

Financial statements as at 31 Dezember 2017

VARTA Aktiengesellschaft
Ellwangen (Jagst)

VARTA Aktiengesellschaft, Ellwangen

Balance sheet per 12/31/2017

Assets

	12/31/2017		12/31/2016	
	K €	K €	K €	K €
A. Fixed assets				
I. Intangible assets				
Compensable concessions, industrial property rights and similar rights and assets, and licenses to such rights and assets		4.406		5.315
II. Tangible assets				
Other equipment, factory and office equipment		244		214
III. Long-term investments				
1. Shares in affiliated enterprises	30.100		30.089	
2. Loans to affiliated enterprises	23.968		-	
3. Equity interests	30		-	
4. Other loans	444	54.542	525	30.614
		59.192		36.143
B. Current assets				
I. Receivables and other assets				
1. Trade receivables		1		31
2. Claims against affiliated enterprises	29.741		15.991	
3. Other assets	4.861	34.603	2.435	18.457
II. Cash and cash equivalents		123.249		1.136
		157.852		19.592
C. Prepaid expenses		41		30
D. Deferred tax assets		1.331		1.413
Total assets		218.416		57.178

VARTA Aktiengesellschaft, Ellwangen

Balance sheet per 12/31/2017

Equity and Liabilities

	12/31/2017	12/31/2016
	K €	K €
A. Equity		
I. Subscribed capital	38.200	29.600
II. Capital reserve	142.590	689
III. Revenue reserves		
Other earnings reserves	6.811	6.811
IV. Retained earnings / Accumulated deficit	8.182	1.242
	195.783	38.342
B. Provisions		
1. Tax accruals	2.817	1.607
2. Other provisions	1.643	599
	4.460	2.206
C. Liabilities		
1. Liabilities to financial institutions	2	-
2. Trade payables	2.052	1.218
3. Liabilities to affiliate enterprises	12.276	11.732
4. Other liabilities	716	598
– of which from taxes 152K € (prev. yr. 50K €)		
	15.046	13.548
D. Deferred tax liabilities	3.127	3.082
Total equity and liabilities	218.416	57.178

VARTA Aktiengesellschaft, Ellwangen

Income statement for the fiscal year from January 1, 2017 to December 31, 2017

		2017		2016	
		K €	K €	K €	K €
1.	Revenue		850		25
2.	Other operating income		76		18
3.	Personnel expenses				
	a) Wages and salaries	-1.865		-527	
	b) Social charges and the cost of pension and other benefits	-52	-1.917	-15	-542
4.	Depreciation on intangible and tangible assets		-935		-378
5.	Other operating expenses		-10.895		-4.003
6.	Income from profit pooling agreements		28.583		13.171
7.	Interest and like income		594		496
	– of which to affiliated enterprises				
	558K € (prev. yr. 9K €) –				
8.	Cost from loss pooling agreements		-4.882		-2.375
9.	Interest and like expenses		-189		-18
	– of which to affiliated enterprises 172K € (prev. yr. 0K €) –				
10.	Taxes on profit or loss		-4.345		-2.958
11.	Result after taxes / Net surplus for the year		6.940		3.436
12.	Profit/loss brought forward from previous account		1.242		-2.194
13.	Retained earnings / Accumulated deficit		8.182		1.242

Notes of VARTA Aktiengesellschaft for the fiscal year 2017

(1) General

The annual financial statement of VARTA Aktiengesellschaft, Ellwangen, (VARTA AG) was prepared following the regulations of the HGB [*Commercial Code*] and the Stock Corporations Act (AktG) in thousand euros.

VARTA AG is registered with the Trade Register of the District Court Ulm (HRB 728059).

In principle, the valuation methods used in the preceding annual financial statement were maintained when assessing the value of the assets and liabilities shown in the annual financial statement.

The calendar year is also the fiscal year of the Company.

Individual items have been combined in the balance sheet and the income statement and explained separately in the Notes in order to facilitate comprehension of the presented numbers.

The income statement was prepared following the total cost method.

With the spin-off and takeover agreement between VARTA AG and VRT Pensionen GmbH, Dillingen/Saar, dated June 30, 2016 and its registration with the Trade Register on November 17, 2016 all pension obligations and the related pension assets were spun off from VARTA AG and recognized as profit/loss per January 1, 2016.

With the successful initial public offering VARTA AG has been active in the prime standard of the Frankfurt Stock Exchange since October 19, 2017. Because of its capital market orientation VARTA AG is considered to be a large stock corporation according to Sec. 267 para. 3 and Sec. 264d HGB.

The effects of the mentioned events are discussed in detail in the Notes to the individual items of the closing statement.

(2) Accounting policies

Intangible assets are valued at their acquisition costs less the scheduled straight-line depreciations. These are based on the normally expected useful life, which based on the projections is between 5 and 7 years.

Tangible assets are valued at their acquisition costs and, if subject to wear and tear, taking into consideration the scheduled depreciations. Depreciations are applied in a straight line according to the respective expected useful life. If movable fixed assets are added, an annual depreciation is applied pro rata temporis in the year of the acquisition starting with the month of the commissioning of the item. Low-cost tangible assets with acquisition or manufacturing costs of up to 150 € are recognized in the income statement as costs immediately.

Shares in affiliated enterprises, equity interests and long-term securities are valued in principle at their acquisition costs. Interest-bearing loans are shown in the balance sheet at their nominal values, interest-free or low interest-bearing loans are discounted to their cash value.

Non-scheduled depreciations are applied if it is expected that a permanently lower value must be attributed to the fixed assets according to these principles on the closing date.

Accounts receivable and other assets are valued at their nominal value less any write-downs for discernible individual risks. Interest-free or low interest-bearing accounts receivable maturing in more than one year are discounted.

Deferred tax assets and liabilities are recognized in accordance with Sec. 247 HGB on temporary differences between the tax and commercial value of assets and liabilities. In principle, deferred tax assets also take into account tax reduction claims from existing loss carryforwards and unused tax credits, provided positive taxable income is probable within the next 5 years.

Pursuant to Sec. 253 para. 2 HGB provisions maturing in more than one year are discounted. A uniform maturity-matched discount rate calculated and published by the German Federal Bank is used for the valuation of the provisions.

Other provisions are calculated in such a way that they take into account all discernible risks and contingent obligations. The provisions are shown at their discharge amount necessary under a reasonable commercial evaluation.

Liabilities are as a matter of principle recognized at their discharge amount.

The VARTA AG is the parent company of a registered tax group. A registered tax group for corporate, sales and trade tax purposes has existed with the following companies since July 1, 2016:

- VARTA Microbattery GmbH, Ellwangen (Germany)
- VARTA Storage GmbH, Nördlingen (Germany)

The taxes on profit or loss concern both current and deferred taxes. Current taxes include the taxes expected for the reporting year on the basis of the tax rates applicable in the respective year as well as any adjustments to taxes for the prior years.

The carrying amounts of the contingent liabilities correspond to the extent of the liabilities existing on the closing date.

(3) Foreign currency translation

Foreign currency claims and obligations are valued at their average exchange rates prevailing on the date of the transaction. Book losses from rate changes on the closing date are taken into consideration. In case of a maturity of one year or less the valuation takes place pursuant to Sec. 256a HGB at the average spot exchange rate on the closing date.

Notes to the balance sheet

(4) Fixed assets

Acquisition/manufacturing costs				
	Status per 1/1/2017	Additions	Disposals	Status per 12/31/2017
Intangible assets	5,669	0	0	5,669
- Other equipment, factory and office equipment	240	56	0	296
Tangible assets	239	56	0	296
- Shares in affiliated enterprises	30,089	11	0	30,100
- Loans to affiliated enterprises	0	23,968	0	23,968
- Equity interests	0	30	0	30
- Other loans	525	0	81	444
Long-term investments	30,614	24,009	81	54,542
Fixed assets	36,522	24,066	81	60,507

Accumulated depreciations					Book values	
	Status per 1/1/2017	Additions	Disposals	Status per 12/31/2017	Status per 12/31/2017	Status per 12/31/2016
Intangible assets	354	909	0	1,263	4,406	5,315
- Other equipment, factory and office equipment	25	26	0	51	244	214
Tangible assets	25	26	0	51	244	214
- Shares in affiliated enterprises	0	0	0	0	30,100	30,089
- Loans to affiliated enterprises	0	0	0	0	23,968	0
- Equity interests	0	0	0	0	30	0
- Other loans	0	0	0	0	444	525
Long-term investments	0	0	0	0	54,542	30,614
Fixed assets	379	935	0	1,314	59,192	36,143

In the previous year capitalized development costs were acquired from an affiliated enterprise and recognized under intangible assets. The corresponding license fees for their use are charged starting with the current fiscal year. A normal useful life between 5 and 7 years is used.

In the fiscal year 2017 shares in Auditas GmbH -25.1% - (Nördlingen, Germany) in the amount of 11K € and in CONNEXIO alternative investment holding AG -20% - (Vienna, Austria) were acquired for 30K €. Because of its existing statutory regulations, Auditas GmbH is shown as an affiliated enterprise.

With the initial public offering the financing function for the VARTA Group was switched from the MTC Group to VARTA AG in the reporting period. VARTA AG now grants loans to its subsidiaries or makes free liquid resources available to them. The resulting expenses and earnings are settled reciprocally as appropriate. Per December 31, 2017 there existed loans granted to VARTA Storage GmbH in the amount of 21,055K € (2016: 0K €) at an interest rate of 4% and to VARTA Microbattery SRL in the amount of 2,913K € (2016: 0K €), also at an interest rate of 4%.

**(5) Receivables
and other assets**

	2017 K €	2016 K €
Trade receivables	1	31
Claims against affiliated enterprises	29,741	13,176
Other short-term loans to affiliated enterprises	0	2,815
Other assets	4,861	2,434
	<u>34,603</u>	<u>18,456</u>

The claims against affiliated enterprises concern essentially claims in the amount of 28,583K € (2016: 13,171K €) from the profit pooling agreement signed with VARTA Microbattery GmbH.

At the end of the previous year there existed a short-term loan in the amount of 2,815K € granted to Montana Tech Components GmbH.

Other assets essentially concern tax refund claims. Of these, an amount of 4,696K € (2016: 1,533K €) is based on the registered sales tax group. The remainder is basically a tax claim in the amount of 88K € based on the registered income tax group.

All claims and other assets have a remaining term of up to one year, the same as the year before.

(6) Deferred tax assets

	2017 K €	2016 K €
Deferred tax assets per 1/1	1,413	0
Change	-82	1,413
Deferred tax assets per 12/31	<u>1,331</u>	<u>1,413</u>

Based on the registered income tax group, VARTA AG has deferred tax assets in the amount of 1,331K €. These are based on timing mismatches due to valuation differences between the amounts carried under the commercial code and under the fiscal code and concern essentially provisions. They are based on a tax rate of 29.04%.

(7) Subscribed capital With the successful stock exchange flotation on October 19, 2017 a total of 8,600,000 new shares were admitted to the trade, resulting in a subscribed capital amounting to 38,200K €. Until the date of the stock exchange flotation the subscribed capital was 29,600K €. The subscribed capital is divided into 38,200,000 shares. These are par value shares representing a prorated amount of the nominal capital of EUR 1.

