



Typically German.

Contents

SUPERVISORY BOARD AND EXECUTIVE BOARD	2
SUCCESS FACTOR MADE IN GERMANY	12
CONSOLIDATED MANAGEMENT REPORT	45
Group structure	46
Economic report	50
Development of earnings, financial position and net assets	53
Research and development	57
Investments excluding M&A (CAPEX)	58
Earnings situation: segments	58
Information about VARTA AG	59
Employees	65
Remuneration report	66
Guidance, opportunities and risk report	68
Outlook	73
Supplementary report	74
Final declaration regarding the independence report	74
Takeover law information	74
CONSOLIDATED FINANCIAL STATEMENTS	78
Consolidated statement of financial position	80
Consolidated income statement	82
Consolidated statement of comprehensive income	83
Consolidated statement of cash flows	84
Consolidated statement of changes in equity	85
Notes to the consolidated financial statements	86
AUDITOR'S REPORT	161
Financial calendar	169
Contacts and imprint	170

Earnings indicators

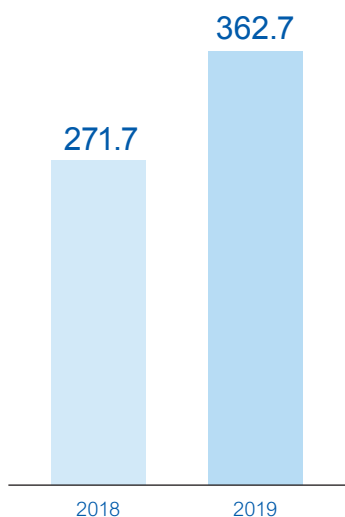
MULTI-YEAR OVERVIEW

€ K SINCE 2016 AUDITED ACCORDING TO IFRS	2014	2015	2016	2017	2018	2019
Revenue	169,038	195,093	213,815	242,157	271,650	362,692
EBIT	13,440	22,480	14,845	23,643	36,871	70,767
Amortization and depreciation	-7,428	-8,511	-8,922	-9,446	-10,518	-20,855
EBITDA	20,868	30,991	23,767	33,089	47,389	91,622
Adjusted EBITDA	19,368	22,857	26,099	39,132	50,219	97,481
EBT	12,083	19,371	12,073	21,025	36,482	71,079
Consolidated result	7,886	11,596	9,410	13,544	25,703	50,464
Balance sheet total in €m	158.1	155.7	164.9	331.5	401.7	668.8
Cash flow from ongoing business activities	22,000	19,288	24,153	18,503	69,846	105,734
Cash flow from investment activities	7,119	-1,099	-21,613	-13,426	-58,982	-105,806
Cash flow from financing activities	-13,729	-28,531	-1,210	121,577	-114	94,882
FTE employees as of Dec. 31	1,792	1,879	2,012	2,112	2,256	2,834
Earnings per share (EPS) in €	1.3	16.5	0.59	0.36	0.66	1.28

We are accelerating growth

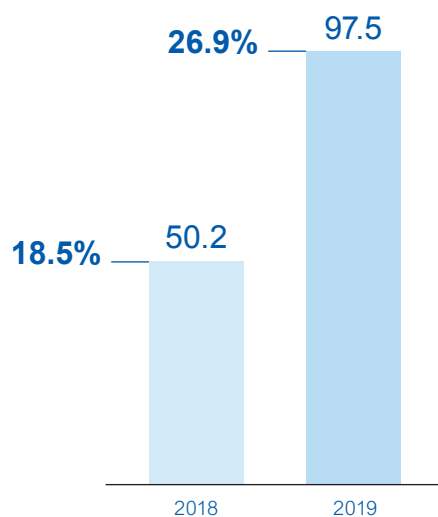
+33.5%

Revenue
EUR m



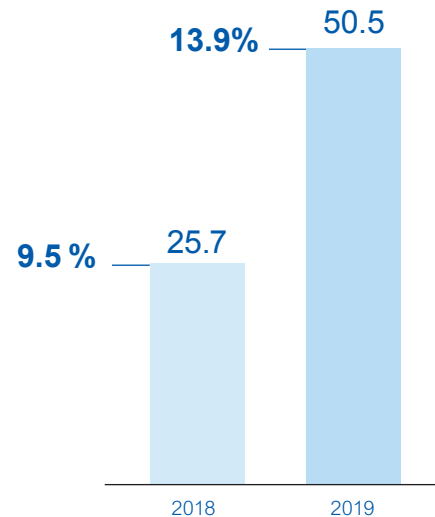
+94.1%

Adjusted EBITDA
EUR m



+96.3%

Consolidated result
EUR m





Prof. DDr. Michael Tojner

Prof. DDr. MICHAEL TOJNER**EDUCATION**

- Harvard Business School
- Stanford University
- Postgraduate Studies Doctor of Laws, Vienna University
- Postgraduate Studies Doctor for Science of Management, University of Economics and Business Vienna

OCCUPATIONAL HISTORY

- Since 2006: Montana Tech Components AG, Switzerland (CEO & Majority Owner)
- Since 1998: Global Equity Partners Beteiligungs-Management GmbH (Managing Partner)
- Since 1998: WertInvest Beteiligungsverwaltungs GmbH (Managing Partner)
- Since 1990: Michael Tojner Industriebeteiligungs und -beratungs GmbH (Managing Partner)
- Since 1999: Lecturer on University of Economics and Business, Vienna



With a stake of more than 58%, Montana Tech Components AG remains the majority shareholder. In this role as anchor shareholder, it pursues a strategy that targets stability and long-term corporate success. In so doing, the management of VARTA AG are afforded the requisite entrepreneurial license to capitalize on market opportunities and implement these successfully.



Foreword from the Supervisory Board

Dear Shareholders,

The world has become more mobile and more connected. Energy usage and storage have therefore become increasingly important for every individual. In line with this trend, unlimited personal development and absolute energy independence will be core aspects of the world of tomorrow. As a leading company within the field of battery technology, VARTA has established itself at the forefront of this technological and societal trend in addition to confronting the challenge of providing the best, most reliable batteries for the wireless technology of tomorrow.

This self-image has shaped VARTA right from the start of the Company's 130-year history. It is an approach that has already seen our batteries used in the most exciting missions in human history. The first moon landing, the first flight across the Atlantic or pioneering expeditions to the North Pole: whenever reliability and power are needed, people have turned to VARTA energy solutions. VARTA draws inspiration from these past achievements and embraces future challenges with greater confidence and ingenuity. VARTA successfully met the expectations and challenges it encountered in 2019. In fact, in some cases, these were comfortably exceeded. The high growth dynamic of the VARTA AG Group can be attributed to the strong performance of rechargeable lithium-ion cells for high-tech consumer products, particularly premium true wireless headsets, as well as the very positive performance in the area of hearing aid batteries. Continued demand compelled us to invest in further expanding production capacities. The development of our second segment – Power & Energy – was also pleasing, with increased

revenue and income registered here as well. The acquisition of VARTA Consumer has now brought together that which belongs together. It will serve to expand the product portfolio from 2020 onwards to include popular household batteries, among other products, for end consumers. We will also be promoting the smart usage of alkaline batteries with a variety of products that optimize the service life and performance of the batteries.

