursed for the purchase of intangible and tangible assets	**6/7**	-21,922	-7,033
Monies received for the sale of intangible and tangible assets		30	14
Monies received from the amortization of loans		42	175
Monies received from the amortization of loans to affiliated enterprises		0	2,815
Interest received		56	38
Cash flow from investment activities		**-21,794**	**-3,991**

*Previous year values not adjusted.

(IN €K)	NOTES	PERIOD ENDED JUNE 30, 2018	PERIOD ENDED JUNE 30, 2017*
Cash flow from financing activities			
Payments for the cost of the initial public offering		0	-120
Monies received from the interest-bearing financial liabilities of the affiliated enterprises		0	4
Monies received from the interest-bearing financial liabilities		0	4
Monies disbursed for loans to affiliated enterprises		-50,004	0
Monies disbursed for the amortization of interest-bearing financial liabilities of the affiliated enterprises		0	-12,968
Payments from the assumption of joint debt obligations		161	0
Interest paid		-36	-344
CASH FLOW FROM FINANCING ACTIVITIES		**-49,879**	**-13,424**
Net change in cash and cash equivalents		**-66,259**	**-2,830**
Cash and cash equivalents per January 1		138,536	12,347
Effects of exchange rate fluctuations		156	-322
Cash and cash equivalents per June 30	**11**	**72,433**	**9,195**

*Previous year values not adjusted.

Consolidated statement of changes in equity (unaudited)

VARTA Aktiengesellschaft, Ellwangen (Jagst)

(IN €K)	SUBSCRIBED CAPITAL	CAPITAL RESERVE	EARNINGS RESERVES**	OTHER RESERVES		NON-CONTROLLING SHARES	SUM EQUITY
				CURRENCY DIFFERENCES	*HEDGING RESERVE*		
Status per January 1, 2017*	**29,600**	**2,681**	**27,434**	**5,548**	**28**	**0**	**65,291**
Comprehensive results							
Profit/loss for the year	0	0	11,187	0	0	0	11,187
Other results	0	0	938	-1,829	113	0	-778
Comprehensive results	**0**	**0**	**12,125**	**-1,829**	**113**	**0**	**10,409**
Status per June 30, 2017*	**29,600**	**2,681**	**39,559**	**3,719**	**141**	**0**	**75,700**

*Previous year values not adjusted.

**Earnings reserves including profit/loss for the year.

(IN €K)	SUBSCRIBED CAPITAL	CAPITAL RESERVE	EARNINGS RESERVES**	OTHER RESERVES		NON-CONTROLLING SHARES	SUM EQUITY
				CURRENCY DIFFERENCES	*HEDGING RESERVE*		
Status per January 1, 2018	**38,200**	**146,719**	**41,843**	**2,582**	**128**	**980**	**230,452**
Effect from share-based payment	**0**	**980**	**0**	**0**	**0**	**0**	**980**
Comprehensive results							
Profit/loss for the year	0	0	13,981	0	0	300	14,281
Other results	0	0	3	788	-248	3	546
Comprehensive results	**0**	**0**	**13,984**	**788**	**-248**	**303**	**14,827**
Status per June 30, 2018	**38,200**	**147,699**	**55,827**	**3,370**	**-120**	**1,283**	**246,259**

**Earnings reserves including profit/loss for the year

Consolidated notes

1 GENERAL INFORMATION

VARTA Aktiengesellschaft (VARTA AG) is domiciled in Ellwangen (Jagst), Germany, and is listed in the commercial register at Ulm District Court, Germany, under file number HRB 728059. The condensed consolidated annual report of the enterprise covers the enterprise and its subsidiaries (jointly referred to as “**VARTA AG Group**”).

VARTA AG’s business operations, conducted by its operating subsidiaries, involve production, marketing, research and development in the two operating segments Microbatteries and Power & Energy. **VARTA AG Group** is an international, globally operating corporation with over 130 years of experience.

The Management of **VARTA AG Group** has its principal place of business in Ellwangen, Daimlerstraße 1, Germany. The controlling parent company of **VARTA AG** is Montana Tech Components AG, hereinafter referred to as “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 stock exchange ticker symbol “VAR1”.

In January 2018, the parent company VGG (Vienna) launched a stock option program for the employees (MSOP) entitling the beneficiaries of the **VARTA AG Group**, including the Executive Committee, to purchase common stock of **VARTA AG**. The required vesting period is 4 years with the condition for its exercise that the beneficiaries are in an ongoing employer-employee relationship with **VARTA AG** and/or one of its affiliats on the date the option is exercised (see 13 “Stock option program”).

