

Corporate Governance Report 2018

The Corporate Governance Report with declaration on Group management is an unaudited, integral part of the Consolidated Management Report.

The term corporate governance refers to a managerial approach with an acute aware of its responsibilities centered on transparency and long-term added value. VARTA AG is of the firm conviction that effective corporate governance is an essential foundation for sustainable corporate success. It strengthens trust in the company on the part of shareholders, business partners, employees and financial markets alike. The following report contains the Corporate Governance Report and a declaration on the management approach implemented by the Executive Board and Supervisory Board.

Dual management system

As an international company headquartered in Ellwangen, Germany, VARTA AG is subject to the provisions of German stock corporation law, among other legislation. A fundamental principle of German stock corporation law is the dual management system which means that management of the company is placed in the hands of the Executive Board, with the Supervisory Board then responsible for advising and monitoring Executive Board activities. Both boards are strictly independent both in terms of their members and competencies. However, they also both work closely together in the best interests of the company.

Composition and function of the Executive Board

As at December 31, 2018 the Executive Board of VARTA AG, Ellwangen (Jagst) comprised three members: Herbert Schein (CEO), Steffen Munz (CFO) and Dr. Michael Pistauer. Dr. Pistauer stepped down from his role on December 31, 2018. The Executive Board members share joint responsibility for the management of the company.

None of the Executive Board members are involved in more than three Supervisory Boards of listed companies outside of VARTA AG or supervisory committees of companies other than VARTA AG subject to comparable requirements. The Executive Board manages the company with autonomous responsibility, defines the strategic corporate direction, agrees this with the Supervisory Board and then handles its implementation. Moreover, it sets corporate targets, devises corporate policies and defines the Group structure. In addition, the Executive Board ensures appropriate risk management and controlling processes and assumes responsibility for the company operating in line both with legal requirements and internal Group guidelines (Compliance). The Executive Board is bound to act in the best interests of the company and is focused on the overarching aim of increasing the value of the company over the long term.

Irrespective of the general responsibility of the Executive Board, all members independently carry out a range of activities assigned to them individually via the schedule of responsibilities. The Executive Board has not formed any committees. The Chairman of the Executive Board in particular is responsible for the development of the company and coordination of business areas. The members of the Executive Board take it upon themselves to be informed about all key developments from their business area and vote on all cross departmental measures. Additional details on collaborative work undertaken in the Executive Board is regulated by the Executive Board rules of procedure and division of responsibilities. In particular, these also contain regulations on meetings and resolutions in addition to governing work conducted in tandem with the Supervisory Board.

During meetings of the Supervisory Board, the Executive Board reports both verbally and in writing on agenda items and resolution documentation as well as answering questions put forward by individual Supervisory Board members. The Chairman of the Executive Board and CFO maintain regular contact with the Chairman of the Supervisory Board and Chairman of the Audit Committee, acting in an advisory capacity with regard to key aspects of strategy, planning and corporate development in addition to discussing risk management and compliance issues at VARTA AG.

Composition and function of the Supervisory Board

The Supervisory Board of VARTA AG comprises six members. The terms of office for all current members expire upon conclusion of the Annual General Meeting in 2021.

Supervisory Board members possess the knowledge, capabilities and expert experience required to perform their duties effectively. All members of the Supervisory Board are well-versed in the sector in which VARTA AG operates. As they all also possess extensive knowledge of a variety of professional sectors and long-standing involvement at internationally operating companies, the members of the Supervisory Board instill a broad spectrum of capabilities and experiences into this management body. The Supervisory Board is of the opinion that, with the exception of majority shareholder DDr. Michael Tojner (Chairman of the Supervisory Board), all members fulfill the requirement for independence. The members of the Supervisory Board at VARTA AG are not involved in any board functions or in an advisory capacity at any of VARTA AG's competitors. In general, an age limit of 75 years at the time of nomination to the Supervisory Board applies; this was observed in all but one case.

The basis for all Supervisory Board activities is the personal qualification of the respective Supervisory Board member. For this reason, additional important criteria are also factored in for nomination proposals. As has been the case up until now, factors such as personality, integrity and sufficiently diverse specialist and industry expertise in addition to particular experiences, for example in accounting and auditing, are given due consideration. The Supervisory Board monitors and advises the Executive Board in its management of the company. The Executive Board regularly, promptly and comprehensively briefs the Supervisory Board on the key aspects of corporate planning and business development, the risk position of the company as well as compliance. Furthermore, the Supervisory Board coordinates corporate strategy and its implementation with the Executive Board. The Supervisory Board took the Audit Report into consideration when reviewing and ultimately approving the annual financial statements of VARTA AG and the VARTA Group, before resolving the Executive Board's proposal on usage of net profits. Moreover, the Supervisory Board came to a decision on proposed resolutions submitted for the Annual General Meeting. Certain transactions and measures of fundamental importance undertaken by the Executive Board require the prior approval of the Supervisory Board or a committee thereof.