VARTA will use 2020 and the following years as an opportunity to secure and build upon its technological edge with the aim of consistently redefining standards for end users and continually extending use times for mobile electronic end devices. With the expansion of production capacities, our intention is to ensure that ever more consumers are able to benefit from our leading battery technology to make their day-to-day lives more independent.

VARTA's technological edge in the area of micro-batteries is also set to come into play for larger lithium-ion cells. The focal points of our research and development activities should in the future lead to VARTA AG establishing a globally leading position for energy storage systems and drive units as well. This would reunite the VARTA family for all types of battery solutions.

Prof. DDr. Michael Tojner

Supervisory Board Report for Fiscal Year 2019

The Supervisory Board of VARTA AG is pleased to report on its work during the 2019 fiscal year. For VARTA AG, 2019 was another very eventful year, characterized above all by strong growth.

In fiscal year 2019, the Supervisory Board performed the full scope of its duties in accordance with the law, the Articles of Association and the rules of procedure. We monitored and advised the Executive Board with regard to its management of the Company on the basis of detailed written and oral reports from the Executive Board.

In addition, there was a regular exchange of information took place between the Chairman of the Supervisory Board and the Chairman of the Executive Board and Chief Financial Officer. The Supervisory Board was regularly briefed on intended business policy, corporate planning (including financial, investment and personnel planning), the profitability of the Company and the course of business, as well as the economic position of the Company and the Group. The Supervisory Board was directly involved in all decisions of fundamental importance to the Company and discussed these in detail with the Executive Board.

Where the approval of the Supervisory Board is required either by law, the Articles of Association or the rules of procedure for decisions or measures of the Executive Board, the members of the Supervisory Board – partly on the basis of information from the committees – approved these after intensive scrutiny and discussion. A particular focus of our activities this year was the Company's investment planning, which we addressed in detail.

The Annual General Meeting was held on May 21, 2019. As in the previous year, this was the subject of great interest. More than 87% of the share capital was represented at the Annual General Meeting. The acquisition of VARTA Consumer's European business accounted for a significant proportion of the Supervisory Board's work in the first half of 2019. The Supervisory Board closely coordinated its activities with the Executive Board and supported it in an advisory capacity throughout the acquisition phase.

In June 2019, the Company carried out a highly successful capital increase. The Supervisory Board also fully supported and advised the Executive Board on this measure.

The Supervisory Board continuously monitored the Executive Board's management of the Company and assured itself of the legality, expediency and propriety of its work. The Supervisory Board also maintained close contact with the Executive Board between regular meetings.

The Chairman and individual members of the Supervisory Board maintained regular bilateral contact with the members of the Executive Board and provided advice on various business transactions. The Executive Board attended all meetings of the Supervisory Board and provided comprehensive answers to all the questions posed by the Supervisory Board. In accordance with Section 90 of the German Stock Corporation Act (AktG), the Executive Board regularly, promptly and comprehensively briefed the Supervisory Board, both orally and in writing, on the key aspects of corporate planning and business development, the risk situation and risk management in addition to the economic situation of the Company and the Group. The Supervisory Board also discussed all important business processes.

The Supervisory Board was informed about the business situation and key events by the Executive Board in four ordinary meetings, which were attended in person, two extraordinary meetings, which were held as teleconferences, and by regular reports. In addition, the Supervisory Board adopted several resolutions by written circular.

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

Supervisory Board Meetings and Committees in Fiscal Year 2019

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

At the first meeting on **March 26, 2019 (balance sheet meeting)**, the Supervisory Board addressed the annual and consolidated financial statements for 2018 and the discharge of the Executive Board for the 2018 fiscal year. The annual financial statements were distributed to all members of the Supervisory Board and discussed in detail at the meeting. The Supervisory Board conclusively examined the 2018 annual financial statements, raised no objections and approved them. The 2018 annual financial statements were therefore adopted on March 26, 2019. The proposal for the appointment of the auditor for the 2019 fiscal year was also adopted at this meeting. The Supervisory Board also resolved to propose Dr. Michael Pistauer for election to the Supervisory Board at the Annual General Meeting. Furthermore, the agenda for the Annual General Meeting on May 22, 2019 was approved. At each meeting, the Supervisory Board also receives reports from the Chief Compliance Officer on the compliance system and any compliance incidents that have arisen.

The second ordinary meeting in the 2019 fiscal year took place on **May 21, 2019**. At this meeting, additional investments to expand CoinPower production capacities were resolved, while the Supervisory Board also approved the acquisition of VARTA Consumer's European business.

Extraordinary Supervisory Board meetings were held on **July 22** and **August 21, 2019**. At these meetings, open issues were discussed, the conclusion of a syndicated loan agreement was approved and a financial services agreement was resolved.

The third ordinary meeting took place on **August 28, 2019**. At this meeting, the Supervisory Board discussed the economic position of the Company and resolved further additional investments.

The Supervisory Board convened on **November 26, 2019** for the last ordinary meeting of the 2019 reporting period. The main focus of this meeting was to resolve the budget for fiscal year 2020.

In summary, it can be stated that after extensive discussion, the Supervisory Board approved all business transactions and processes subject to mandatory submission. The Executive Board informed the Supervisory Board of all key events that were of material importance to assessing the economic position and development of the Company. All the members of the Supervisory Board attended the Supervisory Board's meetings in person.

Committee activities

There are four Supervisory Board Committees:

- Audit Committee
- HR Committee (this includes the Nomination and Remuneration Committee)
- Related Party Committee
- Investment Committee

The following individuals are members of the Audit Committee:

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

The following individuals are members of the HR Committee:

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

The following individuals are members of the Related Party Committee:

- Sven Quandt (Chairman)
- Dr. Michael Pistauer
- Dr. Georg Blumauer

The following individuals are members of the Investment Committee:

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

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

The Audit Committee held two meetings as teleconferences in the reporting year. In the presence of the auditors, the committee discussed the annual financial statements, the accounting process, the internal control system and corporate governance, among other issues.

The HR Committee held at least six teleconferences and meetings attended in person on Executive Board topics during the reporting year.

The Related Party Committee was constituted in August 2019 and held one teleconference and one meeting attended in person during the reporting year.

The Investment Committee was constituted in November 2019.

No member of any committee has taken part in less than half of the meetings.

Conflicts of interest

Every member of the Supervisory Board discloses any conflicts of interest that may arise taking into consideration the German Corporate Governance Code. In fiscal year 2019, a financial services contract was signed between the Company and Montana Tech Components GmbH, a subsidiary of Prof. DDr. Michael Tojner, the Chairman of the Supervisory Board. The contract was approved by the Supervisory Board. Prof. DDr. Michael Tojner did not participate in the consultancy process and voting instigated by the Supervisory Board. No further conflicts of interest arose in fiscal year 2019.