The enterprise **VARTA Micro Production GmbH** was established as a subsidiary of **VARTA AG** on April 25, 2018. The enterprise with its principal place of business in Nördlingen is recorded in the commercial register under number HRB 32477. The subject matter of the enterprise is the manufacture, distribution, and development of chemical, electro-chemical, electro-technical, and metallurgy and other industrial products of any kind, in particular of batteries. The manufacture and distribution of products in the area of engineering and apparatus engineering as well as the manufacture, set-up, operation, and exploitation of systems and operations as well as the trade with third party products in the above-stated areas is to be promoted as well.

2 CHANGES IN THE SCOPE OF CONSOLIDATION

	2018		2017	
	FULL CONSOLIDATION	EQUITY CONSOLIDATION	FULL CONSOLIDATION	EQUITY CONSOLIDATION
Status January 1	**11**	**2**	**9**	**2**
Acquisitions	0	0	2	0
Addition	1	0	0	0
Status June 30	**12**	**2**	**11**	**2**

Changes in 2018
VARTA AG established a new subsidiary on April 25, 2018, the **VARTA Micro Production GmbH** (see Notes 1 “General information”).

3 NOTES TO THE CONSOLIDATED ACCOUNTS

3.1 Certificate of compliance

The consolidated annual report as per June 30, 2018 was prepared pursuant to the International Financial Reporting Standards, regulations on interim financial reports (IAS 34). The condensed consolidated annual report was prepared based on all IAS/IFRS applicable on the closing date and published by the International Accounting Standards Board (IASB), as well as all interpretation (IFRIC/SIC) of the International Financial Reporting Interpretations Committee or the Standing Interpretations Committee, insofar as such have been assumed by the European Union in the endorsement process. This condensed consolidated annual report should be read in conjunction with the consolidated annual report as per December 31, 2017.

The right to prepare a condensed interim financial statement is asserted. All interpretations of the International Financial Reporting Interpretations Committee (IFRIC) binding as per June 30, 2018 also apply. This interim report also meets the German Accounting Standard Nr. 16 (DRS 16 interim financial reports) of the Deutschen Rechnungslegungs Standards Committee e.V. (DRSC).

Due to the lack of an obligation to audit the interim financial report, the interim report was not audited or reviewed by an auditor.

3.2 Going-concern principle

According to IAS 1.25, the interim consolidated account was prepared under the assumption of the going-concern principle.

3.3 Consolidation methods

The scope of consolidation includes all enterprises which **VARTA AG** controls directly or indirectly. Control is present if **VARTA AG** holds the majority of the voting rights (including potential voting rights) or is able to determine indirectly or directly the financial and business policies and thus benefit from the business activities as a result of its controlling position. These enterprises are fully consolidated. The first-time consolidation of subsidiaries takes place on the date on which the control becomes effective. The subsidiaries are deconsolidated on the date on which the control ends.

Intracompany profits and losses, expenses and incomes as well as any claims and liabilities existing between the consolidated enterprises are eliminated.

Joint ventures in which **VARTA AG** has a direct or indirect interest of 50% or for which the management responsibilities are exercised equally are accounted for using the “equity method” pursuant to IAS 28.

3.4 Accounting and valuation principles

The same accounting and valuation principles that already applied to the consolidated accounts as per December 31, 2017 apply to the condensed interim consolidated account. A detailed description of these methods is included in the consolidated accounts as per December 31, 2017. Changes arising from the first-time application of IFRS 15 and IFRS 9 are shown in the Notes 4.2 “Changes of accounting principles”.

3.5 Functional currency and presentation currency

The currency of the corporate group is the euro. Unless indicated otherwise, all amounts are stated in thousand euros (€K).

4 MATERIAL ACCOUNTING AND VALUATION PRINCIPLES

4.1 Currency conversions

The exchange rates used for the currency conversion material influencing the consolidated accounts are the following:

	AVERAGE RATE		RATE ON THE CLOSING DATE	
1 Euro equals	JUNE 30, 2018	DECEMBER 31, 2017	JUNE 30, 2018	DECEMBER 31, 2017
US Dollar (USD)	1.2104	1.1297	1.1658	1.1993

There are other exchange rate effects from the Chinese Yuan (CNY) and Romanian LEU (RON), but these are not important for the **VARTA AG Group**.

4.2 Changes of accounting principles

4.2.1 IFRS 15

IFRS 15 started to apply on January 1, 2018. The modified retrospective method is used in the **VARTA AG Group**. The regulations of IFRS 15 cover, according to IFRS 15.5 in principle all contracts signed with customers the subject matter of which is the provision of goods and services in the context of the usual business activities. The central features of IFRS 15 are the transfer of control as the basis for recognition of revenue and differentiation between snapshot and time-based recognition of revenue.