(8) Capital reserve	2017	2016
	K €	K €
Capital reserve	<u>142,590</u>	<u>689</u>

The proceeds in the amount of 141,900K € earned from the share issue during the initial public offering were transferred to the capital reserve.

(9) Revenue reserves	2017	2016
	K €	K €
Legal reserve	<u>6,811</u>	<u>6,811</u>

(10) Retained earnings/ Accumulated deficit	2017	2016
	K €	K €
Retained earnings/accumulated deficit	<u>8,182</u>	<u>1,242</u>

(11) Provisions	2017	of which with a remaining term of up to 1 year	2016	of which with a remaining term of up to 1 year
	K €	K €	K €	K €
Tax accruals	2,817	2,817	1,607	1,607
Other provisions	1,643	1,642	599	585
	<u>4,460</u>	<u>1,642</u>	<u>2,206</u>	<u>585</u>

Other provisions concern essentially obligations for personnel costs in the amount of 737K € (2016: 212K €) and other risks in connection with the ongoing business activities. In addition, provisions in the amount of 497K € are formed in the current fiscal year for risks under the pensions spun off in 2016.

There are no other provisions with a remaining term of over one year.

(12) Liabilities	2017	of which with a remaining term of up to 1 year	2016	of which with a remaining term of up to 1 year
	K €	K €	K €	K €
Liabilities to financial institutions	2	2		
Trade payables	2,052	2,052	1,218	1,218
Liabilities to affiliated enterprises	12,276	12,276	11,732	11,732
<i>of which registered sales tax group</i>	4,666	1,225	1,225	1,225
<i>of which registered income tax group</i>	251	251	1,205	1,205
Other liabilities	716	152	598	50
	15,046	14,482	13,548	13,000

The liabilities to affiliated enterprises include essentially liabilities under a short-term loan taken out by VARTA Microbattery GmbH in the amount of 2,110K € (2016: 0K €) and trade payables to VARTA Microbattery GmbH in the amount of 43K € (2016: 113K €) as well as to Montana Tech Components AG in the amount of 71K € (2016: 0K €). In the previous year there were additional trade payables to VARTA Storage GmbH in the amount of 6,745K € and to ETV Beteiligungsgesellschaft mbH in the amount of 68K €.

Other liabilities to affiliated enterprises also include 4,882K € (2016: 2,375K €) from the profit pooling agreement with VARTA Storage GmbH.

The shown liabilities are not backed up by liens or similar rights.

There are no liabilities with a remaining term of more than 5 years. Other liabilities include liabilities to the Herbert Quandt Foundation

Herbert Quandt Foundation of VARTA AG	2017	of which with a remaining term of up to 1 year	2016	of which with a remaining term of up to 1 year
	K €	K €	K €	K €
	564	0	548	0

This concerns an interest-bearing loan at an interest rate of 3%. The loan has an unlimited term so that the remaining term is more than 5 years. The interest earned on the loan ensures the purpose of the foundation: the promotion of science and research as well as the training and continuing education of the next scientific, technical and commercial generation.

The shown liabilities are not backed up by liens or similar rights.

There are no liabilities with a remaining term of more than 5 years.

(13) Deferred tax liabilities	2017 K €	2016 K €
Deferred tax liabilities per 1/1	3,082	0
Change	45	3,082
Deferred tax liabilities per 12/31	3,127	3,082

Based on the registered income tax group VARTA AG has deferred tax liabilities in the amount of 3,127K €. These are based on timing mismatches as a result of valuation differences between the amounts carried under the commercial code and under the fiscal code and essentially concern intangible assets, tangible assets, long-term investments as well as a reserve set up in the tax balance sheet for the registered tax groups according to Sec. 6b EStG. A tax rate of 29.04% was used.

Notes to the income statement

(14) Revenue In fiscal 2017 the Group had sales in the amount of 850K € (2016: 25K €). These concern essentially pass-through charges to affiliated enterprises, in particular the license fees in the amount of 726K € paid to VARTA Storage GmbH.

(15) Personnel expenses	2017	2016
	K €	K €
Salaries	1,865	527
Social charges	52	15
	<u>1,917</u>	<u>542</u>

In fiscal 2017 there were three employees working at VARTA AG beside the Executive Committee. In the previous year VARTA AG did not hire employees until the second half of the year. The personnel costs in 2016 reflect therefore only the costs for the second half of the year.

(16) Other operating expenses	2017	2016
	K €	K €
Costs of the stock exchange flotation	8,116	0
Consulting and auditing fees	926	3,083
Advertising and public relations	599	394
Cost netting with affiliated enterprises	242	333
Compensation for the Board of Directors	178	88
Travel expenses	156	26
Remaining costs	678	78
	<u>10,895</u>	<u>4,002</u>

The remaining costs include expenses in the amount of 502K € not related to the reporting period. These essentially result from the reversion of other provisions.

(17) Net interest income /loss	2017	2016
	K €	K €
Other interest and similar income	36	487
Interest and similar income from affiliated enterprises	558	9
Interest and similar expenses	-17	-18
Interest and similar expenses paid to affiliated enterprises	-172	0
	<u>405</u>	<u>478</u>

**(18) Result from profit and
loss pooling
agreements**

	2017 K €	2016 K €
Income from profit pooling agreement of VARTA Microbattery GmbH	28,583	13,171
Cost from the loss transfer of VARTA Storage GmbH	-4,882	-2,375
	<u>23,701</u>	<u>10,796</u>

**(19) Taxes on profit
or loss**

	2017 T€	2016 T€
Actual tax expenses/income		
Current year	-3,484	-1,186
Tax expenses not related to the reporting period	-732	-104
	<u>-4,216</u>	<u>-1,290</u>

Other information

(20) Contingent liabilities 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 almost all legacy encumbrances typical for the industry. A buyer of all foreign and one domestic investment took over these risks as well as any risks arising in the future and will be holding VARTA AG harmless against these risks; however, the legal liability of VARTA AG continues in relation to outsiders. An enterprise affiliated with the buyer has hedged this indemnity additionally with a guarantee in the amount of 20 million € lasting until 2031. VARTA AG has evaluated these 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 buyer and of the guarantor or if these are not able to fulfill their contractual obligations.

On January 30, 2014 the general meeting of shareholders of VARTA AG decided to transfer the shares of the minority shareholders at that time to the majority shareholder, the Gopla Beteiligungsgesellschaft mbH (Gopla) against a cash compensation in the amount of EUR 4.51 per share. The amount of the compensation was based on an external appraisal. That squeeze-out became effective with the registration in the Trade Register on March 12, 2014. An additional 210,379 shares were transferred in this way to Gopla. The total compensation amounted to EUR 948,809.29. After the squeeze-out former minority shareholders mounted a legal challenge against Gopla - after the merger with VARTA AG against the latter - before the Regional Court Stuttgart. Per decision dated May 15, 2017 the Regional Court Stuttgart dismissed all motions. This decision was appealed by some claimants and their joint representatives. With the decision dated December 21, 2017 the Regional Court Stuttgart disallowed the appeal. The proceedings are now pending before the Higher Regional Court Stuttgart for a decision. No indication regarding the outcome or duration of the proceedings in the second instance can currently be given because the Higher Regional Court has so far not taken a position regarding the further course of the proceedings or regarding its contents. On the basis of the current judicial decisions no third-party action is likely.

(21) Other financial obligations

	2017	2016
	K €	K €
Obligations from rental and lease agreements		
Due 2018/2017	241	13
Due 2019-2023/2018-2022	0	70
	241	83

(22) Parent company

The subscribed capital of VARTA AG after the successful stock exchange flotation is held by ETV Montana Tech Holding GmbH at the rate of 1.55% and by VGG GmbH, Vienna, at the rate of 63.04%. The remaining 35.41% are held publicly. The ultimate parent company of the two main shareholders is Montana Tech Components AG in Reinach, Switzerland. The consolidated financial statement of Montana Tech Components AG can be retrieved from the website www.montanatechcomponents.com.

(23) Employees

During the fiscal year VARTA AG had 3 employees (salaried), the same as the year before.

(24) Total compensation of the Executive Committee and the Board of Directors

The total compensation of the Executive Committee in the fiscal year was 1,612K €. The members of the Board of Directors were paid expense allowances for the fiscal year 2017 in the total amount of 178K €. According to the resolution passed by the extraordinary general meeting of shareholders on October 6, 2017, the individualized information regarding the compensation of the members of the Executive Committee required under Sec. 285 sent. 1 no. 9 lit. a) clause 5 et seq. HGB and Sec. 314 para. 1 no. 6 lit. a) clause 5 et seq. is dispensed with.

The information regarding the compensation of the members of the Board of Directors for the year 2017 can be found in the compensation report in the consolidated management report of VARTA AG.

(25) Information according to Sec. 285 no. 11 HGB

Name	City	Country	Equity (in K €)	Result (in K €)	Shares in %
Direct shares					
VARTA Microbattery GmbH	Ellwangen	Germany	61,689	*0	100%
VARTA STORAGE GmbH	Nördlingen	Germany	0	*0	100%
Auditas GmbH	Nördlingen	Germany	165	-11	25.1%
Equity interests					
Connexio alternative investment holding AG	Vienna	Austria	0	-34	20%
Indirect shares					
VARTA Microbattery S.r.l.	Brasov	Romania	2,193**	1,168**	100%
VARTA Microbattery Pte. Ltd.	Singapore	Singapore	16,182***	3,899***	100%
VARTA Microbattery CO., Ltd.	Shanghai	China	10****	5****	100%
P.T. VARTA Microbattery	Batam	Indonesia	-7,435***	987***	100%
VARTA Microbattery Japan KK	Tokyo	Japan	497***	74***	100%
VARTA Microbattery Inc.	White Plains, NY	USA	5,276	31	100%
VW-VM Verwaltungsgesellschaft mbH	Ellwangen	Germany	33	8	50%
VW-VM Forschungsgesellschaft mbH & Co. KG	Ellwangen	Germany	3,447	0	50%
Auditas Inc.	Ridgefield	USA	138	9.74	25%
VARTA Micro Innovation GmbH	Vienna	Austria	0	0	17.74%

* The profit/loss for the year is transferred or must be assumed based on the existing result pooling agreement.

** Converted from RON to EUR: Average rate 4.5688 / closing date exchange rate 4.6585

*** Converted from USD to EUR: Average rate 1.1297 / closing date exchange rate 1.1993

**** Converted from CNY to EUR: Average rate 7.6290 / closing date exchange rate 7.8044

**(26) Fees of the auditor
pursuant to Sec. 285
no. 17 HGB**

	2017 K €	2016 K €
Audit services	332	259
Other confirmation or valuation services	325	180
Tax consulting services	252*	193
Others	0	372
	909	1,004

*of this amount, previous years amounted to 53K €

The audit services also include services related to the review of interim financial statements as of June 30, 2017. The other confirmation or valuation services almost exclusively include services in connection with the granting of the comfort letter. The tax consulting services relate to the preparation of corporate tax returns, consulting services in connection with the legal documentation requirements of transfer pricing and the tax assessment of individual items from the business activities of the company.