The annual and consolidated financial statements for 2019 audited and approved

The Executive Board prepared the annual financial statements for fiscal year 2019 in accordance with the provisions of the German Commercial Code (HGB), the consolidated financial statements in compliance with IFRS provisions as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e HGB. The Executive Board additionally prepared the Management Report combined with the Group Management Report. These were audited by KPMG AG Wirtschaftsprüfungsgesellschaft, Stuttgart, who were appointed as auditors by the Annual General Meeting on May 21, 2019, who issued an unqualified audit statement in each case.

All these documents, including the Executive Board's proposal for the appropriation of profits, were discussed at the Supervisory Board meeting on March 27, 2020, which was also attended by representatives of the auditors. These representatives reported on the focal points and the main results of their audit and addressed the key audit matters. The auditors were available to the members of the Supervisory Board for in-depth discussion. There were no circumstances that could indicate any bias on the part of the auditors.

The Audit Committee, which received the documents submitted by the Management Board and the auditor's reports for preliminary examination, reported to the Supervisory Board on the main content and results of its preliminary examination and made recommendations for Supervisory Board resolutions.

The Supervisory Board examined the annual and consolidated financial statements for fiscal year 2019, the Management Report combined with the Group Management Report and the Management Board's proposal for the appropriation of profits, taking into account the Audit Committee's report. The Supervisory Board concurred with the results of the audit by the auditor. On the basis of its own examination, the Supervisory Board determined that there were no objections to the annual and consolidated financial statements or the combined Management Report and Group Management Report. In

accordance with the recommendation of the Audit Committee, the Supervisory Board approved the annual and consolidated financial statements prepared by the Executive Board. The annual financial statements of VARTA AG were adopted accordingly.

In addition, the Supervisory Board audited the separate non-financial report and Group report. It raised no objections following completion of its audit.

The Supervisory Board also endorsed the Executive Board's intended proposal to the Annual General Meeting that net profit for the 2019 fiscal year should be carried forward in full.

Relationships with affiliated companies audited

The Executive Board prepared a report on relationships with affiliated companies for the 2019 fiscal year. The auditors reviewed this report, reported on the results in writing and issued the following unqualified audit statement:

"Based on our audit and assessment in accordance with professional standards, we confirm that

1. the factual statements in the report are correct
2. the consideration paid by the Company for the legal transactions listed in the report was not unreasonably high."

The respective reports of the Executive Board and the auditor were also discussed at the aforementioned meeting of the Supervisory Board after preliminary examination by the Audit Committee. The representatives of the auditors participating in the meeting reported on the main results of their audit. The Supervisory Board approved the Executive Board's report on relationships with affiliated companies after its own examination and also agreed with the result of the examination of audit report. Pursuant to its audit, the Supervisory Board determined that no objections were to be raised to the statement on relationships with affiliated companies made by the Executive Board in concluding its report.

Members of the Supervisory Board in Fiscal Year 2019

The Supervisory Board of VARTA AG comprises the following members:

- Prof. DDr. Michael Tojner, Chairman (since August 30, 2016)
- Dr. Harald Sommerer, Deputy Chairman (since April 14, 2016)
- Frank-Dieter Maier (since April 14, 2016)
- Sven Quandt (since April 14, 2016)
- Dr. Georg Blumauer (since August 30, 2016)
- Dr. Michael Pistauer (since May 21, 2019)

The Supervisory Board thanks Dr. Franz Guggenberger, who left the Supervisory Board with effect from the conclusion of the ordinary general meeting on May 21, 2019, for his valuable work.

The Supervisory Board would also like to express its thanks to the Executive Board and all the employees for their successful work and the commitment shown during fiscal year 2019.

We would also like to thank you, our valued shareholders, for your continued faith in VARTA AG and the VARTA AG share.

Ellwangen, March 27, 2020

For the Supervisory Board

Prof. DDr. Michael Tojner
Chairman



Herbert Schein

HERBERT SCHEIN, CEO

EDUCATION

- University degree in electrical engineering

PROFESSIONAL EXPERIENCE

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

STEFFEN MUNZ, CFO

EDUCATION

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

PROFESSIONAL EXPERIENCE

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



Steffen Munz

Foreword from the Executive Board

Dear Shareholders,

“Accelerating growth. Together”. With this motto, the VARTA AG Group is looking ahead to the future with great confidence. We have significantly improved the good result from last year, further accelerated growth and recorded the best financial figures in the recent history of the company. In this context, we have successfully increased revenue by around one third and even nearly doubled EBITDA.

This growth course will be continued further – together with our VARTA Consumer colleagues. Right at the start of 2020, we successfully concluded the acquisition of VARTA Consumer. With this deal, we capitalized on the historically unique opportunity to bring together which belongs together. We are strengthening the brand profile of all VARTA products and our business model has now been given a broader footing. With nearly 4,000 employees around the world, we are the battery experts for micro-batteries, household batteries, energy storage systems and client-specific battery solutions for a variety of applications, and have carved out an exceptional market position in our core markets.

Our two segments “Microbatteries” and “Power & Energy” both contributed to this pleasing growth in 2019. In the area of “Healthcare”, we have further expanded upon our market-leading position for hearing aid batteries, while we are benefiting from sustained demand for true wireless headsets in particular in the area of “Entertainment”. This is a market that is currently growing by approximately 30% per year. As a leader of technology and innovation, the VARTA AG Group has established a highly successful business model in this area. In the “Power & Energy” segment, we are benefiting from several highly promising new customer projects in the area of battery packs, while our energy storage solutions are likewise continuing to contribute to the growth of this segment.

Today, the VARTA AG Group is already a market leader for many of the areas in which it operates. Moreover, the company ranks among the leaders on innovation in the field of lithium-ion batteries in particular. In this way, the Group places a distinct focus on the development of new products and processes. In the past, this approach has regularly allowed the VARTA AG Group to launch further product innovations on the market. The Group will again seek to significantly increase the energy density of its lithium-ion batteries this year, thereby markedly extending its innovative edge once more. The VARTA AG Group is therefore proving the efficacy of its highly successful lithium-ion business model yet again. In addition to its technology and innovation leadership, VARTA is distinguished by its proprietary toolmaking and mechanical engineering in addition to a highly automated mass production line. A comprehensive patent portfolio serves to safeguard our business model.

Our customers are relying more than ever on high quality, reliability and security. To this end, they place their trust in VARTA as a supplier of genuine quality. In fiscal year 2019, Group revenue rose by 34% to € 363.8m. By scaling the business model, growth in operating earnings outpaced that of revenue. Adjusted EBITDA increased by 95% to € 98.0m, while the adjusted EBITDA margin improved by 8.4PP to 26.9%.

We have therefore again significantly accelerated the pace of growth and will continue this dynamic in fiscal year 2020 as well. In order to further consolidate our strong market position and extend our technological edge, we will be focusing on innovations in terms of products and process technology for mass production, while we shall also be hugely expanding production capacities in the area of lithium-ion cells once more. This will ensure that we are excellently positioned and can look ahead with great confidence into fiscal year 2020.