The **Microbatteries** segment is focused on the manufacture of microbatteries primarily for applications in the area of **Healthcare** and **Entertainment**.
The effects on the annual report show up in:
1. INCO terms: possible effects from the time of procurement of the authority to dispose, downstream process.
2. Sales reductions: rebate agreements like bonus and credit for goods agreements that are compensated after the sale of products. The outstanding claims are subject to fluctuations during the year, are expected to be at previous year levels at the closing date.
3. Consignment warehouse: the time of revenue recognition in case of consignment warehouses is now determined by the customer upon gaining control (possibly already upon admission into warehouse) and no longer upon removal from the consignment warehouse. This is a upstream process.
4. Redemption obligations: takes place after product sales.
5. Online trade: risks and liabilities for sales from online trades are borne by the affected group companies as principles themselves and are thus taken in consideration in the group revenue.

Mobile and stationary energy storage solutions are developed, produced, and sold in the **Power & Energy** segment.
The effects on the annual report show up in:
1. Consignment warehouse: the time of revenue recognition in case of consignment warehouses is now determined by the customer upon gaining control (possibly already upon admission into warehouse) and no longer upon removal from the consignment warehouse. This is a upstream process.
2. Redemption obligations: takes place after product sales.
3. Customer and research projects: on the one hand it is currently being identified whether an agreement is executed snapshot based or time-based and on the other hand whether margins are negotiated in the event of a breach of contract. This causes in part different times of revenue recognition.

The effects on balancing pursuant to the statements above are insignificant in the consolidated account and the individual segments per the changeover date as well as the reporting date.

4.2.2 IFRS 9

The standard regulates comprehensively the accounting rules for financial instruments. Which would be noted compared to the predecessor standard IAS 39 in particular are the new classification directions for financial assets revised in the most recent version of IFRS 9. These are based on the design of the business model and the contractual payment streams of financial assets. Also totally new are the directions for the recognition of impairment in value, which are now based on a model of the expected losses. Also the presentation of hedging relations in the balance sheet is newly regulated under IFRS 9 and is intended to facilitate the description of the operating risk management. IFRS 9 must be applied for the first time in any fiscal year that begins on or after January 1, 2018. The modified retrospective method is used in the **VARTA AG Group**.
The simplified value depreciation model pursuant to IFRS 9 is used in the **VARTA AG Group** on all trade receivables and assets from deferred contract assets with customers. In consideration of available information, current adjustments in the amount of expected financial instrument losses over the term of the loan are recorded.

4.3 New and modified IFRS standards after June 30, 2018

New and modified standards and interpretations must be applied in the first interim report after coming into force or a possible voluntary premature coming into force. The following new regulations come into force for annual reporting periods or reporting periods starting after July 1, 2018. No standards were applied prematurely in the present consolidated accounts. Their effects on the consolidated annual report of the Group has not yet been finally analyzed.

New or changed standards and interpretations		EFFECTIVE DATE
Implementation in EU law		
Standards:		
IFRS 16	Lease agreements	January 1, 2019
Changes:		
IFRS 9	Financial instruments	January 1, 2019

The innovations and changes relevant for the **VARTA AG Group** are described below:

IFRS 16 – Lease agreements

IFRS 16 replaces the existing guidelines regarding lease agreements, among which is IAS 17 “Lease Agreement”, IFRIC 4 “Determination whether an agreement contains this arrangement”, SIC-15 “Operating leases-incentives”, and SIC-27 “Evaluation of the economic content of transactions in the legal form of these agreements”.

The corporate group began with the evaluation of potential effects of the application of IFRS 16 on the consolidated annual report. A concluding quantification still cannot be made at this date. The effects will show up mainly in fixed assets and liabilities. The effect on the EBIT (result before interest and taxes) would be less pronounced. A decision as to which transition method should be used has not yet been made.

Not yet implemented in EU law:		
Standards:		
IFRS 17	Insurance	January 1, 2021
IFRIC 23	Accounting of income taxes	January 1, 2019
Changes:		
IAS 28	Long-term interests in associated enterprises	January 1, 2019
IFRS 10/IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	indefinite

The innovations and changes relevant for the **VARTA AG Group** are described below:

IFRS 17 – Insurance

IFRS 17 regulates the principles regarding the approach, valuation, reporting, and information for insurance policies within the standard’s area of application. This information serves as a basis for users of financial accounts in order to evaluate the effects of insurance policies on the asset, financial, revenue situation as well as cash flows of an enterprise. IFRS 17 was published in May 2017 and is obligatory for the first time for fiscal years starting on or after January 1, 2021.

The corporate group currently assumes that this standard will have no material effects on the consolidated annual report.

IFRIC 23 – Accounting of income taxes
The interpretation must be applied – subject to the implementation in EU law – for the first time in the first reporting period of the fiscal year beginning on or after January 1, 2019. An earlier application is permitted.