(27) Governing bodies

The Board of Directors and the Executive Committee have the following composition:

Members of the Board of Directors

DDr. Michael Tojner (Chairman)

CEO Montana Tech Components GmbH

Other mandates:

- Chairman of the Board of Directors of VARTA Microbattery GmbH
- Chairman of the Board of Directors of ASTA Energy Transmission Components GmbH
- Member of the Board of Directors of Universal Alloy Corporation USA
- Member of the Board of Directors of VW-VM Forschungsgesellschaft mbH & Co. KG
- Member of the Board of Directors of the VW-VM Verwaltungsgesellschaft mbH
- Chairman of the Governing Board of Montana Tech Components AG
- Chairman of the Governing Board of Montana AS Beteiligungs Holding AG

Dr. Harald Sommerer (Deputy Chairman)

CEO H.F.R.C. Private Trust

Other mandates:

- Member of the Board of Directors of Kapsch Traffic Com AG

Frank-Dieter Maier

Pensioner

Other mandates:

- Member of the Board of Directors of ASTA Elektrodraht GmbH & Co. KG
- Member of the Board of Directors of Vishay Intertechnology Inc.
- Member of the Advisory Board of Basic Lebensmittelhandel AG
- Member of the Advisory Board of Montana Tech Components AG

Sven Quandt

Business manager of S. Qu. Vermögensberatung GmbH & Co. KG

No other mandates:

Dr. Franz Guggenberger

Attorney-at-law and partner of the partnership Hasch & Partner

Other mandates:

- Member of the Board of Directors of the Housing Association of the Gewerkschaft Öffentlicher Dienst Gemeinnützige Gesellschaft m.b.H.

Dr. Georg Blumauer

Attorney-at-law, owner B-legal

Other mandates:

- Chairman of the Board of Directors of the WertInvest Entertainment und Veranstaltungen AG

Members of the Executive Committee

Herbert Schein (since April 14, 2016)
 Chairman of the Executive Committee / CEO
 Other mandates:
 - Member of the Board of Trustees of the Fraunhofer Institut für
 Produktionstechnik und Automatisierung IPA

Dr. Michael Pistauer (since April 14, 2016)
 CFO (until January 31, 2018)
 Director for M&A and Investor Relations (since February 1, 2018)
 Other mandates:
 - Member of the Board of Directors of Aluflexpack Novi d.o.o
 - Member of the Board of Directors of the Connexio alternative
 investment & holding AG
 - Member of the Governing Board of Alu Menziken Extrusion AG

Steffen Munz (since February 1, 2018)
 Director of Finance / CFO (since February 1, 2018)
 No other mandates

(28) Events after the closing date	In January 2018 the parent company VGG GmbH (Vienna) set up a stock option program for employees (MSOP) according to which the eligible employees of the VARTA AG Group, including the Executive Committee, are entitled to purchase common stock of VARTA AG. The basic vesting period is 4 years and the condition for its exercise is that the beneficiaries are in an ongoing employer-employee relationship with VARTA AG or an enterprise affiliated with it on the date the option is exercised.
(29) Proposal for the appropriation of the result	In fiscal year 2017 the Company earned a net income for the year in the amount of 6,940K €. It is proposed to carry the net income for the year forward to new account. Taking into consideration the profit brought forward of 1,242K € and the net income for the year of 6,940K €, the unappropriated surplus per 21/31/2017 is 9,026K €.
(30) Declaration in accordance with Sec. 161 AktG regarding the Corporate Governance Codex	On December 21, 2017 the Executive Committee and Board of Directors of VARTA AG issued the annual compliance statement regarding the German Corporate Governance Codex in accordance with Sec. 161 AktG and made it accessible permanently on the website www.varta-ag.com .

Ellwangen, April 9, 2018
 VARTA Aktiengesellschaft

The Executive Committee

Herbert Schein

Steffen Munz

Dr. Michael Pistauer

Consolidated Management Report for fiscal year 2017

VARTA Aktiengesellschaft, Ellwangen (Jagst)

This report combines the management reports of VARTA Aktiengesellschaft 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. The description below gives an overview of the corporate group (in simplified form) as of the closing date.

VARTA AG is an enterprise domiciled in Ellwangen, Jagst. The business activities of VARTA AG cover the development, production, sale, research and development of microbatteries and energy storage solutions.

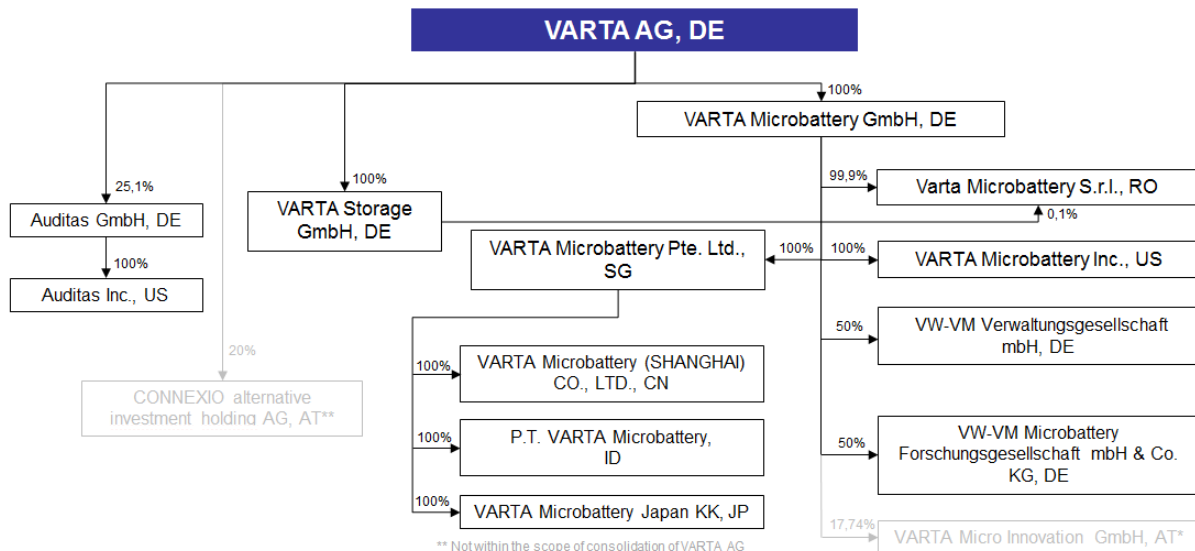
The business of the VARTA AG Group is subdivided into two business segments: **Microbatteries handled by VARTA Microbattery GmbH** and **Power & Energy handled by VARTA Storage GmbH**.

The group develops, produces and sells microbatteries and smart battery solutions for a variety of applications and end user markets. A comprehensive competence in materials research and development of various electro-chemical battery systems together with the know-how in process development and mass production are the basis of the corporate group for new and innovative products.

The Group operates five production and battery manufacturing plants in Germany, Romania, Indonesia and China as well as distribution centers in the United States, Europe and Asia which sell directly to customers in over 75 countries worldwide. As an enterprise with international operations VARTA AG has a proud history of 130 years.

The battery solutions of the group are strategic components for the products of end users who require high quality, reliability and performance. The focus is on battery systems with high energy densities for primary batteries and also rechargeable batteries using the lithium-ion technology. In case of semi-customized or fully customized battery solutions VARTA AG provides comprehensive advice and plans regarding the correct choice of components for the most efficient power supply of an application.

The enterprises operating in the various countries can be seen in the organization chart (shown below). Auditas GmbH including its US subsidiary has been fully consolidated since fiscal year 2017.



Segments and organizational structure

Microbatteries

The Microbatteries segment is controlled via VARTA Microbattery GmbH and is focused on the manufacture of microbatteries primarily for applications in the area of **Healthcare** and **Entertainment**. Here, the Company makes selective use of the most innovative technologies in order to produce the highest energy density in the smallest space. Depending on product and application, the Company relies hereby on the most modern technologies such as e.g. zinc air, lithium ions, silver oxide and nickel metal hydride for rechargeable and non-rechargeable battery solutions.

For applications in the **Healthcare** area the Company manufactures primarily zinc-air batteries for hearing aid devices. These are marketed under the trademarks "powerone" and "ecopack" as well as under the clients' house brands. The success in hearing aid batteries is based on the innovative strength, reliability and long life as well as the consistency of our quality. Our market position is safeguarded by our own factory automation processes and the ability to provide services to our clients ranging from the product itself to POS material.

For the **Entertainment** area the Company manufactures above all high-end lithium-ion battery solutions for wireless premium headphones (**hearables**) and for other so-called "wearable" application areas. This includes among other things applications in the growing end user markets for electrical appliances such as Bluetooth headsets and medical devices for measuring hypertension, blood sugar and bodily functions.

In the **Industrial** product group the Company manufactures mainly rechargeable battery solutions for industrial and original equipment manufacturers (OEMs). These include for example uses such as server applications in car keys, alarm systems or smart meters.

Power& Energy

In the **Power & Energy** segment managed by VARTA Storage GmbH, the latter develops, produces and sells mobile and stationary energy storage solutions. This segment is focused on the development, system integration and assembly of accumulator batteries (power pack solutions) for OEM clients in the various markets. For this purpose mainly batteries based on the lithium-ion technology are used.

The Company manufactures not only rechargeable standardized but also customized battery packs. These can be integrated seamlessly into various industrial and wireless applications. Irrespective of the technology or the complexity of the task, the Company offers to OEM clients complete services from design to production. This segment is concentrated on solutions for portable industrial applications, communications devices, electric power tools, home & garden applications and medical devices.

This segment also develops and produces energy storage devices for private households and commercial applications. The energy storage devices are characterized by their high quality and reliability. The product portfolio has a modular design so that every end user can find the correct energy storage device for the requirements at hand, from compact, handy and complete beginner systems to mass storage solutions for industrial facilities.

1.2 Strategy and goals

The VARTA AG Group lays out its goals and strategies in the framework of the annual budgetary plan. With both segments the Group is ideally positioned to take advantage of the relevant growth trends in both business areas such as demographic change, technological advances, greater connectivity (Internet of Things) and renewable energies (growing awareness for the ability to recycle materials).

Demographic change

Not only the increased life expectancy but also the greater customer acceptance due to the advances in hearing aid technology leads to a rising demand for hearing aid batteries. VARTA Microbattery serves this market with zinc-air and rechargeable cells.

Technological advances

The unabated trend toward cordless devices in all areas increases the demand for reliable, mostly rechargeable energy solutions of high quality. At the same time there is also a trend toward smaller devices with better functionalities, resulting in the need for batteries with higher energy densities.

Connectivity

The progress in connectivity and convergence through the Internet of Things, future developments in the telecommunications area and the spread of intelligent solutions drive the demand for batteries in the most varied industries such as for instance IT, telecommunications and health services.

Renewable energies

The growing importance of renewable energy, energy efficiency, independence from fossil fuels and the EU climate objectives mean sustained growth rates in the intermediate energy storage area.