Of course, our shareholders also stand to benefit from this successful development. In fiscal year 2019, the VARTA share price increased by nearly 400%. Due to this very positive stock market development, the VARTA share was included in both the MDAX and TecDAX in December 2019. VARTA therefore ranks among the 90 largest listed companies in Germany, and is additionally one of the 30 largest technology firms. This will ensure that the company is of interest to even larger international investor groups.

At this point, we would like to take the opportunity to thank our colleagues for your commitment and our shareholders for the confidence you have placed in us. We see this as an incentive to continue our successful path over the long term and further accelerate growth.

HERBERT SCHEIN
CEO

STEFFEN MUNZ
CFO



Made in
Germany –
often copied,
never
matched.



Inventors, innovators perfectionists and
structuralists, inventors of the jet plane, thinkers,
visionaries and efficiency fanatics?

Around the world, there are many stereotypes about
Germans. Whether or not these are all true remains to be
seen. But these characteristics, which do not exactly make
for easy-going people, are reflected positively in the
precision, quality and total love of details seen in our
products. Excellence is the standard at VARTA. For this
reason, we are respected the world over...

We don't do things by halves!

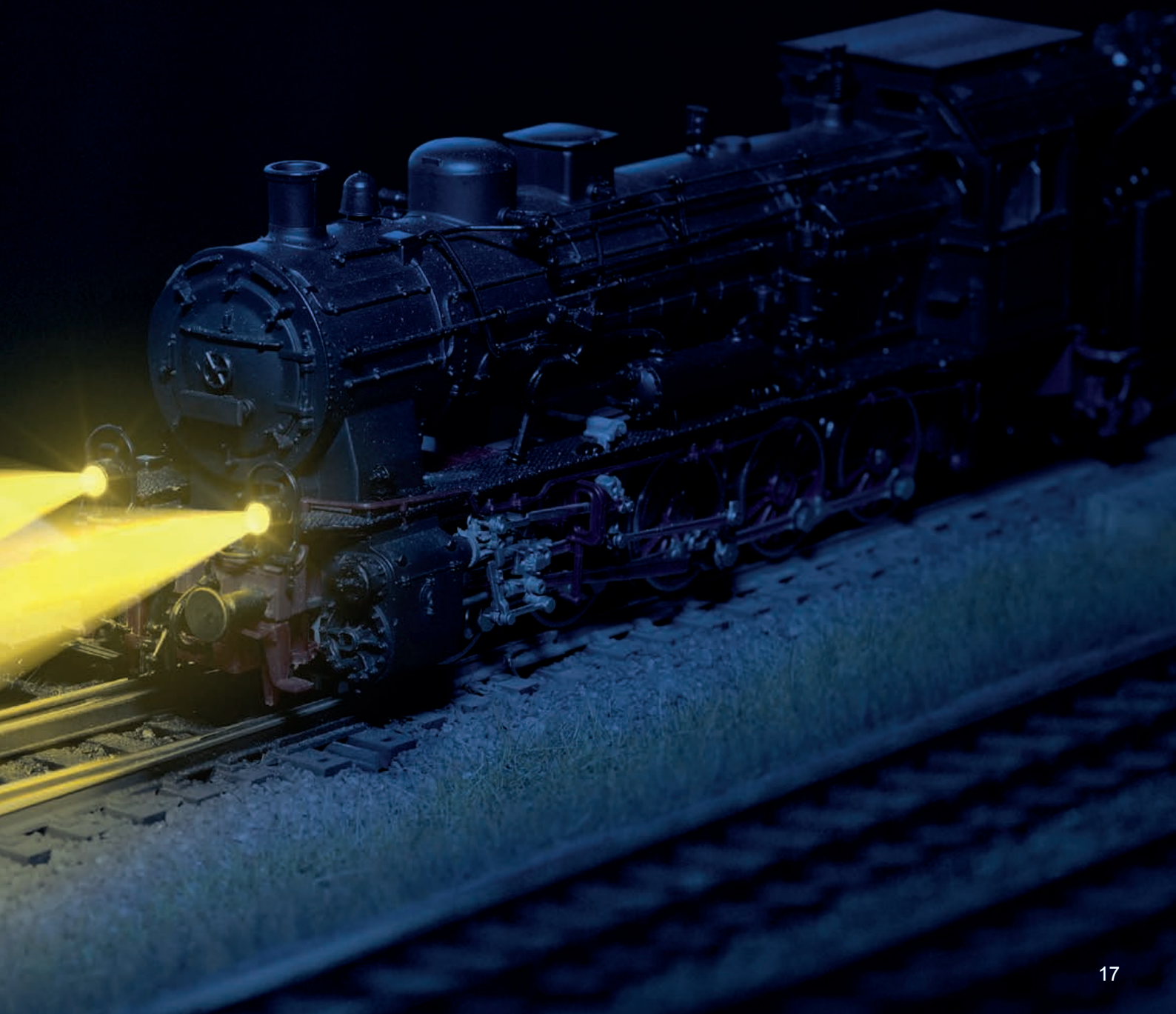
When Germans are unable to do something, we call that doing it by halves. As perfectionists, we love to think things through to the end. We do not rest until we have found the best solution. Given the demands we place on ourselves, VARTA never rests on its laurels. Rather, we soldier on in order to maintain and further extend our technological edge. And so, with a love for detail and passion for precision, our products become something extraordinary.






A nation of inventors and innovators

Germans are passionate inventors and innovators – from train sets and mopeds to our own smart home systems! One of the aims behind this has always been to achieve greater independence. At VARTA, we have been pursuing this passion for freedom through technological innovation for over 130 years. Our innovative spirit has created higher performance, fewer wires, faster charging times and higher energy densities in ever smaller and lighter energy storage solutions.





A dramatic photograph of a soccer match at night. A player in a yellow jersey is diving towards a goal, with their arms outstretched. The goal is illuminated by two powerful spotlights from above, creating a strong contrast with the dark stadium. The grass on the field is visible in the foreground, and a portion of a soccer ball is seen on the left edge.

Made for success.