The corporate group currently assumes that this standard will have no material effects on the consolidated annual report.

Changes in IAS 28 – Long-term interests in associated enterprises
The changes must be applied – subject to the implementation in EU law – for the first time on January 1, 2019.

The corporate group currently assumes that this standard will have no material effects on the consolidated annual report.

Changes in IFRS 10, and IAS 28 – Sale or contribution of assets between an investor and its associated enterprise or joint venture
The first application date of the changes was postponed by IASB indefinitely.

The changes would have no material effect on the consolidated annual report.

5 SEGMENT REPORTS

Segment reporting is published based on management reporting for the segments Microbatteries and Power & Energy.

The control parameters that apply for the evaluation of services in all operative segments are shown below:

Information pursuant to reportable segments:

	MICROBATTERIES		POWER & ENERGY		Σ SUM		RECONCILIATION		CONSOLIDATED FINANCIAL STATEMENTS	
(IN €K)	PERIOD ENDED JUNE 30, 2018	PERIOD ENDED JUNE 30, 2017	PERIOD ENDED JUNE 30, 2018	PERIOD ENDED JUNE 30, 2017	PERIOD ENDED JUNE 30, 2018	PERIOD ENDED JUNE 30, 2017	PERIOD ENDED JUNE 30, 2018	PERIOD ENDED JUNE 30, 2017	PERIOD ENDED JUNE 30, 2018	PERIOD ENDED JUNE 30, 2017
Revenue to third parties*	108,849	100,818	24,553	18,818	133,402	119,636	550	105	133,952	119,741
Depreciation and amortization	-4,171	-3,923	-905	-650	-5,076	-4,573	-1	0	-5,077	-4,573
Material effects on income and expenses	0	0	0	0	0	0	0	3,629	0	3,629
Adjusted EBITDA	**24,849**	**22,721**	**1,504**	**-3,085**	**26,353**	**19,636**	**-570**	**-259**	**25,783**	**19,377**

*There are no significant sales relationships between segments

The following table shows the reconciliation of the EBIT of the segments with the result before taxes:

(IN €K)	PERIOD ENDED JUNE 30, 2018	PERIOD ENDED JUNE 30, 2017
EBIT	19,726	18,433
Financial result	-45	-885
Results from joint ventures	31	-2,106
Result before taxes	**19,712**	**15,442**

Geographical segment information

The following chart shows the sales revenue of the corporate group subdivided by specific geographical locations. In the chart showing this information on a geographical basis, the sales revenue of a segment is based on the geographical locations of the clients and the assets of the segment are based on the geographic location of the assets.

	PERIOD ENDED JUNE 30, 2018	JUNE 30, 2018	PERIOD ENDED JUNE 30, 2017	DEC. 31, 2017
(IN €K)	NET REVENUE*	NON-CURRENT ASSETS**	NET REVENUE*	NON-CURRENT ASSETS**
Europe	68,867	106,218	60,645	83,266
America	26,167	60	28,789	60
Asia	36,582	2,004	28,160	1,677
Others	2,337	0	2,147	0
Total corporate group	**133,953**	**108,282**	**119,741**	**85,003**

*The sales revenue depends on the principal place of business of the client.
**Noncurrent assets include real estate, tangible and intangible assets held for this purpose as financial investment.

Products and services

The sales revenue and trade receivables of the corporate group can be broken down into the following products and services:

	PERIOD ENDED JUNE 30, 2018	JUNE 30, 2018	PERIOD ENDED JUNE 30, 2017	DEC. 31, 2017
(IN €K)	NET REVENUE	TRADE RECEIVABLES	NET REVENUE	TRADE RECEIVABLES
of which from the sale of products	131,297	26,392	117,819	19,677
of which from the provision of services	2,656	307	1,922	426
Total corporate group	**133,953**	**26,699**	**119,741**	**20,103**

6 TANGIBLE ASSETS

(IN €K)	BUILDING	TECHNICAL EQUIPMENT AND MACHINERY	OTHER EQUIPMENT	CONSTRUCTION PROGRESS AND PREPAYMENTS	TANGIBLE ASSETS
Acquisition costs					
Status per January 1, 2017	**234**	**59,488**	**21,383**	**12,692**	**93,797**
Currency differences	-16	-386	-243	-1	**-646**
Change in the scope of consolidation	0	0	34	0	**34**
Additions	42	2,151	1,555	15,429	**19,177**
Disposals	0	-2,500	-214	0	**-2,714**
Transfer postings	0	8,955	2,319	-11,274	**0**
Status per December 31, 2017	**260**	**67,708**	**24,834**	**16,846**	**109,648**
Currency differences	3	95	51	0	**149**
Additions	0	1,680	667	25,042	**27,389**
Disposals	0	-32	-42	0	**-74**
Transfer postings	0	283	455	-895	**-157**
Status per June 30, 2018	**263**	**69,734**	**25,965**	**40,993**	**136,955**