In this area the VARTA AG Group focuses on the following growth fields and objectives:

Strengthening and developing the global market position in core products

The Group is focusing primarily on business fields in which it strives for long-term leading positions in the market.

We plan to strengthen and develop our leading position in the healthcare market by further innovations. As in the healthcare market, the Group would like to achieve a leadership position in particular also in the market for true wireless headsets and benefit more than proportionally from the strong market growth.

The focus in terms of mobile energy solutions in the Power & Energy segment is on strong growth through the acquisition of new clients. In this context the Group focuses on top clients with worldwide operations. The plan is to increase our market share in particular in Europe and to take a leading position among European manufacturers. Our accumulator batteries for intermediate energy storage benefit from trends toward sustainability, growing environmental awareness and rising demand for energy self-sufficiency. The objectives as defined here are an above-average growth in select markets and the steady expansion of the regions in which we work.

Leadership in innovation and technology

In particular in the Microbatteries segment the Group works on new and innovative products manufactured on fully automated high-speed production lines in Germany. VARTA Microbattery delivers solutions that offer the best combination of quality, innovation, technology and costs. In the Microbatteries segment the Company covers the entire value-creation chain from materials research to the finished product, including customer-friendly packaging concepts. Furthermore, the Group expanded its production capacities in Romania during the past fiscal year because of the growing demand.

Our strong market position, combined with internal research and development activities as well as long-term customer relations, gives the Group a clear competitive edge and allows it to benefit from the ongoing growth trends in the markets for microbatteries in the health, entertainment and industrial sectors. The Group aims to supply the highest-quality batteries and battery solutions to its clients and will continue to work on developing new high-performance button cell technologies and individual smart battery solutions.

Focus on profitable growth based on a strong financial profile

The Group intends to take advantage of further opportunities for growth through internal investments by extending production capacities and through selective acquisitions. The Group assumes that its strong financial basis combined with its low debt ratio, working capital management and focus on high-growth investments will further increase the cash flow capacity of the Group.

1.3 Control of the Company

The VARTA AG Group is managed on the basis of internally defined financial and non-financial indexes in the sense of a sustainable capital appreciation. The Executive Committee has reviewed and updated its internal control mechanisms in the reporting year and revised them for external reporting in the context of the stock market flotation. The following indexes were used for control purposes in last year's financial statement and projected out: sales, EBIT and net working capital. With the accelerated growth of the VARTA AG Group the Executive Committee now uses the adjusted

EBITDA as a control instead of the EBIT so as to be able to evaluate the operating performance in spite of the rising investments into tangible assets and the resulting depreciation.

The internal control system of the VARTA AG Group is constantly optimized and adjusted promptly to new demands. The management control system was adjusted in connection with the expansion of the Executive Committee and against the background of the increasing size of the Company. The management control system is also the basis for the external reporting of VARTA AG and is monitored by the Board of Directors in the context of its control function.

Important financial and non-financial indexes

The growth in **sales revenue** (at constant exchange rates) is one of the most important indicators reflecting the growth of the VARTA AG Group. It is also the most important index for managing the corporate group. Sales are broken down into the individual segments, areas and product groups and/or clients in the context of the budgeting process and are constantly monitored.

The **adjusted EBITDA** (earnings before interest, taxes, depreciations and amortizations adjusted for special effects) represents an effective earnings picture of the Group. At the same time the adjusted EBITDA is a suitable control variable for the Executive Committee to evaluate the operating earnings capacity of the Group and/or the two segments.

Special effects in fiscal year 2017 are due mainly to the expenses incurred in connection with the last stock exchange flotation (Costs for initial public offering), the earnings-impacting reimbursement claim from an assumption of debt in connection with the pension obligations as well as a share-based remuneration triggered by the stock exchange flotation. This special effects are fundamentally about (as applicable) disposal effects as of sale and lease-back transactions, costs for initial public offering, possible restructuring costs, expenses for M&A transactions as well as share-based remuneration elements.

The Executive Committee monitors the investments necessitated by the large demand for the products of the Group (**via the CAPEX**). This refers to the monies disbursed for the purchase of intangible and tangible assets. In this context the Executive Committee reviews the effective capital allocation on the basis of the returns on invested capital. The CAPEX is used as a control variable only at the level of the VARTA AG Group. This covers investments without M&A transactions.

Net working capital (inventories plus trade receivables less trade payables) is also used as an important control variable. The net working capital is used as a control variable only at the level of the VARTA AG Group.

Due to the continued growth of the Group, the changes in the **number of employees at the Group level** are also an important financial performance indicator.

Separate non-financial Group report

Further information about the non-financial indicators, our **corporate social responsibility and the non-financial Group statement** can be found on our website www.varta-ag.com/corporate-social-responsibility at the latest four months after the closing date of the consolidated financial statement.

1.4 Management and control

As of December 31, 2017 the Executive Committee of VARTA AG, Ellwangen (Jagst), consisted of two members: Herbert Schein (CEO) and Dr. Michael Pistauer (CFO). In order to accommodate the growing business volume the Executive Committee was expanded on February 1st with the appointment of Mr. Steffen Munz. Since February 1, 2018 the Executive Committee of VARTA AG, Ellwangen (Jagst), has thus consisted of three members: Mr. Herbert Schein (Chairman of the Executive Committee/CEO), Mr. Steffen Munz (Director of Finance / CFO) and Dr. Michael Pistauer (Director for M&A and Investor Relations). The members of the Executive Committee have the joint responsibility for the management of the Company.

The Board of Directors per December 31, 2017 consisted of the following members: DDr. Michael Tojner (Chairman), Dr. Harald Sommerer (Deputy Chairman), Mr. Frank Dieter Maier, Mr. Sven Quandt, Dr. Georg Blumauer and Dr. Franz Guggenberger.

Declaration regarding the management of the Company

A more detailed explanation about the cooperation between the Executive Committee and the Board of Directors and about further standards of management and control can be found in the declaration regarding the management of the Company pursuant to Sec. 289 HGB, which contains also the compliance statement pursuant to Sec. 161 AktG to the German Corporate Governance Codex (DCGK). Besides, the Executive Committee of VARTA AG and the Board of Directors of VARTA AG publish annually a joint Corporate Governance Report pursuant to Point 3.10 DCGK. All documents are published on the website of VARTA AG (www.varta-ag-com/investor-relations).

2 Economic report

2.1 Markets and influencing factors

The VARTA AG Group produces and sells batteries worldwide and benefits from a positive consumer environment in spite of the relative independence from the macro-economic environment. A negative development of the macro-economic environment does not have a direct negative effect on the business model as most of our products are independent from the economic cycle. They are used e.g. in medical environments.

Sales are highly diversified geographically. The majority of our products are sold in Europe (see regional sales distribution Section 2.3). Outside of Europe the other important markets are Asia and North America. Thus the dependence on individual countries and their economic development is relatively small. The euro area plays the biggest role in terms of sales and customer structure.

The overall economic conditions existing in the countries relevant for the VARTA Group in 2017 can therefore be regarded as positive and stable.

What matters for the sale of batteries for healthcare applications are the demographic developments, for the sale of batteries for entertainment applications the trends in entertainment electronics and for products in the Power & Energy segment the trend to wireless products and the trend toward renewable energies.

2.2 Overall economic and industry-related conditions

The sale of hearing aid batteries is due to the rising life expectancies of people in all societies and the greater acceptance of hearing aids. In the relevant markets Europe, Asia and North America the assumption is that the older generations will represent an ever larger share of the population. According to the latest studies of the US Census Bureau, 8.5% of the world population or 616 million people are older than 65 years. In Europe the percentage is about 17.4%, in North America about 15.1% and in Asia about 7.9%. It is expected that by 2050 1.6 billion people or 16.7% of the world population will be older than 65 years. The regional breakdown will likely be 27.6% in Europe, 22.5% in North America and 18.9% in Asia.

In the Entertainment area the sales growth is characterized by new applications in consumer electronics. The more wireless devices are developed, in particular for micro-applications (such as headsets), the stronger the position of the VARTA AG Group. This trend has also positive effects on the Power & Energy segment.

According to WiFore Consulting (2015), so-called hearables are expected to grow until 2020 at a growth rate of over 40%, driven by the trend toward interconnectivity. According to WiFore Consulting, the hearables market in particular will chalk up tremendous growth rates in addition to smart watches, fashion and medical products.

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

2.3 Business trends

General information about the economic situation as seen by the Executive Committee

Fiscal 2017 was a very successful year for VARTA AG,. The outstanding events of the year 2017 are the great demand for zinc-air batteries for hearing aids and lithium-ion batteries for wireless lifestyle products, the demand-driven extension of the production capacities in the area of microbatteries, the very successful development of stationary energy storage devices as well as the successful IPO in the fall of 2017.

Overall, the fiscal year 2017 unfolded as expected by the Management.

Comparison of the business development with the most recent projections

In last year's consolidated financial statement the projections for 2017 were shown on the basis of the indexes listed below. Overall, the expectation was for a continued positive business development in 2017. The VARTA AG Group fulfilled these expectations and then some.

Indicator	Projection for 2017	FY 2017
<u>Financial indicators</u>		
Sales revenue	Significant sales growth	Significant sales growth
EBIT	Very significant increase	Very significant increase
Net working capital	Stable working capital	Stable in relation to sales Absolut increased moderately
Liquidity situation	Positive free cash flow	Positive free cash flow
<u>Non-financial indicators</u>		
Number of employees	On average stable	Slight increase because of increased output

The new result control variable "Adjusted EBITDA" has also risen significantly.

Changes in the corporate group

The year 2017 was above all characterized by the large demand for hearing aid batteries and lithium-ion button cells. In particular the business in Germany and Asia showed a favorable development. In this context we should note above all the buildup of the position as market leader in Germany as well as the positive changes experienced by the clients with production in Asia. Further information about the geographical distribution of the segments can be found in Section 6 of the Notes to the Consolidated Accounts "Segment report".

	2017	2016	
(in K €)	Sales revenue	Sales revenue	Change in percent
Europe	118,686	103,002	15.2%
Asia	63,394	54,266	16.8%
North America	55,811	52,462	6.4%
Other	4,266	4,085	4.4%
Total corporate group	242,157	213,815	13.3%

The US Dollar (USD) is the material foreign currency of the VARTA AG Group. The changes in the US Dollar exchange rate are relevant for invoicing sales and for purchasing raw materials and components. In principle a revaluation of the USD in relation to the euro has a negative effect because the negative profit contribution from the sales in USD is higher than the positive profit contribution from the purchases in USD. The revaluation of the US Dollar in relation to the euro in 2017 had therefore an overall negative effect on the results when compared to the previous year.