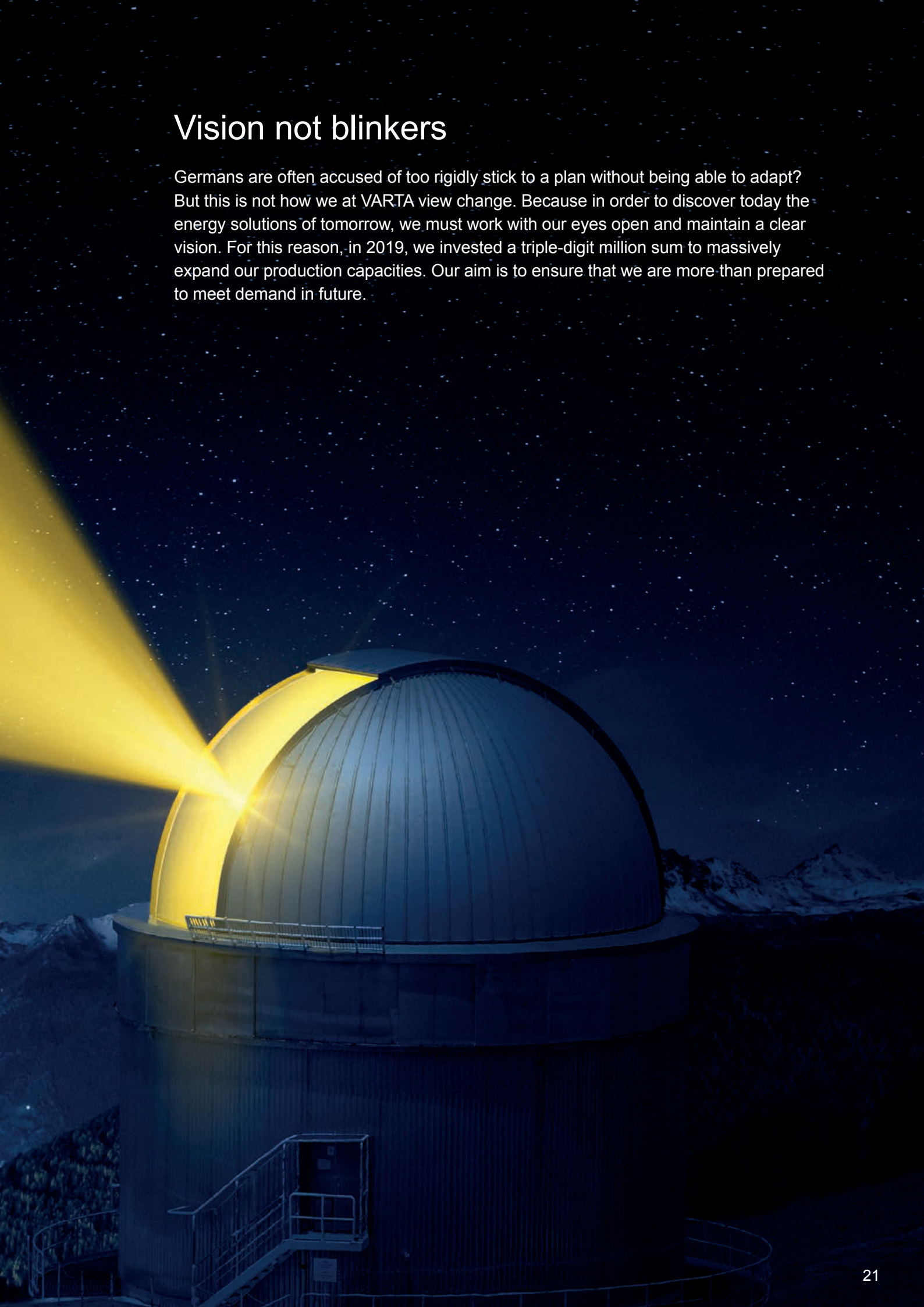
As four-time winners of the football World Cup, the whole world is well aware of typically German strengths such as determination, mental strength and passion. But team spirit is the really decisive factor. Here at VARTA, promoting the talent in each individual, helping them to apply this towards a common goal, is a cause particularly close to our hearts. Because we want to be for our staff more than just an employer. We want to be a team where they feel at home and where they can develop, grow and go above and beyond what they thought they could achieve.

The word is out: Our dynamic business development has meant that in 2019, we were able to welcome more new team members at VARTA than ever before: 563 to be precise!



Vision not blinkers

Germans are often accused of too rigidly stick to a plan without being able to adapt? But this is not how we at VARTA view change. Because in order to discover today the energy solutions of tomorrow, we must work with our eyes open and maintain a clear vision. For this reason, in 2019, we invested a triple-digit million sum to massively expand our production capacities. Our aim is to ensure that we are more than prepared to meet demand in future.



We love DIY.

Strict quality controls and the highest demands have seen “Made in Germany” become a global guarantee for quality. At VARTA, we go one step further. After all: trust is good, but homemade is better – especially when it comes to production systems. Here, only our own, tailored production lines will do. As a result, we are able to develop flexible and custom-made energy solutions at all times, making VARTA quicker, better and more independent in terms of delivering individual solutions for our customers. This creates trust and an advantage that is “Made in Germany”.