The Supervisory Board is also responsible for appointing and dismissing Executive Board members. When appointing members of the Executive Board, the Supervisory Board carefully considers the best possible composition of the Executive Board for the company. Here, experience, industry knowledge and professional and personal qualifications play an important role, among other factors. The HR Committee submits proposals to the Supervisory Board with regard to the structure of the remuneration system for the Executive Board and appropriate total remuneration for individual Executive Board members. More detailed information on the remuneration of the Executive Board is provided in the Remuneration Report.

The Supervisory Board has established two permanent committees for the purposes of increasing the efficiency of its work and dealing with complex issues related to its members' areas of activity: The Audit Committee and the HR Committee. Their remit includes preparing resolutions for the Supervisory Board or, as the case may be, occasionally making decisions on its behalf. The Chairmen of the committees report regularly to the entire Supervisory Board on the committees' output and deliverables. The composition of the committees is covered in the Supervisory Board Report.

The rules of procedure for the Supervisory Board not only regulate the procedures for meetings and passing resolutions, but also personal requirements of the members as well as their duties and responsibilities. The Supervisory Board Report provides information on the Supervisory Board's activities and those of its committees during the financial year.

The Supervisory Board members take independent responsibility for their own training and further training measures required to carry out their duties. However, VARTA AG does support them in doing so. The company informs the Supervisory Board regularly with regard to current changes in legislation as well as external further training opportunities.

The Supervisory Board and the Audit Committee regularly review the efficiency of their work on the basis of feedback from questionnaires and personal interviews. This provides an opportunity to express proposals for an even more effective cooperation.

Avoiding conflicts of interest

The members of both the Executive Board and the Supervisory Board are obliged to disclose without delay any conflicts of interest to the Supervisory Board. Material transactions between VARTA AG and the members of the Executive Board or associated persons thereof require the approval of the Supervisory Board. Contracts between VARTA AG and members of the Supervisory Board must also be signed off by the Supervisory Board as a whole. The Supervisory Board reports on any conflicts of interest and the manner in which these situations are resolved at the Annual General Meeting. In the financial year under review, no conflicts of interest were reported for either the Executive Board or the Supervisory Board.

Executive and Supervisory Board shareholdings and share deals

Individual shareholdings in the company or related financial instruments on the part of members of the Executive or Supervisory Boards as at the end of financial year 2018 were as follows:

- Herbert Schein, CEO (0.4%)
- Dr. Michael Pistauer, Director of Investor Relations and Mergers and Acquisitions (0.079%)

- As Chairman of the Supervisory Board at VARTA AG and majority shareholder of Montana Tech Components AG, Reinach (Switzerland), via stakes of 62.67% and 1.6% respectively in its subsidiaries VGG GmbH, Vienna (Austria) and ETV Montana Tech Holding AG, Vienna (Austria), DDr. Michael Tojner holds a stake amounting to 64.27% in VARTA AG.

The proprietary business interests of management members at VARTA AG in financial year 2018 have been published on our website in accordance with Section 15a of the Securities Trading Act (WpHG) and Art. 19 of the European Market Abuse Directive.

Compliance and risk management

VARTA's corporate governance strategy involves compliance with the law, adhering to internal and external requirements and a conscientious approach to risk management. Our compliance management system is linked to the company's risk management system in terms of organization. The risk and opportunity management system ensures an informed, opportunity-centric approach within a dynamic business environment, all the while maintaining an acute awareness of risks involved, with the overarching aim to guarantee VARTA's competitive ability and sustainable success.

Transparency and safeguarding of shareholder interests

Our aim is to simultaneously and equally inform institutional investors, private shareholders, financial analysts, business partners, employees and the interested public about the company's situation in the form of regular, transparent and up-to-date communications. All key information (press releases, ad-hoc disclosures and voting rights notifications in addition to presentations from roadshows and conferences, all financial reports and the company's financial calendar) is published on our website. As part of our holistic approach to investor relations, we regularly maintain close contact with current and potential future shareholders.

Furthermore, our website also contains all documentation and information in connection with our Annual General Meeting. VARTA AG shareholders exercise their right to vote at the Annual General Meeting. Each share grants the bearer one vote. Our shareholders are involved with all fundamental decisions at the Annual General Meeting by way of participation rights. This year's Annual General Meeting will be held in Ellwangen (Baden-Württemberg) on May 21, 2019.

Accounting and auditing

The consolidated accounts of VARTA AG and its subsidiaries for financial year 2018 are presented in accordance with Section 315e(2) of the German Commercial Code (HGB) in line with the International Financial Reporting Standards (IFRS) published by the International Accounting Standards Board (IASB) supplemented by the regulations of the German Commercial Code in Section 315a (2) HGB. The IASB standards, as adopted by the European Union, are therefore applicable as at the balance sheet date. The IFRS label also encompasses the International Accounting Standards (IAS), which remain in force. The binding interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC), as at December 31, 2018, were also applied.



The Consolidated Accounts and Consolidated Management Report of VARTA AG were authorized for issue to the Supervisory Board by resolution of the Executive Board on March 19, 2019. The Consolidated Accounts must also be approved by the forthcoming annual general meeting. KPMG AG Wirtschaftsprüfungsgesellschaft was elected by the Annual General Meeting to audit the annual financial statements and consolidated financial statements for 2018. The Supervisory Board had previously expressed that it was satisfied with the independence of this choice of auditor.