(IN €K)	BUILDING	TECHNICAL EQUIPMENT AND MACHINERY	OTHER EQUIPMENT	CONSTRUCTION PROGRESS AND PREPAYMENTS	TANGIBLE ASSETS
Accumulated depreciation and costs of impairment in value					
Status per January 1, 2017	**89**	**29,236**	**12,491**	**0**	**41,816**
Currency differences	-6	-233	-204	0	**-443**
Additions	20	5,069	2,353	0	**7,442**
Disposals	0	-2,467	-147	0	**-2,614**
Transfer postings	0	-23	23	0	**0**
Status per December 31, 2017	**103**	**31,582**	**14,516**	**0**	**46,201**
Currency differences	1	56	45	0	**102**
Additions	11	2,737	1,163	0	**3,911**
Disposals	0	-11	-33	0	**-44**
Status per June 30, 2018	**115**	**34,364**	**15,691**	**0**	**50,170**
Book values					
Book values on January 1, 2017	145	30,252	8,892	12,692	**51,981**
Book values on December 31, 2017	157	36,126	10,318	16,846	**63,447**
Book values on June 30, 2018	148	35,370	10,274	40,993	**86,785**

The majority of the investments in intangible assets were used on the demand driven expansion of the production capacities in lithium-ion button cells. Also, investments in the replacement of the production equipment, the development of new products and quality assurance measures are necessary at regular intervals.

There were no restrictions on ownership of the power of disposition with regard to the tangible assets in the first half-year 2018 and fiscal year 2017. The order obligations from the purchase of tangible assets as per June 30, 2018 amounted to € 7,903K (June 30, 2017: € 2,757K).

7 INTANGIBLE ASSETS

(IN €K)	GOODWILL	TRADEMARK RIGHT AND SIMILAR INTANGIBLE ASSETS	INTELLECTUAL PROPERTY RIGHTS	DEVELOPMENT COSTS	TOTAL
Acquisition costs					
Status per January 1, 2017	**0**	**11,585**	**958**	**13,348**	**25,891**
Currency differences	0	-4	0	0	**-4**
Changes in the scope of consolidation	500	29	0	0	**529**
Additions	0	124	0	2,064	**2,188**
Status per December 31, 2017	**500**	**11,734**	**958**	**15,412**	**28,604**
Currency differences	0	1	0	0	**1**
Additions	0	93	0	857	**950**
Transfer postings	0	157	0	0	**157**
Status per June 30, 2018	**500**	**11,985**	**958**	**16,269**	**29,712**
Accumulated depreciations					
Status per January 1, 2017	**0**	**2,326**	**167**	**2,554**	**5,047**
Currency differences	0	-3	0	0	**-3**
Additions	0	218	132	1,654	**2,004**
Disposals	0	0	0	0	**0**
Transfer postings	0	-354	0	354	**0**
Status per December 31, 2017	**0**	**2,187**	**299**	**4,562**	**7,048**
Currency differences	0	1	0	0	**1**
Additions	0	155	66	945	**1,166**
Status per June 30, 2018	**0**	**2,343**	**365**	**5,507**	**8,215**
Book values					
Book values on January 1, 2017	0	9,259	791	10,794	**20,844**
Book values on December 31, 2017	500	9,547	659	10,850	**21,556**
Book values on June 30, 2018	500	9,642	593	10,762	**21,497**

The income from capitalized own expenses contained in the consolidated income statement in the amount of € 1,504K (June 30, 2017: € 1,654K) covers in the first half year 2018 intangible assets in the amount of € 1,298K (June 30, 2017: € 555K) which are not yet ready for use.

Impairment tests are performed once annual at the end of the year.

8 OTHER FINANCIAL ASSETS

(IN €K)	JUNE 30, 2018	DECEMBER 31, 2017
Loans	**50,407**	**444**
of which short-term	50,004	0
of which long-term	403	444

In the first half year, short-term claims against related companies in the amount of € 50,004K were shown under loans at common third-party terms (cf. Notes 24 “Related persons and companies”).
In addition, loans were made to a third party in the amount of € 403K (December 31, 2017: € 444K).

9 INVENTORIES

Inventories can be broken down as follows:

(IN €K)	JUNE 30, 2018	DECEMBER 31, 2017
Raw materials and supplies	29,455	22,393
Unfinished products	13,287	11,137
Finished products and merchandise	19,217	18,815
Prepayments	1,379	1,425
Inventories	**63,338**	**53,770**
Impairment income (+) / loss (-) recognized in the income statement	-548	1,217

The impairment income in the first half of year 2018 increased by € 548K compared to the impairment value recorded in the P&L statement for the previous year. In the first half year of the previous year, the value impairments recorded in the P&L were reduced by € 55K.
No inventories were used as collateral for liabilities either per December 31, 2017 or June 30, 2018.