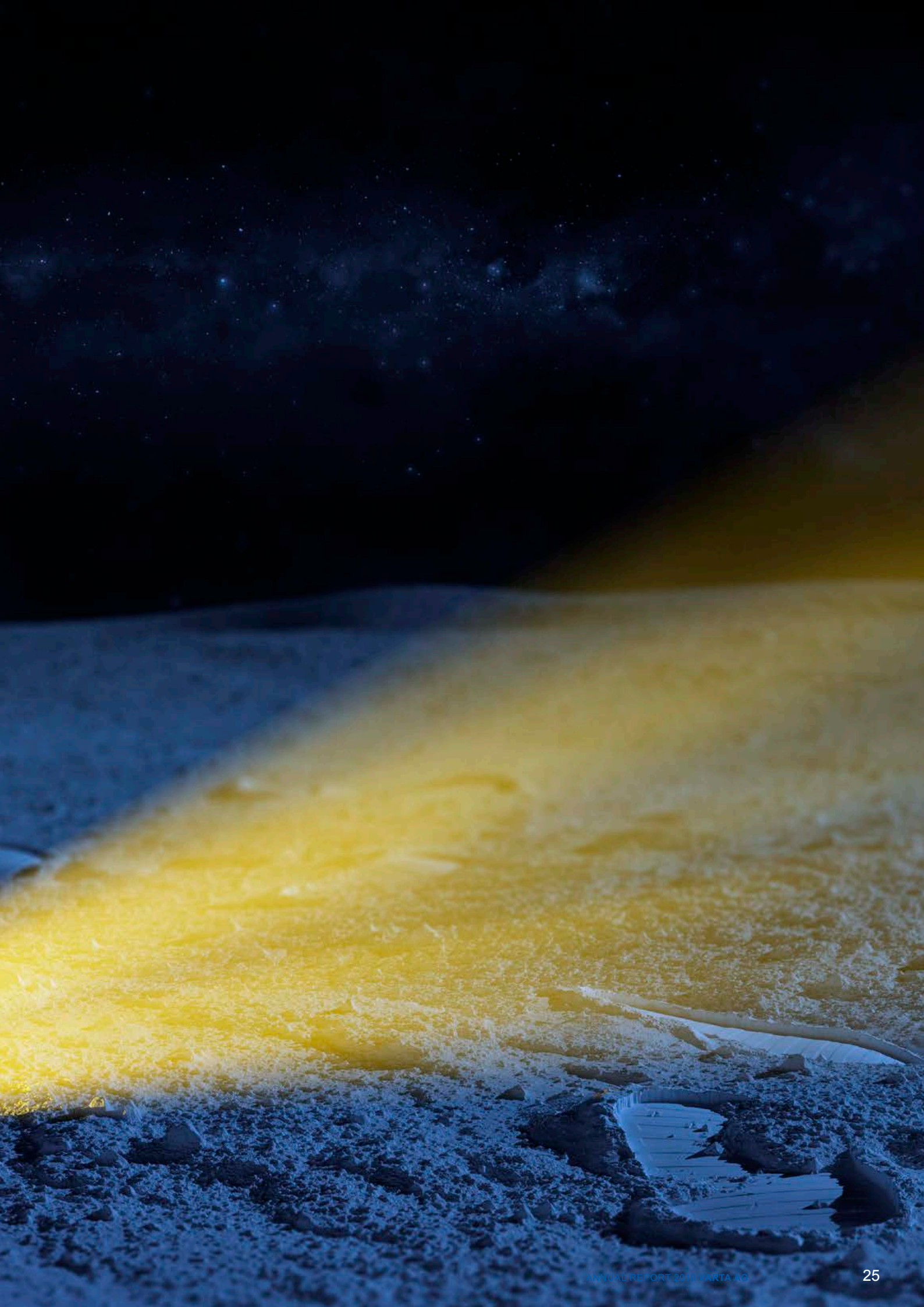




Our drive: being the first!

Germans have a reputation for always wanting to be the first. And it's true! VARTA's products accompanied both Fridtjof Nansen during the Norwegian's expedition to the North Pole and Neil Armstrong to the moon. In order to continue to empower the pioneers of tomorrow, we are working at full tilt to develop solutions aimed at overcoming the challenges presented by the technological and societal transformation today. Because without future-oriented battery and energy storage solutions, not even the most innovative technology will be able to unleash its potential.



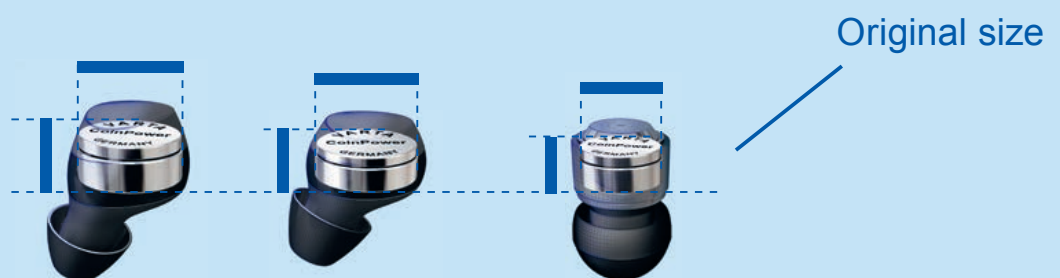


Typically German: **How „Made in Germany“ impacts our success.**

On the following pages, we explain our technological edge in the area of energy density, taking **lithium-ion cells** as an example.

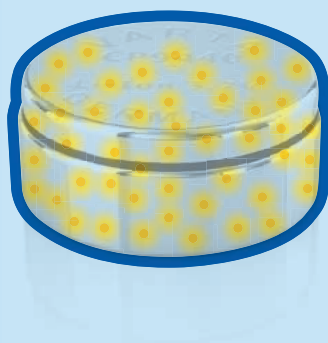
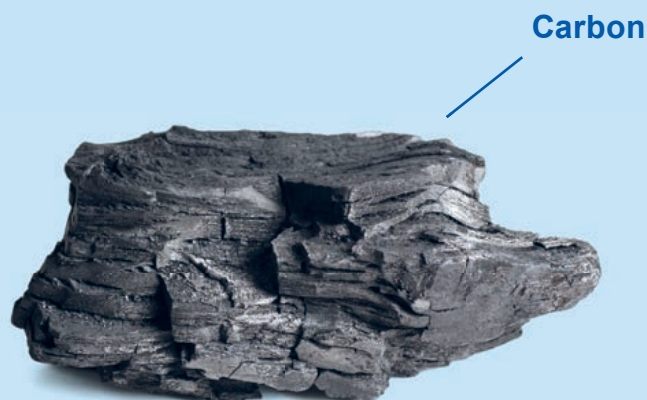
The challenge for the market: **Smaller, more powerful and more reliable!**

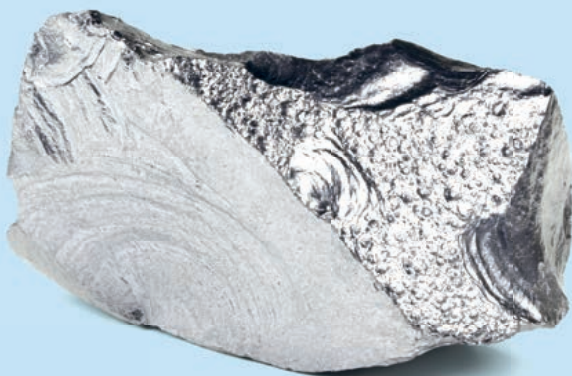
The rapid development of new markets is the reason behind the strongly growing demand for batteries and energy storage solutions. However, this means that there is also demand for ever smaller, more powerful and more reliable products.



Recipe for success no. 1: **The best materials as the basis for quality and maximum performance.**

Our grandmothers taught us that the quality of the individual ingredients is the key to success in cooking and baking. So, we must thank them: because when we manufacture batteries, we also never compromise. For example, in our button cells, we use silicon with a much higher energy density instead of the usual carbon.