3 Changes in the asset, financial and earnings situation

3.1 Earnings situation

Consolidated income statement for the year ended 2017

(in K €)	<i>Special effects</i>	2017	<i>Special effects</i>	2016
Revenue		242,157		213,815
Decrease/increase in finished and unfinished products		3,145		-11,276
Own expense capitalized		3,517		3,400
Other operating income		14,472		7,970
Cost of materials		-99,928		-78,538
Personnel costs		-86,047		-76,706
Other operating costs		-44,227		-34,898
EBITDA		33,089		23,767
Costs of the initial public offering	6,115		2,332	
Reimbursement claims from pensions	-3,629		0	
Costs of share-based remuneration	3,557		0	
Adjusted EBITDA	39,132		26,099	
Depreciation		-9,446		-8,922
Operating result (EBIT)		23,643		14,845
Financial income		63		132
Financial expenses		-783		-1,811
Other financial income		687		955
Other financial expenses		-889		-522
Financial result		-922		-1,246
Share in the profit and loss of enterprises accounted for under the equity method, after taxes		-1,696		-1,526
Result before taxes		21,025		12,073
Income tax expenses		-7,481		-2,663
Consolidated result		13,544		9,410
Appropriation of profit:				
Shareholders of VARTA AG		13,268		9,410
Non-controlling shares		276		0

Sales

Sales of the VARTA AG Group in the fiscal year 2017 rose by 13.3% from 213.8 million € to 242.2 million €. Both segments, Microbatteries and Power & Energy, grew significantly in comparison to the previous year.

The Microbatteries segment jumped by 14.8% from 177.4 million € to 203.6 million €. The increase in turnover is above all the result of the higher sales of zinc-air microbatteries for hearing aids. The

Group has strengthened its position as market leader in the structurally growing market for hearing aid batteries. Besides, in the Microbatteries segment the high demand for wireless entertainment products such as headsets and other wearables showed up in significant increase in the sale of rechargeable lithium-ion batteries.

Sales revenue in the Power & Energy segment rose from 34.6 million € to 37.7 million €, equal to 8.8%. The volume-related sales growth is due in particular to the very successful development of stationary energy-storage systems. This is reflected above all in the increase of the market share in the DACH [*Germany, Austria, Switzerland*] region, the entry into the Italian market and the introduction of the wall storage solution "VARTA pulse" for private households.

Costs and other operating income

The cost of materials in the reporting year was 99.9 million € compared with 78.5 million € the year before, corresponding to an increase of 27.3%. This increase, which is proportionally larger than the sales increase, is due mainly to the rising prices for metal-based raw materials and purchased components. Both segments were affected.

Personnel costs rose from 76.7 million € to 86.0 million € or 12.2%, with the number of employees (FTE) climbing from 2,036 to 2,112, thus proportionally less than sales. This is primarily due to the scaling of the business model and to an increase in employee productivity in the Microbatteries segment. Apart from the union-dependent increases in personnel costs the group invested selectively in the growth areas such as lithium-ion batteries, the Power & Energy segment as well as the production site in Brasov/Romania in order to be able to serve the large market demand in the future. The personnel costs include as special effect the share-based remuneration in the amount of 3.6 million € that was charged against the capital reserve and triggered by the stock exchange flotation.

Other operating costs rose from 34.9 million € to 44.2 million €. This is primarily a growth-related increase due to higher exit freights and tariffs, commissions as well as other operating costs. In addition, other operating costs also include the costs of the stock exchange flotation (IPO costs) in the amount of € 6.1 million, which are be classified as a special effect.

Other operating income jumped from 48.0 million € in 2016 to 14.5 million € in 2017. This increase is mainly due to a reimbursement claim from the earnings-impacting assumption of a joint debt obligation for pensions, which also must be understood as a special effect (for further details reference is made to the Chapter "Pensions" in the Notes to the Consolidated Financial Statement).

Adjusted EBITDA

The adjusted EBITDA in fiscal 2017 jumped from 26.1 million € to 39.1 million €. This corresponds to a growth rate of 49.9% in comparison to the previous year.

The increase in the adjusted EBITDA can be attributed above all to the profitable sales growth in hearing aid batteries and lithium-ion cells and the simultaneous lower than proportional increase in costs due to the scaling of the business model.

The special effects shown in the balance sheet reflect the costs of the initial public offering in the amount of 6.1 million €, a reimbursement claim from the earnings-impacting assumption of a joint debt obligation for pensions in the amount of 3.6 million € and the personnel costs in the amount of 3.6 million € due to the share-based remuneration triggered by the stock exchange flotation.

Operating result (EBIT)

The operating result improved from 14.8 million € to 23.6 million €, equal to an increase of 59.3% in comparison with the previous year. Apart from the increase of the EBITDA, the less than proportional

increase in depreciations resulted in a very significant improvement of the operating result. Depreciations increased from 8.9 million € in 2016 to 9.4 million € in 2017, which is due primarily to the demand-driven investments in tangible assets because of the expansion of the production capacities.

Financial result

The financial result improved in the reporting year from -1.2 million € in 2016 to -0.9 million € in 2017. This is due to the significant decrease in interest expenses from 1.8 million € in 2016 to 0.8 million € because of the restructuring of the financing within the VARTA AG Group as well as the repayment of financing in the course of the initial public offering (further details can be found in the Chapter regarding the asset and financial situation).

Taxes

In 2016 the tax structure of VARTA AG was optimized and a registered income tax group was formed. The creation of this tax group made it possible in 2016 to offset losses in other areas and periods. The effective tax rate came to 22.1% in 2016. The tax expenses rose in 2017 due to the increase in the result before taxes from 2.7 million € in 2016 to 7.5 million € in 2017. This corresponds to an effective tax rate of 35.6%.

Consolidated result

The significant sales growth in both segments in connection with the less than proportional increase in costs due to the scaling of the business model also had a positive effect on the consolidated result in spite of the special effects. The profit for the year rose from 9.4 million € in 2016 to 13.5 million € in 2017 or 43.6% compared

to the year before, in spite of the special effects from the stock exchange flotation.

3.2 Asset and financial situation

Consolidated balance sheet per December 31, 2017

(in K €)	December 31, 2017	December 31, 2016
ASSETS		
Non-current assets	105,258	81,640
Current assets	226,222	83,288
Total assets	331,480	164,928
(in K €)	December 31, 2017	December 31, 2016
EQUITY AND LIABILITIES		
Equity	230,452	65,291
Non-current liabilities	29,423	44,585
Current Liabilities	71,605	55,052
Total liabilities	101,028	99,637
Total equity and liabilities	331,480	164,928

The VARTA AG Group improved its capital structure considerably by the initial public offering floated in 2017. The capital ratio increased thereby significantly. Thus the financial conditions are right for the Group to finance the expansion of the production capacities made necessary by the large product demand out of its own funds.

Non-current assets

The non-current assets increased by 23.6 million € from 81.6 million € in 2016 to 105.3 million € in 2017. This increase is the result, on the one hand, of the increase in tangible assets of 52.0 million € to 63.4 million € in 2017. The production capacities were expanded as a result of the large demand in particular in lithium-ion button cells and in zinc-air batteries.

On the other hand other assets rose to 15.8 million €. This increase is due to the assumption of a joint debt obligation concerning pensions. In 2017 an agreement was signed with a co-obligor in which the latter undertook to take over pension obligations against valuable consideration in the context of an assumption of a joint debt obligation with performance subrogation. The other assets include the remaining reimbursement claim backed by an expert appraisal per December 31, 2017.

Regarding the further details about the assumption of a joint debt obligation reference is made to the Chapter "Pensions" in the Notes to the Consolidated Financial Statement.

Current assets

Current assets jumped by 142.9 million € from 83.3 million € in 2016 to 226.2 million € in 2017. This is mainly due to the increase in cash and cash equivalents from 12.3 million € in 2016 to 138.5 million €. The initial public offering resulted in a net liquidity inflow of 146.7 million €.

Financing structure

VARTA AG improved its capital structure in the reporting year significantly. This is due in particular to the initial public offering floated in the previous fiscal year.

Equity/capital ratio

Equity rose from 65.3 million € in 2016 to 230.5 million € in 2017. With the initial public offering floated in the fiscal year, the capital reserve rose from 2.7 million € to 146.7 million €. The capital ratio jumped from 39.6% to 69.5%. The results achieved in the fiscal year also contributed to this ratio, the offsetting of the costs of the initial public offering in the amount of 1.4 million € has the opposite effect.

Non-current liabilities

The non-current liabilities dropped from 44.6 million € in 2016 to 29.4 million €. The decrease is mainly the result of the restructuring of financing within the VARTA AG Group. In the spring of 2017 VARTA AG assumed the financing function for the VARTA AG Group. In this context the existing financing of the operating subsidiaries was paid back. Subsequently VARTA AG made loans to the various subsidiaries. In the course of the stock exchange flotation the Montana Tech Components Group repaid the financing resources associated with the flotation (regarding further details reference is made to the Chapter "Other financial liabilities" in the Notes to the Consolidated Financial Statement).

Current liabilities

The current liabilities increased from 55.1 million € to 71.6 million €, above all as a result of the increase in trade payables in combination with the rising business volume.

Net working capital

The net working capital rose by 5.2 million € from 36.2 million € in 2016 to 41.4 million. € in 2017. This corresponds to an increase of 14.3% in comparison to the previous year. The increase is due to volume-related higher accounts receivable and inventories while liabilities rose less than proportionally. Net working capital grew in tandem with sales.

This gives a net working capital ratio of 17.1% in relation to sales.

Further details about the financial situation can be found in the Notes to the Consolidated Financial Statement.

Cash flow statement

(in K €)	2017	2016
Cash and cash equivalents per 1/1/2017	12,347	10,945
Cash Flow from ongoing business activities	18,503	24,153
Cash Flow from investment activities	-13,426	-21,613
Cash Flow from financing activities	121,577	-1,210
Net change in cash and cash equivalents	126,654	1,330
Effects of exchange rate fluctuations	-465	72
Cash and cash equivalents per December 31, 2017	138,536	12,347

The cash flow from ongoing business activities in the reporting year amounts to 18.5 million € and is therefore 2.4 million € below last year's number. The reduction is mainly due to the result of the nearly identical inflow of cash from ongoing business activities, the non-cash changes in the reimbursement claim from the debt contribution, the non-cash effect of the costs of share-based payment and due to the higher income taxes paid.

The cash flow from investment activities decreased from 21.6 million € in 2016 to 13.4 million € in 2017. This is mainly the result of a decline in the monies disbursed for the purchase of intangible and tangible assets in the amount of to 5.5 million €. In the previous year there was an extraordinary payment of 10.9 million € in resolution of certain IP rights issues. Once adjusted for these extraordinary payments, the monies disbursed for the purchase of intangible and tangible assets rose by 5.4 million € as a result of demand-driven expansion of the production capacities.

The cash flow from financing activities in the reporting year was 121.6 million € compared with -1.2 million € the year before. The proceeds from the initial public offering in amount of 150.5 million € in 2017 and the charged costs in amount of 1.5 million € affected this number substantially. In addition, the payments from the debt contribution to the pension obligations in the amount of 11.2 million € are included.

The above resulted in an inventory of cash and cash equivalents per December 31, 2017 in the amount of 138.5 million € compared with 12.3 million € per December 31, 2016.