10 TRADE RECEIVABLES

(IN €K)	JUNE 30, 2018	DECEMBER 31, 2017
Claims against third parties (gross)	27,355	20,228
Claims against related persons and companies	160	101
Claims against joint ventures and enterprises in which the Company has an equity interest	16	269
Gross trade receivables	**27,531**	**20,598**
Less value adjustments	-832	-495
Net trade receivables	**26,699**	**20,103**

The existing net claims are reduced by the master agreement regarding the sale of receivables dated June 30, 2018 by € 8,309K (December 31, 2017: € 8,541K).

11 CASH AND CASH EQUIVALENTS

Cash and cash equivalents can be subdivided as follows:

(IN €K)	JUNE 30, 2018	DECEMBER 31, 2017
Cash	12	12
Credit balances with financial institutions	72,421	138,524
Sum	**72,433**	**138,536**

In the first half year, short-term claims against related companies in the amount of € 50,004K were shown under loans at common third-party terms (cf. Notes 24 “Related persons and companies”).

12 EQUITY

A total of € 980K as share-based compensation was recorded in equity capital for the first half year 2018. This share-based compensation component was issued by the parent company VGG GmbH (Vienna). Cash settlements or options for the acquisition of VARTA common stock were granted through VGG (Vienna) (cf. Notes 1 “General information” and 13 “Stock option program”).

13 STOCK OPTION PROGRAM

As already noted in the consolidated accounts 2017, the parent company VGG (Vienna) launched a stock option program for employees (MSOP) in January 2018. The stock options can be exercised only with a contractually negotiated vesting period. The exercise price was used to calculate the fair values upon exercise of the option. The closing price per June 29, 2018 was used for options not yet exercised. The expenses recorded in the income statement per June 30, 2018 amount to € 980K (June 30, 2017: € 0K) (cf. Notes 20 “Personnel costs”).

Determination of fair value

Options outstanding per June 30, 2018 had an exercise price between € 21.30 and € 21.40 and an average contract term of 5 years. The fair values per June 30, 2018 are shown in the following table:

	NUMBER OF OPTIONS 2018 IN THOUSAND	WEIGHTED AVERAGE EXERCISE PRICE IN €	FAIR VALUE IN €K
Exercised share options	7	21.38	145
Outstanding share options	671	23.22	15,582

Reconciliation of outstanding share options

The number and weighted-average of the exercise prices of the share options developed as follows:

	NUMBER OF OPTIONS 2018 IN THOUSAND	WEIGHTED AVERAGE EXERCISE PRICE 2018 (IN €)
Outstanding per January 1	678	0.00
Exercised during the year	7	21.38
Lapsed during the year	0	0.00
Outstanding per June 30	671	23.22
of which are exercisable per June 30, 2018	169	0.00

14 PROVISIONS FOR EMPLOYEE BENEFITS

Provisions for employee benefits are composed as follows:

(IN €K)	JUNE 30, 2018	DECEMBER 31, 2017
Sum	**24,457**	**23,862**
of which short-term	1,127	1,087
of which long-term	23,330	22,775
Composition of the provisions for employee benefits		
Pensions	16,910	16,872
Severance payments	5,301	4,936
Anniversary bonus	555	553
Pre-retirement part-time employment	1,691	1,501

The increase of provisions for employee benefits chiefly result from an increase of provisions for severance payments.

15 TRADE PAYABLES AND ADVANCE PAYMENTS RECEIVED

Trade payables are composed as follows:

(IN €K)	JUNE 30, 2018	DECEMBER 31, 2017
Trade payables vis-à-vis third parties	23,509	27,656
Liabilities from the acquisition of tangible and intangible assets	9,561	4,634
Liabilities toward related persons and companies	101	127
Prepayments	73	62
Trade payables	**33,244**	**32,479**

Trade payables increase by a total of € 765K. This is due in particular to the increased volume of business.

16 OTHER LIABILITIES

(IN €K)	JUNE 30, 2018	DECEMBER 31, 2017
Non-current other liabilities	113	448
Current other liabilities	10,611	10,285
Other liabilities	**10,724**	**10,733**

The current other liabilities increased by € 326K over the previous year. This was chiefly the result of the increase from liabilities from funding projects in the amount of € 3,024K. In contrast, other tax liabilities were reduced by € 2,924K.