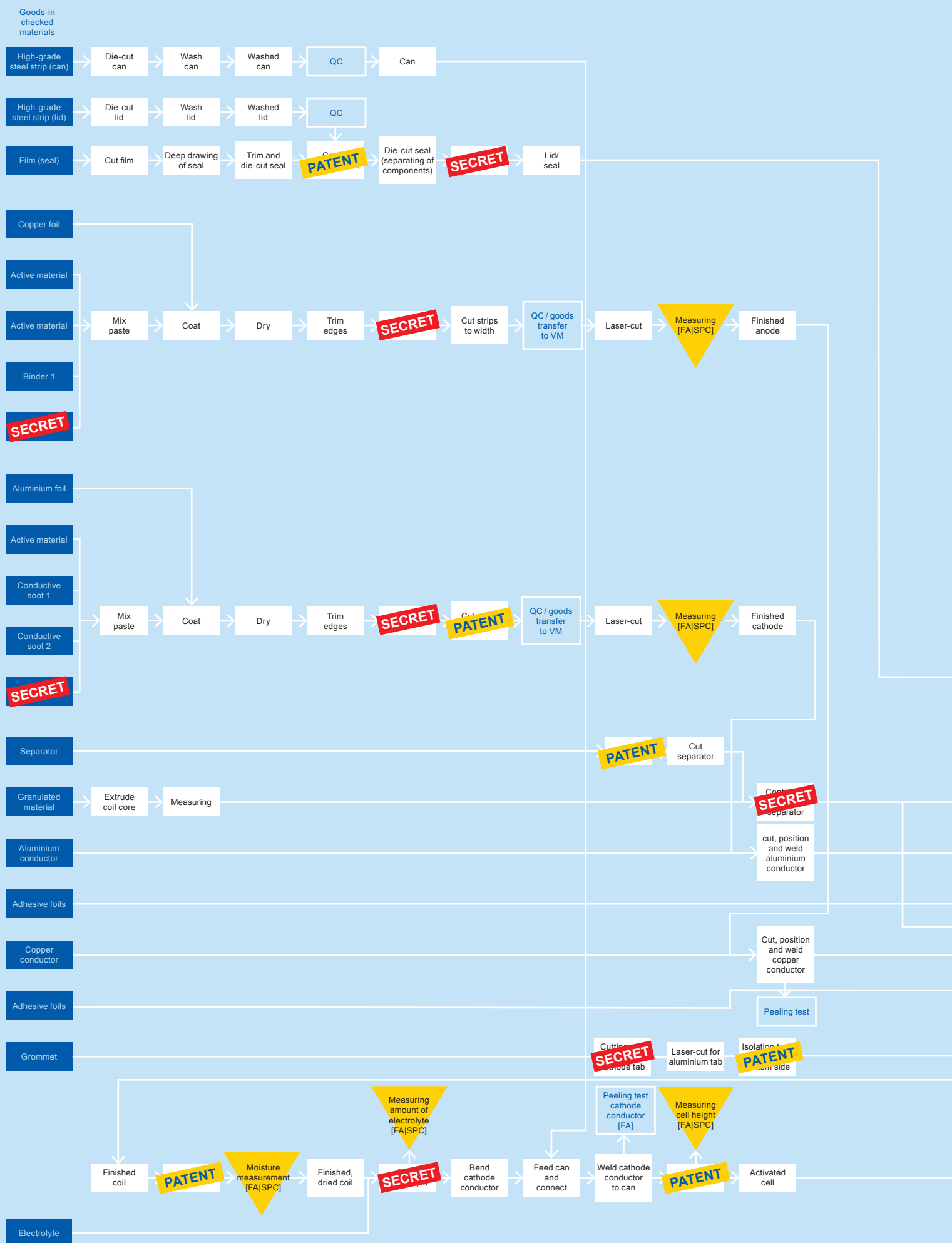


Silicon

Compared with the graphite carbon used previously, the lithium-ion storage capacity in the same volume of silicon is around three times higher. This facilitates an enormous increase in energy density for our cells.

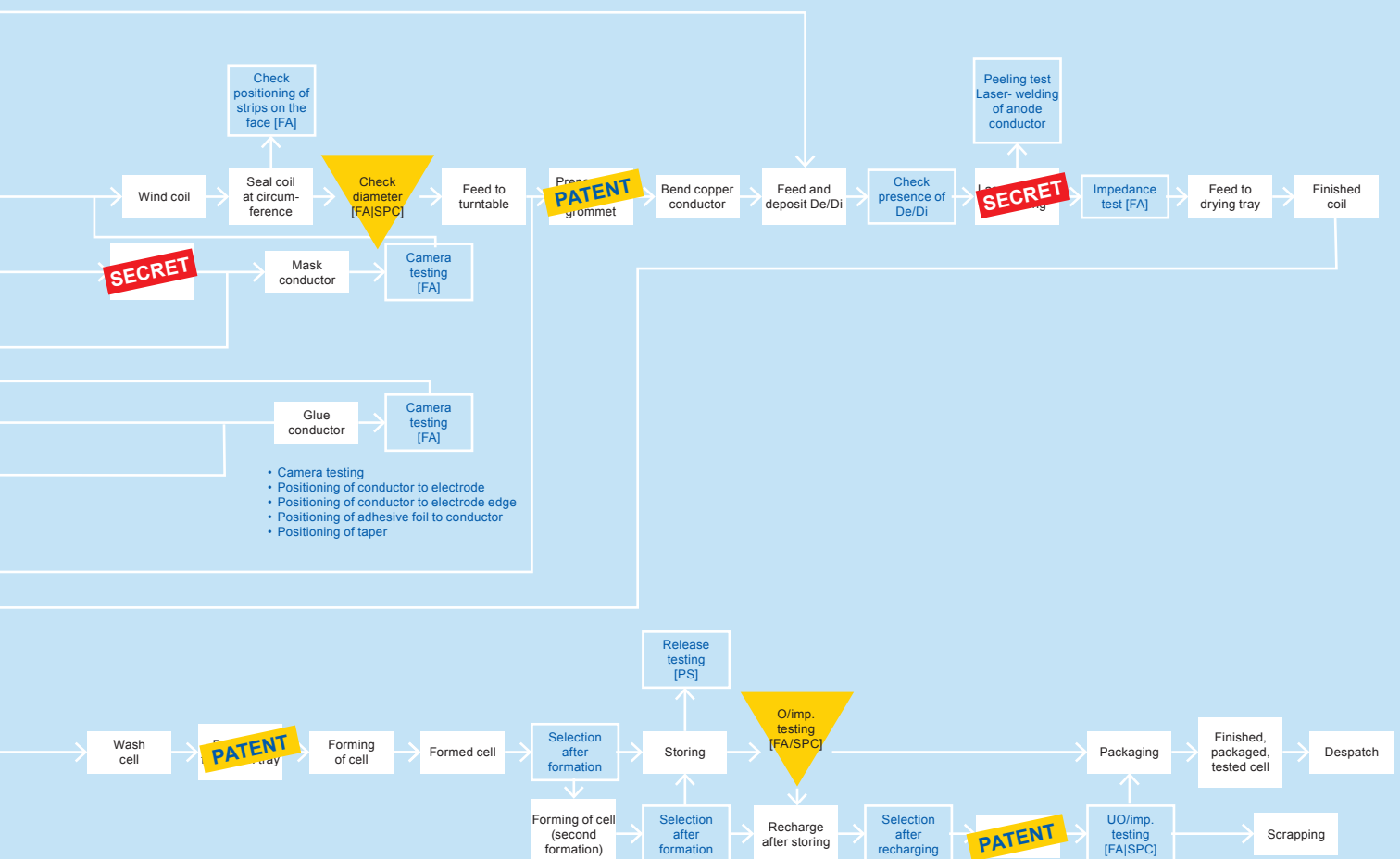


By using silicon in lithium-ion cells, we are already achieving three times the storage capacity per weight compared with graphite and **1.6 times per volume.**



Recipe for success no.2: Complex in-house production for well-rounded solutions

Small but powerful. Our CoinPower button cells might not seem all that complex at first, but they are not as straightforward as they look. Our patented in-house production ensures that these little round helpers are brought to perfection in 52 steps. Patent protection means that they cannot just be copied...



Recipe for success no. 3: **130 years of experience**

When history was made, VARTA was there. Because across more than 130 years, VARTA has been combining a pioneering spirit, tradition, innovation and expertise to make reliable and sustainable energy solutions for a whole host of areas of application.