4 Research and development

The VARTA AG Group spent 12.3 million € (prev. yr. 10.8 million €) on research and development in fiscal year 2016 (should be 2017?). This gives an R&D expense ratio of 5.1% of sales compared with 5.4% in the previous year.

Microbatteries segment

The orientation of the corporate group toward technological leadership was characterized by the focused further development of the know-how in the area of zinc-air batteries for hearing aids ("Healthcare" product group) and rechargeable lithium-ion button cells, the so-called coin power batteries in the product group "Entertainment and Industrial". The emphasis was on the further increase of the capacity numbers, the evaluation and qualification of new materials for the coin power batteries, the future development of mercury-free zinc-air batteries, the use of less expensive raw materials and the development of more efficient manufacturing methods. Development of a new version of the lithium-ion cells with a higher capacity was initiated for rechargeable hearing aids.

The research and the development costs for the Microbatteries segment totaled 9.6 million € for the period from January to December 2017 (prev. yr. 8.4 million €). This resulted in an R&D expense ratio of 4.7% of sales (prev. yr. 4.7%). The depreciation of capitalized development costs in the past fiscal year 2017 was 0.6 million €. The capitalization ratio is 8.3% (prev. yr. 15.5%). In the area microbatteries this concerned above all the development of smaller and more efficient button cells.

Power & Energy segment

The strengthening of the position in the market for lithium-ion home storage solutions was characterized by the further development of the product portfolio. The focus in this area was on the market introduction of the product series VARTA Pulse in the DACH region. Parallel to this development, the element series was complemented by a version with 13 KW/H. Also, it is now possible for all product series (VARTA One, VARTA element, VARTA pulse) to link up to five systems to an overall system and to multiply thereby the energy and performance. In order to prepare the

product series VARTA Pulse for the markets Italy and Australia, the respective country-specific network connection guidelines and an external network interface were implemented during the reporting period.

At 2.7 million €, the research and the development costs in the Power & Energy segment in fiscal 2017 were slightly higher than the year before (prev. year 2.4 million €), resulting in an R&D expense ratio of 7.1% of sales (prev. year 6.9%). The depreciation of capitalized development costs in 2017 was 0.2 million € (prev. year 0.5 million €). The capitalization ratio is 51.9% (prev. year 70.8%). This concerns primarily changes in the product & production processes for flexible mass storages devices as well as the development of various storage systems in the residential area.

5 Investments without M&A (CAPEX)

Investments in intangible and tangible assets are called CAPEX in the corporate group. This is an important control variable for growth companies in the production area.

Investments totaled 17.0 million € compared with 22.5 million € in the previous year. Of this amount investments in tangible assets made up 19.2 million € (prev. yr.: 12.5 million €) and investments in intangible assets made up 2.2 million € (prev. yr.: 2.4 million €). The investments include 3.5 million € of development costs. In addition, 0.8 million € of the liabilities from fixed assets were paid in the current financial year. In case of the monies disbursed for the purchase of tangible and intangible assets, which are for consideration, essentially relate to IP rights in the previous year.

The major portion of the investments in tangible assets served the purpose of expanding the demand-driven expansion of the production capacities in lithium-ion button cells as well as in 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 The earnings situation of the segments

The segment information of the VARTA AG Group is published on the basis of the report of the Management regarding the Microbatteries and Power & Energy segments.

Microbatteries	2017	Changes from the previous year (%)	2016
Sales revenue (million €)	203.6	14.8	177.4
EBITDA (million €)	43.7	29.7	33.7
EBITDA margin in %	21.5		19.0

Sales in the Microbatteries segment in the fiscal year 2017 rose from 177.4 million € to 203.6 million €. This corresponds to a sales growth of 14.8% in comparison to the previous year. The sales growth is above all the result of the growth in zinc-air batteries for the hearing aid market. The Group's position as market leader in the structurally growing market for hearing aid batteries was strengthened. Also, the great demand for wireless entertainment products such as headsets and other wearables showed

up in a significant sales increase for rechargeable lithium-ion batteries. The EBITDA rose from 33.7 million € to 43.7 million €, equal to an increase of 29.7%. The increased profit is due the profitable sales growth and the less than proportional rise in costs due to the scaling of our business model. This resulted in an EBITDA margin of 21.5% of sales compared to 19.0% in 2016.

Power & Energy	2017	Changes from the previous year (%)	2016
Sales revenue (million €)	37.7	9.0	34.6
Adjusted EBITDA (million €)	-4.4	12.8	-3.9
Adjusted EBITDA margin in %	-11.7		-11.3

In the Power & Energy segment sales rose from 34.6 million € to 37.7 million €, corresponding to a sales growth of 9.0%. This increase in sales is due above all to the very successful development of stationary energy storage solutions for private households. The EBITDA showed a negative development, dropping by 12.8%, from -3.9 million € in 2016 to -4.4 million € in 2017. The year 2017 was above all characterized by some upfront costs for customized projects. The EBITDA depends greatly on the implementation of customized projects for battery packs. For many projects the development phase with the clients has been completed, giving rise to expectation regarding added sales revenue in the next few years. The continued expansion of the production capacities mainly due to battery packs also affected the EBITDA, resulting in an EBITDA margin of -11.7% compared to -11.3% in the previous year.

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

7. Information about VARTA AG

The management report of VARTA AG and the consolidated management report for the fiscal year 2017 are combined pursuant to §315 para. 3 HGB in conjunction with §298 para. 3 HGB. The annual financial statement and the management report of the Company and the corporate group are published simultaneously in the Federal Gazette.

Description of the Company

VARTA AG is a holding company that exercises the exclusive control over the corporate group and the two operating subsidiaries. The following numbers and explanations refer to the annual financial report of VARTA AG prepared according to the provisions of the German Commercial Code and Stock Corporation Act.

Earnings situation

Sales in the fiscal year 2017 came to 850K € (2016: 25K €). These are essentially due to pass-through charges to affiliated enterprises and cover mostly services.

Other operating costs in the year 2017 amounted to 10,895K € (2016: 4,003K €) and comprise mainly costs for the initial public offering in the amount of 6,115K €. The costs of the stock exchange flotation

are above all expenses incurred in connection with the official listing of the VARTA AG shares in the Prime Standard of the Frankfurt Stock Exchange, including legal and consulting costs, bank charges and costs for investor relations.

In fiscal year 2017 VARTA AG had three employees beside the Executive Committee. In the previous year these were expenses that were incurred only during the second half of the year. For this reason personnel costs rose from of 542K € in 2016 to 1,917K € in 2017.

Amortizations increased from 378K € to 935K € as intangible assets were acquired in the course of last year.

The decrease in net interest income from 478K € to 405K € is due to shifts within the net interest income due to the changes in the financing structure with the VARTA AG Group.

The profit pooling agreement with the VARTA Microbattery GmbH yielded income in the amount of 28,583 €. On the other hand, there was an offsetting amount of 4,882K € in costs from the profit pooling agreement with VARTA Storage. The overall result is an increase in income from profit pooling agreements from 10,796K € in 2016 to 23,701K € in 2017.

The total unappropriated surplus was 8,281K € compared with 1,242K € in the previous year. This difference is due primarily to the income from the profit pooling agreements.

Income statement of VARTA AG for the fiscal year from January 1, 2017 to December 31, 2017

		2017		2016	
		K €	K €	K €	K €
1.	Revenue		850		25
2.	Other operating income		76		18
3.	Personnel expenses				
	a) Wages and salaries	-1,865		-527	
	b) Social charges and the cost of pension and other benefits	-52	-1,917	-15	-542
4.	Depreciation on intangible and tangible assets		-935		-378
5.	Other operating expenses		-10,895		-4,003
6.	Income from profit pooling agreements		28,583		13,171
7.	Interest and like income		594		496
	– of which to affiliated enterprises				
	558K € (prev. yr. 9K €) –				
8.	Cost from loss pooling agreements		-4,882		-2,375
9.	Interest and like expenses		-189		-18
	– of which to affiliated enterprises 172K € (prev. yr. 0K €) –				
10.	Taxes on profit or loss		-4,345		-2,958
11.	Result after taxes / Net surplus for the year		6,940		3,436
12.	Profit/loss brought forward from previous account		1,242		-2,194
13.	Retained earnings / Accumulated deficit		8,182		1,242

Asset and financial situation

Fixed assets increased over the previous year by 23,049K € from 36,143K € in 2016 to 59,192K € per December 31, 2017, due primarily to the rise in long-term investments from 30,614K € to 54,542K €. This increase is due to loans granted to subsidiaries.

In the spring of 2017 VARTA AG took over the financing function for the VARTA AG Group. In this context any existing financing of the operating subsidiaries was repaid. Subsequently VARTA AG

granted loans in the amount of 23,968K € to the various subsidiaries. The capitalized development costs acquired last year from an affiliated enterprise are recognized as intangible assets.

Current assets rose by 138,260K € from 19,592K € in 2016 to 157,852K € per December 31, 2017. This increase is above all the result of cash in hand and credit balances with financial institutions, which were boosted by the proceeds from the stock exchange flotation in the amount of 122,113K € from 1,136K € in 2016 to 123,249K € per December 31, 2017. In addition, other assets increased by 16,146K € from 18,457K € in 2016 to 34,603K € per December 31, 2017, due primarily to the accounts receivable from affiliated enterprises based on the profit pooling agreements.

Equity capital jumped by a total of 157,441K € from 38,342K € in 2016 to 195,783K € as per December 31, 2017. The capital reserve rose by 141,900K € as a result of the proceeds from the share issue obtained from the stock exchange flotation. In addition, 8,600,000 new shares were admitted to the trade with the stock exchange flotation on October 19, 2017. This increased the subscribed capital by 8,600K €, from 29,600K € in 2016 to 38,200K € per December 31, 2017.

Provisions rose by 2,254K € from 2,206K € in 2016 to 4,460K € per December 31, 2017. This increase is above all due to higher tax accruals and other provisions for obligations for personnel costs. Liabilities increased by 1,482K € from 13,000K € in 2016 to 14,482K € per December 31, 2017, due mainly to the increase in liabilities to affiliated enterprises.

Balance sheet of VARTA AG per December 31, 2017

Assets

	12/31/2017		12/31/2016	
	K €	K €	K €	K €
A. Fixed assets				
I. Intangible assets				
Compensable concessions, industrial property rights and similar rights and assets, and licenses to such rights and assets		4,406		5,315
II. Tangible assets				
Other equipment, factory and office equipment		244		214
III. Long-term investments				
1. Shares in affiliated enterprises	30,100		30,089	
2. Loans to affiliated enterprises	23,968		-	
3. Equity interests	30		-	
4. Other loans	444	54,542	525	30,614
		59,192		36,143
B. Current assets				
I. Receivables and other assets				
1. Trade receivables	1		31	
2. Claims against affiliated enterprises	29,741		15,991	
3. Other assets	4,861	34,603	2,435	18,457
II. Cash and cash equivalents		123,249		1,136
		157,852		19,592
C. Prepaid expenses		41		30
D. Deferred tax assets		1,331		1,413
Total assets		218,416		57,178

Equity and Liabilities

	12/31/2017	12/31/2016
	K €	K €
A. Equity		
I. Subscribed capital	38,200	29,600
II. Capital reserve	142,590	689
III. Revenue reserves		
Other earnings reserves	6,811	6,811
IV. Retained earnings / Accumulated deficit	8,182	1,242
	195,783	38,342
B. Provisions		
1. Tax accruals	2,817	1,607
2. Other provisions	1,643	599
	4,460	2,206
C. Liabilities		
1. Liabilities to financial institutions	2	-
2. Trade payables	2,052	1,218
3. Liabilities to affiliate enterprises	12,276	11,732
4. Other liabilities	716	598
– of which from taxes 152K € (prev. yr. 50K €)		
	15,046	13,548
D. Deferred tax liabilities	3,127	3,082
Total equity and liabilities	218,416	57,178

Risks and opportunities

The business development of VARTA AG depends very much on the risks and opportunities of the VARTA AG Group, which were described already 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 examined at least once a year. No need for any impairments in value was identified in the fiscal year 2017.