17 DECREASE / INCREASE IN FINISHED AND UNFINISHED GOODS

(IN €K)	PERIOD ENDED JUNE 30, 2018	PERIOD ENDED JUNE 30, 2017
Change in unfinished goods	2,105	280
Change in finished goods	930	-1,246
Decrease / increase in finished and unfinished goods	**3,035**	**-966**

The changes in finished and unfinished products cannot be reconciled directly with the changes seen in the consolidated balance sheet. This is due to the existing currency differences affecting these positions.

18 OTHER OPERATING INCOME

Other operating income contains the following positions:

(IN €K)	PERIOD ENDED JUNE 30, 2018	PERIOD ENDED JUNE 30, 2017
Subsidies and public grants	1,815	2,344
Income from rent and services billed to joint ventures	88	1,641
Reversal of provisions & deferred liabilities	207	247
Other	1,237	3,962
Other operating income	**3,347**	**8,194**

The reduction in the position "Other" is essentially the result of the capitalization of the reimbursement claim in the amount of € 3,629K in the previous year in connection with the agreement on the assumption of a joint debt obligation. The decrease in the position "Income from rent and services billed to joint ventures" in the amount of € 1,553K, as described in the consolidated accounts 2017 results from the discontinuation of the operative activity of the joint venture per December 31, 2017.

19 COST OF MATERIALS

(IN €K)	PERIOD ENDED JUNE 30, 2018	PERIOD ENDED JUNE 30, 2017
Costs of raw materials and supplies and purchased merchandise	46,558	42,529
Other costs of materials	3,128	2,245
Materials processing and refining by third parties	2,271	2,713
Other	510	579
Cost of materials	**52,467**	**48,066**

20 PERSONNEL COSTS

Personnel costs contain the following positions:

(IN €K)	PERIOD ENDED JUNE 30, 2018	PERIOD ENDED JUNE 30, 2017
Wages and salaries	38,094	33,531
Severance expenses	111	180
Costs for mandatory social security contributions	1,727	1,594
Pension costs	4,464	4,453
Other personnel costs	1,008	1,167
Total	**45,404**	**40,925**

The position "Wages and salaries" includes personnel costs from the share-based payment against the capital reserve in the amount of € 980K (June 30, 2017: € 0K).

The corporate group had 2,244 employees as per June 30, 2018 (June 30, 2017: 2,063). The increase of employees increased personal costs accordingly.

21 OTHER OPERATING COSTS

Other operating income contains the following positions:

(IN €K)	PERIOD ENDED JUNE 30, 2018	PERIOD ENDED JUNE 30, 2017
Rents, leasing and leases	2,399	2,404
Maintenance	2,134	1,743
Energy costs	1,671	1,661
Commissions	1,597	732
Outgoing freight and custom duties	1,488	1,073
Marketing, advertising and representation	1,304	1,485
Telephone, postage and EDP	1,000	860
Legal, testing and consulting costs	983	1,067
Travel expenses	954	899
Warranties	654	682
Licenses and patent fees	609	610
Engineering services and fees	493	493
Other distribution costs	324	318
Costs with related companies	303	29
Insurance	246	249
Cleaning costs	206	166
Training and continuing education costs	130	152
Contributions and fees	121	110
Customer credit insurance	111	113
Bank charges / monetary transaction fees	105	111
Remaining other operating costs	2,333	1,669
Other operating costs	**19,165**	**16,626**

22 INTEREST INCOME / LOSS

(IN €K)	PERIOD ENDED JUNE 30, 2018	PERIOD ENDED JUNE 30, 2017
Financial income	56	38
Financial expenses	-207	-498
Interest income / loss	**-151**	-460

With the initial public offering it was possible to totally refinance the **VARTA AG Group** at the end of 2017 and to thus significantly improve the interest income/loss.

23 NET FINANCIAL RESULT

The sundry financial income and sundry financial costs consist of the following items:

(IN €K)	PERIOD ENDED JUNE 30, 2018	PERIOD ENDED JUNE 30, 2017
Exchange rate gains	511	452
Sundry financial income	**511**	**452**
Exchange rate losses	-405	-877
Sundry financial expenses	**-405**	**-877**

24 RELATED PERSONS AND COMPANIES

The contractual relationships with related persons and companies stated in the 2017 report continue nearly unchanged.

In the first half year 2018, a short-term loan in the amount of € 50,000K was granted to an MTC company.
All transactions were subject to common market prices and terms.

25 RISK MANAGEMENT

The corporate group has identified the following risks within the financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Raw materials risk
- Currency risk
- Interest risk

No significant changes in risk management or risk management guidelines arose since the end of the year.

Categories of financial instruments
The following table shows book values of financial assets by categories: In the area of derivative financial instruments, book values may differ from fair values, in case of other financial instruments, the book value corresponds to the fair value.