In addition, mention should be made of the risks from legacy encumbrances existing at VARTA AG. 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 the legacy encumbrances typical for the industry. A buyer of all foreign and one domestic investment took over these risks as well as any risks arising in the future and will be holding VARTA AG harmless against these risks; however, the legal liability of VARTA AG continues in relation to outsiders. An enterprise affiliated with the buyer has hedged this indemnity additionally with a guarantee in the amount of 20 million € lasting until 2031. VARTA AG has evaluated these 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 buyer and of the guarantor or if these are not able to fulfill their contractual obligations.

Outlook

The expectations of VARTA AG regarding its financial and non-financial indicators as well as 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 projections, risks and opportunities section of the consolidated management report. The economic growth of VARTA AG depends to a great extent on the contributions to the results by its operating subsidiaries which flow to VARTA AG by virtue of the existing profit pooling agreements. The projected growth of the operating subsidiaries implies, also in conformity with the expectations at the level of the VARTA AG Group and taking into consideration the special effect in 2017 (costs of the stock exchange flotation), a very significant increase in overall results.

8. Employees

The growth of the Group depends on the competence and the capabilities of the employees and their identification with the Company. They are an significant non-financial indicator for VARTA AG.

Apart from the training of new employees, continued education and training courses contribute to a high level of competence. The corporate group is interested in committed and motivated employees who are ready to drive the innovation of the Company, supported by a strong team.

Our employees stand out because of their willingness to work hard and because of their loyalty. The corporate group places great store on a sustainable personnel policy in order to enhance overall efficiency and satisfaction. For this reason, last year a new work-time model was developed in production in response to the increased demand.

The Company wants to make sure that the employees make a long-term commitment to the Company and identify with the Company based on the shared business goals. Because many of our employees have worked at the Company for years, they have highly specialized knowledge in their fields. Also, a well-balanced age structure ensures a healthy transfer of knowledge between the generations.

We strive to have a well-balanced staff overall. Female and male employees should be able to realize their professional goals in a culture of mutual respect.

This means also an appropriate share of female employees. In this sense the Company has established a target number of 30% on the first two leadership levels below the Executive Committee per resolution dated November 14, 2016. This degree is only valid for VARTA AG. Currently, the female ratio of VARTA AG is 66%. The target size for the management board and supervisory board is zero percent.

We are a responsible employer, and work safety and health are important pillars for employment. Also, the organizational culture at the corporate group is characterized by openness and mutual respect.

Attraction as an employer

We attempt to bind our employees to the Company through targeted actions. In future, the public offering gives our executives and high-potential individuals the opportunity to participate in a stock option program.

In addition, the executives of the corporate group meet annually in a managers' conference. We also support selective initiatives for the further education of the trainees within the Company.

The annual number of employees in the entire corporate group increased from 2,047 (in 2016) to 2,171 per December 31, 2017.

On the closing date December 31, 2017 the total number of employees was distributed over the regions as follows:

	December 31, 2017	December 31, 2016
Europe	1,232	1,051
Asia	919	975
USA	20	21

9. Compensation report

The compensation report is based on the requirements of the German Commercial Code (HGB), the German Accounting Standards and the International Financial Reporting Standards (IFRS) as well as the recommendations of the German Corporate Governance Codex (DCGK), unless the Board of Directors declared an exception to this rule in its compliance statement. The report explains both the amount and the structure of the compensation paid within the Executive Committee. The report also describes the principles and the amount of compensation of the Board of Directors.

According to the resolution of the extraordinary general meeting of shareholders of October 6, 2017, the individualized information regarding the compensation of the members of the Executive Committee is dispensed with based on §285 sent. 1 no. 9 lit. a) clause 5 et seqq. HGB and §314 para. 1 no. 6 lit. a) clause 5 et seqq. HGB.

Executive Committee

The determination and regular review of the compensation of the Executive Committee is the responsibility of the full Board of Directors. According to the recommendations of the DCGK, the compensation of the members of the Executive Committee consists of a fixed and a variable component. Aside from that there is a share-based compensation component that is awarded by the parent company VGG GmbH (Vienna). Equalization payments in cash or options for the acquisition of VARTA common stock is granted in principle by VGG GmbH (Vienna) and was tied to specific conditions during the vesting period in connection with the initial public offering of VARTA AG. In the reporting year a total of 3.6 million € was recognized in this context in the consolidated financial statement of VARTA AG as personnel costs charged against the capital reserve. All compensation components are appropriate, both individually and taken together. The compensation of the Executive Committee comprises variable components that are based on a multi-year assessment. The Board of Directors reviews the appropriateness and market conformity of the compensation of the members of the Executive Committee and takes into consideration all criteria specified in § 87 AktG as well as Point 4.2.2 clauses 4 and 5 DCGK, such as the responsibilities of the individual members of the Executive Committee, their personal performance as well as the economic situation, the success and the future prospects of VARTA AG.

Fixed compensation

The fixed compensation consists of a basic remuneration paid monthly as salary in twelve installments plus other benefits. These other benefits consist essentially of the use of a company car and the payment of the insurance premiums. Also, VARTA AG pays the premiums for D&O insurance coverage. A deductible of 10% of the losses up to the amount of one and a half times the fixed annual compensation is borne by the members of the Executive Committees personally.

Variable compensation

The variable compensation of the members of the Executive Committee consists of a variable remuneration in cash. The variable remuneration in cash is tied essentially to the achievement of the EBIT/EBITDA targets. The Board of Directors decides the annual corporate targets for the calculation of the variable remuneration in cash. It also verifies the achievement of the targets.

Total compensation of the members of the Executive Committee in fiscal year 2017

The compensation for the members of the Executive Committee of VARTA AG appointed in the fiscal year 2017 totals 1,612K € (2016: 946K €). Of this amount 610K € (2016: 186K €) are attributable to the fixed portion including other benefits. The variable component makes up 1,002K € (2016: 760K €).

The service contracts of the members of the Executive Committee do not provide for any other fixed compensation in case of a termination of the employment contract due to a change in control. However, a voluntary remuneration may be agreed upon in case of an early termination of the service contract by the Company without good cause, but the severance is capped by the maximum amount of two annual salaries.

Board of Directors

The compensation of the Board of Directors was decided by the general meeting of shareholders and is spelled out in §15 of the Articles of Incorporation of VARTA AG. Per the Articles of Incorporation each member of the Board of Directors of VARTA AG receives a fixed compensation aside from the reimbursement of all reasonable expenses. Thus the compensation of the Board of Directors of VARTA AG meets the recommendations mentioned in Point 5.4.6 of the DCGK regarding the compensation of the Board of Directors as amended on February 7, 2018. In Point 5.4.6 the DCGK also recommends considering the function of chairman and deputy chairman on the Board of Directors as well as the function of chairman and membership in the committees when determining the compensation. Accordingly, the Articles of Incorporation of VARTA AG provide that the Chairman of the Board of Directors and the Deputy Chairman of the Board of Directors receive a fixed annual remuneration aside from the reimbursement of their expenses. This pays also for the assumption of

memberships in committees and chairmanships in committees. The members of the Board of Directors who are not part of the Board of Directors 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 compensation of the Board of Directors for fiscal 2017 (2016)

For the reporting year 2017 the Board of Directors received total compensation in the amount of 165K € (2016: 89K €). This total includes the reimbursement of the expenses incurred by each member of the Board of Directors as well as the value-added tax due on the compensation and reimbursement of expenses. The premium of the D&O insurance contracted for the members of the Board of Directors is also borne by the Company. In addition, consulting services and other services in the amount of 122K € (2016: 0K €) were remunerated, in particular for the support provided during the public offering.

Individual compensation of each member of the Board of Directors for fiscal 2017 (2016)

In '000 EUR	Fixed compensation including expenses (net)	Other consulting services (net)
DDr. Michael Tojner (Chairman)	34 (0)	0 (0)
Dr. Harald Sommerer (Deputy Chairman)	38 (24)	0 (0)
Dipl.-Ing. Frank Dieter Maier	33 (23)	0 (0)
Sven Quandt	0 (16)	0 (0)
Dr. Franz Guggenberger	30 (13)	0 (0)
Dr. Georg Blumauer	30 (12)	122 (0)
Total	165 (89)	122 (0)

Miscellaneous

A member of the Board of Directors was granted a travel expense advance in the amount of EUR 5K €. Apart from the existing vehicle lease contract at the usual conditions no further loans or advances were granted to the members of the Executive Committee or the Board of Directors of VARTA AG or its subsidiaries, nor were any contingent liabilities contracted in their favor.

10. Environmental protection

The environmental management system of the Company is monitored by the TÜV according to ISO 14001 in the context of the audit. Since 2006 the Company has implemented a strict separation and productive use of waste instead of removing it. The legal conditions regarding emission control were satisfied without a problem. The groundwater monitoring set up for the Ellwangen site was continued during the reporting year.

11. Projections, opportunities and risks report

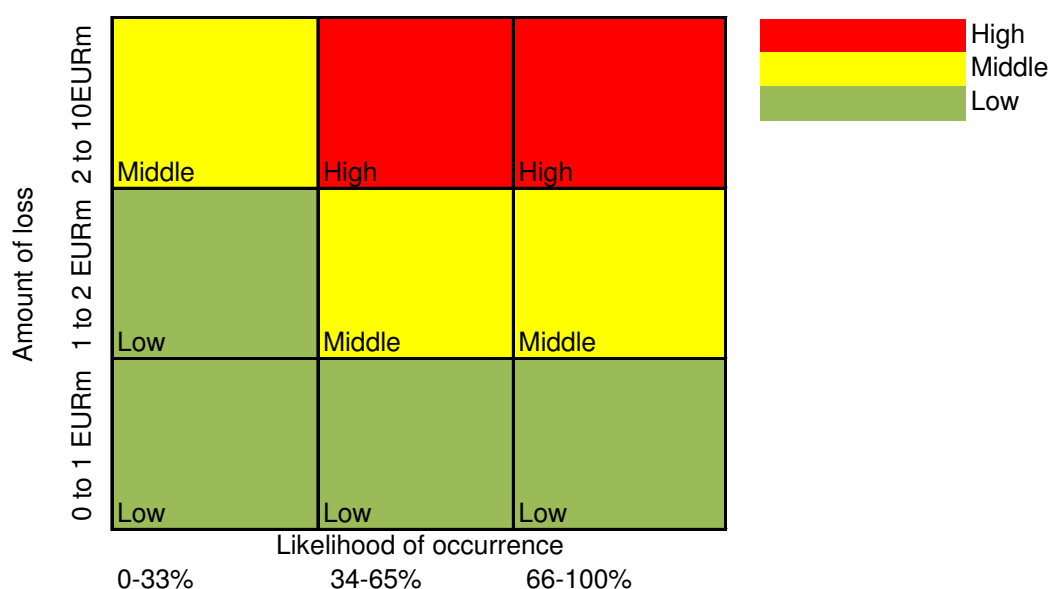
11.1 Opportunities and risks management system

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 a risk detection, internal control and risk management system.

The risk management system as a whole is evaluated at the group level and focuses on operating, financial, strategic and other risks. In this process the risks are categorized as small, medium or high on the basis of an internally existing risk matrix (see matrix below). There is no risk quantification for assessing legal or compliance risks, although these risks are considered as appropriate.

As a production company much attention is paid to external factors such as e.g. the prices of raw materials, which could affect the result negatively. Likewise, internal processes must be constantly optimized 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 on actuals-versus-budget as well as early and regular communications concerning the risks and opportunities. This risk management is supported by regular management meetings in which the opportunities and risks of the business development are analyzed and discussed in detail.



11.2 Overall assessment of the opportunities and risks by the Executive Committee

The Director of Finance has the responsibility for managing all opportunities and risks. It is an integral part of management. Based on the assessment of the Director, the risks described in what follows are manageable as of the date of the publication. No individual risks are discernible which could endanger the existence of the Company. At the same time there is no doubt that the corporate group is well placed strategically and financially to take advantage of all opportunities on offer.

The corporate group also pursues a consolidated risk management that is in conformity with the legal requirements pursuant to Sec. 91 para. 2 AktG.

The opportunities and risks report contains the identification, assessment, control and monitoring of the core risks. These risks include all scenarios that constitute a serious threat to the success of the Company and might have a material effect on the earnings or cash situation of the Company. They can be allocated to individual risk 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 is made up of a combination of the likelihood of occurrence and the expected effect of any loss on the corporate results.

There are risk officers for each business line controlling the risk situation of their areas independently and reporting to the Group Risk Management. Within the individual business lines there is a responsible person (risk owner) for the various risk areas who reports to the respective risk officer of the business line. In order to ensure a close alignment with the operating and financial issues, the risk management is located in the central division "Corporate Controlling".

The risk management is audited at regular intervals for its efficacy and improved if 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. 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 effectiveness and cost efficiency of the business activities, the propriety and reliability of the internal and external accounting measures and the compliance with the regulations that are relevant for 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 account system observes the principle of the separation of functions.

There are uniform accounting guidelines throughout the corporate group. Furthermore the account system is centralized at the location in Ellwangen to the extent this is possible.

The Director of has the 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 in what follows 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 remaining after the counter-measures kick in is indicated for the risks according to the above-mentioned assessment of the expected amount of loss in relation to the corporate result (e.g. loss potential: medium).

The risk situation of the VARTA AG Group looks as follows:

Risk class	Individual risks	Net amount of the expected loss
Operating risks	Production and logistics risks	medium
	Risk to industrial safety and environmental protection	medium
	Procurement risks	medium
	Continuous price pressure	medium
	IT	small
Strategic risks	Restriction through potential substitute technologies	high
	Dependence on one client	small
	Shift in the market / trend	small
Financial and counterparty risks	Foreign currency risks	small
	Investments and derivatives of financial instruments	small
	Counterparty risks from the provision of goods and services	small
	Payments of tax arrears	small
	Soundness of our intangible assets	medium

11.5 Operating risks

The production and logistics risks as well as the risks to work safety and environmental protection are limited by comprehensive process and control specifications. Additionally there is insurance protection commensurate with the risks.

Procurement risks, particularly in case of important raw materials and components, are minimized by permanent market observations, long-term cooperation with the 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 fiscal 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. The Company's implementation of new battery technologies in mass production is unique.

The central IT department of the corporate group is competent for all information systems and user authorizations worldwide. The IT landscape is globally very uniform and shows little fragmentation. This guarantees the seamless access to the relevant data, systems and technical possibilities for the employees, irrespective of the size of the enterprise. The IT department monitors continuously 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 consider the risk in the IT area also as manageable.

11.6 Strategic risks and market risks

The product portfolio contributes to a successful positioning in the market compared to our competitors. The VARTA AG Group stands for high quality, reliability and safety.

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 corporate group is in an excellent position to help shape the technological progress of the relevant industries. We keep an eye on any potential replacement technologies. In the medium term, no material effects of potential replacement technologies on the core business of the corporate group 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 exist 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 to the risks. The market and competitive environment is constantly monitored in order to detect any possible risks. The extent of any risk is determined primarily by the sales volume. Depending on the circumstances, product-specific and, as the case may be, region-specific measures are taken immediately.

Our business is highly diversified in regard of the geographical distribution of the markets, business units and end user markets. No one customer alone contributes more than 10 percent to the corporate turnover.

11.7 Financial risks and counterparty risks

Our international sales and the worldwide purchases of raw materials and components entail foreign currency risks for the corporate group. These risks were thoroughly analyzed and assessed during the reporting year. Most of the exposures to the "main currencies", the USD and the SGD, incurred within the Group under the budget for 2017 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 effectiveness of the hedging instruments falling due in the future is measured quarterly. The hedging transactions are examined for their effectiveness both in foresight and in hindsight. In all other respects we refer to the respective explanations in the Notes.

Investments and derivatives of financial instruments are pursued only with banks of good standing. We contract credit insurance to minimize the counterparty risk for most credit transactions based on the interchange 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 counterparty risks can be discerned among individual financial assets, their value is corrected accordingly.

Other risks arising from payment transactions customary 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 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.

11.8 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, apart from overall favorable economic conditions

One of the success factors is the centralized and EDP-supported planning and control of the worldwide flow of merchandise. It allows the corporate group to optimize the flow within the Group and across borders. The expansion of a production site in Eastern Europe presents another opportunity to improve the flexibility through shorter shipping distances and further cost savings.

The high quality of the products, supported by the ability to innovate and by our own research and development activities open up further opportunities. By continually investing in the expansion of the production capacities and the associated greater flexibility in the sourcing of products the corporate 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 clients also appreciate the reliability of the corporate group. With many clients the Group has had a long-term supply and service relationship.

11.9 Overall risk situation of the corporate group

The risk from unfavorable changes in the exchange rates and raw material prices is countered by hedging the main currencies and raw materials. The risk of rising transportation costs will be met by the new production site in Eastern Europe and the resulting shortening of the freight distances. The risk of labor cost disadvantages in comparison with competitors based mainly in the Far East is countered by further automating the production processes in Germany and by the optimal use of the production network in Asia and Eastern Europe. Additional financial risks and their effect on the corporate group are addressed in the Notes to the Consolidated Accounts.

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

12. Outlook

As a result of the positive development of the economic environment and the strong market position of the corporate group in its core markets, the business is expected to continue on its growth path next year.

Overall picture of the VARTA AG Group

It is expected that the sales of the corporate group will show a significant growth over the course of next year (at constant exchange rates) compared to the previous year.

A significant increase over the previous year is also expected next year for the adjusted EBITDA because of economies of scale.

The CAPEX, thus the monies disbursed for the purchase of intangible and tangible assets, should also rise considerably next year as a result of the demand-driven expansion of the production capacities.

Microbatteries segment

In the hearing aid batteries business the plan is to consolidate the position as market leader in a structurally growing market. A massive expansion of the production capacities is planned in the Entertainment & Industrial area as a result of the strong demand for lithium-ion batteries for wireless headsets area. This constitutes the largest growth potential in the Microbatteries segment. The expectation in the Microbatteries segment for fiscal 2018 is a substantial growth in sales (at constant exchange rates), and a very significant rise in the EBITDA in relation to sales because of the further scaling of our business model.

Power & Energy segment

Strong growth is expected in the Power & Energy segment for mobile energy storage devices due to the larger order book compared to last year. The growth in stationary energy buffers is expected to continue due to the introduction of new products and the entry into new markets. The goal for the Power & Energy segment for the entire year 2018 is a noticeable increase of the EBITDA with a simultaneous growth in sales revenue.

Our experience of many years in the battery business is reflected in the projected opportunities and risks implied in the continued growth of the business. This report contains information and projections referring to the future development of the Company. It is pointed out however that actual results may vary greatly from the expectations regarding 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 dependence report

The Executive Committee declares pursuant to Sec. 312 para. 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 Sec. 312 AktG have either been taken or omitted.

15. Takeover law information

With the successful stock exchange flotation on October 19, 2017 a total of 8,600,000 new shares were admitted to the trade. The subscribed capital of VARTA AG per December 31, 2017 was 38,200K € (prev. yr. 29,600K €). 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 EUR 1.

Restrictions concerning voting rights or share transfers

There are no restrictions of the 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 Company made a commitment to the underwriting banks that it will not, within a period of six 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 six additional months, and without the prior written approval of the lead underwriter (which may not be unreasonably denied or delayed),:

- issue, sell or offer shares directly or indirectly, or undertake to sell shares, or in other ways sell shares or announce such offer;
- issue, securitize or offer directly or indirectly financial instruments constituting conversion or option rights to shares of the Company, or undertake to sell them or in other ways sell shares or announce such offer;
- announce or carry out a capital increase from authorized capital;
- submit to the general meeting of shareholders a proposed resolution regarding a capital increase including new approved capital; or
- perform an action (including derivative transactions) corresponding financially to one of the aforesaid measures.

This does not include the issuance or the sale, if applicable, of shares or other securities in the context of management or employee profit-sharing programs or stock option plans for members of the management or employees of the Company or its affiliated enterprises, or the issuance of shares against contributions in kind in connection with acquisitions, financial participations or joint ventures directly to the contractual partners of such an acquisition, financial participation or joint venture.

The shareholders VGG GmbH and ETV Beteiligungs GmbH as well as the Chairman of the Executive Committee have also committed themselves 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 an additional twelve months. The member of the Executive Committee Dr. Michael Pistauer has committed himself to a lock-up agreement within a period of six 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 an additional six months.

Equity interests exceeding 10 percent of the voting rights

DDr. Michael Tojner as Chairmen of the Board of Directors of VARTA AG and principal shareholder of Montana Tech Components AG, Reinach (Switzerland), owns 63.0% of the shares via the subsidiaries VGG GmbH, Vienna (Austria) and 1.6% of the shares via ETV Montana Tech Holding AG, Vienna (Austria), for a total of 64.6% of the shares in VARTA AG.

Shares with special rights conveying a controlling authority

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

Ellwangen, April 9, 2018

VARTA Aktiengesellschaft

Herbert Schein

Steffen Munz

Dr. Michael Pistauer