(IN €K)	JUNE 30, 2018	STAGE 1	STAGE 2	STAGE 3
Financial instruments valued at the fair value with effect on the income statement				
Derivative financial instruments – assets	116	0	116	0
Derivative financial instruments – equity and liabilities	-410	0	-410	0
Total	**-294**	**0**	**-294**	**0**

(IN €K)	DEC. 31, 2017	STAGE 1	STAGE 2	STAGE 3
Financial instruments valued at the fair value with effect on the income statement				
Derivative financial instruments – assets	142	0	142	0
Derivative financial instruments – equity and liabilities	-178	0	-178	0
Total	**-36**	**0**	**-36**	**0**

(IN €K)	JUNE 30, 2018	DECEMBER 31, 2017
Derivative financial instruments	116	142
Derivative financial liabilities at fair value through profit or loss	**116**	**142**
Cash and cash equivalents	72,433	138,536
Loans	50,407	444
Trade receivables	26,699	20,103
Other assets*	24,911	23,031
Loans and accounts receivable	**174,450**	**182,114**
Total financial assets	**174,566**	**182,256**
Derivative financial instruments	410	178
Derivative financial liabilities at fair value through profit or loss	**410**	**178**
Other financial liabilities**	8,469	8,223
Trade payables***	33,171	32,417
Deferred liabilities****	9,497	8,072
Other liabilities*****	8,573	5,609
Valued at amortized costs	**59,710**	**54,321**
Total financial liabilities	**60,120**	**54,499**

* Without other tax claims € 1,332K (December 31, 2017: € 4,992K); prepaid expenses € 2,051K (December 31, 2017: € 684K) and without derivative financial instruments € 116K (December 31, 2017: € 142K)

** Without derivative financial instruments € 410K (December 31, 2017: € 178K)

*** Without prepayment received € 73K (December 31, 2017: € 62K);

**** Without deferred liabilities for employee benefits € 8,717K (December 31, 2017: € 8,501K)

***** Without deferred income € 11K (December 31, 2017: € 23K), other liabilities from taxes € 1,945K (December 31, 2017: € 4,869K) and in the context of social security € 195K (December 31, 2017: € 232K)

Per June 30, 2018, the **VARTA AG Group** records exclusively financial instruments from categories 2 and 3.

The loans increased in the first half year by € 49,963K, which essentially is based on the loan to an affiliated enterprise in the amount of € 50,004K (cf. Notes 24 “Related persons and companies”).

Calculation of fair value:
Material unobservable input factors and valuation adjustments are regularly reviewed by the **VARTA AG Group**. When determining the fair value of an asset or a liability the corporate group uses to the extent possible data that can be observed in the market. Based on the input factors used in the valuation techniques, the fair values are classified into different stages in the fair value hierarchy:

- *Stage 1*: listed prices (unadjusted) on active markets for identical assets and liabilities

- *Stage 2*: valuation parameters that are not listed prices considered in stage 1 but which can be observed for the asset or liability either directly (i.e. as price) or indirectly (i.e. as derivative prices)

- *Stage 3*: valuation parameters for assets or liabilities which are not based on observable market data.

If the input factors used for determining the fair value of an asset or liability can be classified into different stages of the fair value hierarchy, the valuation at the fair value is assigned as a whole to the stage of the fair value hierarchy which corresponds to the lowest input factor that is essential for the valuation overall.

On the closing date the corporate group showed only stage 2 and stage 3 financial instruments that are valued at the fair value. No new classifications and reclassifications between categories were performed in the first half year 2018.

26 EVENTS AFTER THE CLOSING DATE JUNE 30, 2018

The business activity of VW-VM Forschungsgesellschaft mbH & Co, KG discontinued pursuant to the joint venture agreement and shareholder resolution per December 31, 2017. Therefore, the shareholders resolved to liquidate VW-VM Forschungsgesellschaft mbH & Co,KG effective July 31, 2018. VW-VM Verwaltungs GmbH continues to exist.

27 REVIEW

The condensed interim consolidated financial statements as at 30 June 2018 and the interim Group management report were neither audited in accordance with section 317 of the German Commercial Code (HGB) nor reviewed by an auditor.

Ellwangen, August 28, 2018

VARTA Aktiengesellschaft

Herbert Schein   Steffen Munz   Dr. Michael Pistauer

Responsibility statement

We hereby confirm to the best of our knowledge that, in accordance with the applicable accounting principles for interim financial reporting, the consolidated semi-annual accounts provide a true and fair view of the assets, financial position, and result of the Group, and that the interim management report presents the business development including results of operations and the situation of the Group in a way that conveys a true picture, and that the major opportunities and risks of the probable development of the Group are described.

Ellwangen, August 28, 2018

VARTA Aktiengesellschaft

Herbert Schein Steffen Munz Dr. Michael Pistauer

Impressum

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