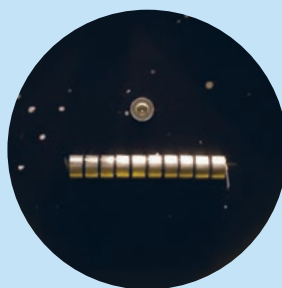
1896

North Pole expedition
of Fridtjof Nansen
(AFA accumulators
pass the chill test of
minus 50 degrees)



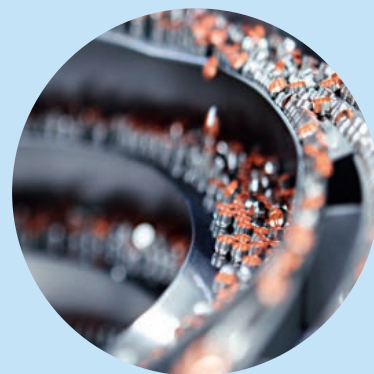
1969

Moon landing
by Neil A. Armstrong.
The camera is equipped
with VARTA batteries.



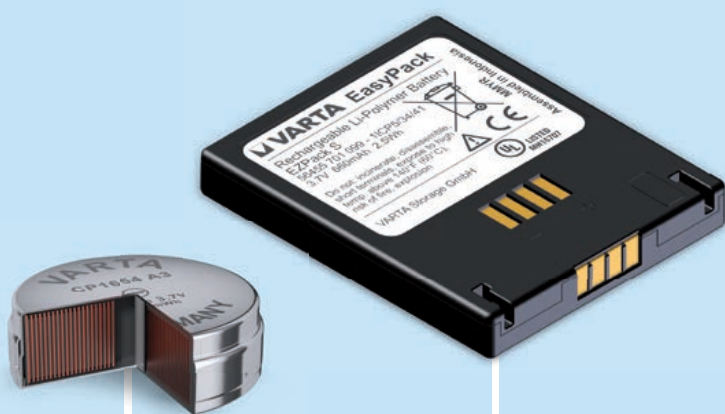
1989

Jupiter project



2011

**State-of-the-art
hearing aid
battery factory**



2014
Launch of
VARTA CoinPower

2018
ISS
VARTA contributes
a lithium-ion
polymer battery to
the space mission.



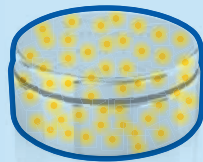
2019
Huge expansion
of lithium-ion
production capacities

The result: **Inner power**

We are able to consistently increase the energy density of our **lithium-ion cells** by way of constant R&D.

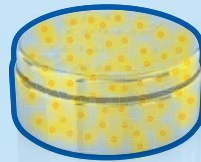
**Energy
density**

+17%



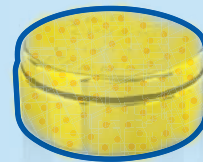
2015

+20%



2017

+30%



2020



VARTA Vision

We define the future of battery technology to empower a more independent life.

VARTA Mission

Through continuous investments in research and development, we set the benchmark for battery technology and customization to strive market leadership in our segments.

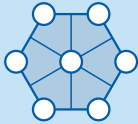


VARTA success factors

External factors



DEMOGRAPHIC
CHANGE



DIGITAL
NETWORKING



TECHNOLOGICAL
PROGRESS



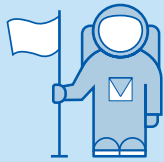
RENEWABLE
ENERGY

We are excellently positioned to benefit from long-term growth trends.

Internal factors



MADE IN
GERMANY



130 YEARS
OF EXPERIENCE



TECHNOLOGY
LEADER



STRONG FINANCIAL
PROFILE

VARTA AG uniquely combines long-standing experience with future-oriented technology in addition to setting standards in mass production.

Product applications



WEARABLES



HEARING AIDS



IT / COMMUNICATIONS



INDUSTRIAL /
ROBOTICS



CONSUMER



MEDICAL



RESIDENTIAL
STORAGE SYSTEMS



COMMERCIAL
STORAGE SYSTEMS



AUTOMOTIVE



HOME & GARDEN



POWER TOOLS

Batteries are the key components in 21 Century applications.

Product categories: An overview

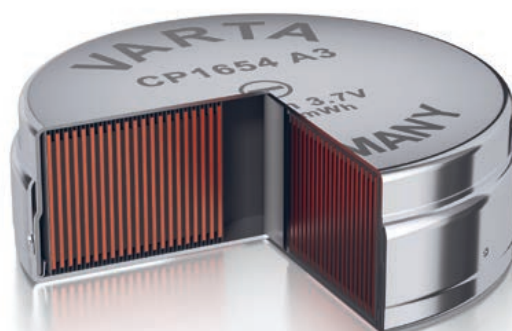


HEARING AID BATTERIES

Our “power one” brand makes us the only manufacturer in the world to offer not only zinc-air batteries but also a full range of rechargeable batteries. These are produced in our largest and most modern hearing aid battery production plant in Ellwangen and are manufactured on fully automated production lines.

LITHIUM-ION BUTTON CELLS

The VARTA CoinPower range is the perfect energy solution for modern electronic devices such as true-wireless Bluetooth headsets, wearable technologies, medical devices and much more. The smallest dimensions, excellent mechanical stability and the highest energy density have made it possible to produce miniaturized versions of modern devices. The premium cells are “Made in Germany” on fully automated production lines.





LITHIUM-ION BATTERY PACKS

The application-specific batteries (ASB) produced by VARTA form part of a modular battery range that enables the development team to concentrate on their product – without additional development, equipment or certification costs for the batteries themselves. The batteries, which are based on lithium-ion technology, have a modular construction and can be connected in parallel in order to provide the right energy for every application.

ENERGY STORAGE SYSTEMS

VARTA pulse is now available in a “neo” variety. The VS-XMS, an operating system that can be expanded as required, means that VARTA pulse neo is prepared for all future requirements. In addition to direct interaction with a variety of end devices, cascading across all products is also possible – without additional hardware!



Highlights 2019



A day to remember: 50 years since the moon landing

2019, when the world celebrated 50 years since the first moon landing, VARTA AG also celebrated 50 years since its own batteries were on board: The photos from the first moon landing 50 years ago were snapped by a powered by VARTA batteries. Since 1887, the name VARTA has represented leadership in both innovation and technology, as well as standing for tradition and reliability in equal measure.



VARTA pulse: product of the year

Readers of the building and façade engineering website www.haustec.de have voted for VARTA's Pulse energy storage solution as "product of the year" in the Energy category as part of the readers' vote 2019. Almost 90 manufacturers presented their products across a total of eleven categories. The readers had four weeks to decide which technical innovation they liked the most.

VARTA AG acquires the VARTA Consumer Batteries business from Energizer

The battery manufacturer VARTA AG has signed a contract to purchase the Europe-based VARTA Consumer Batteries business (VARTA Consumer) from US-based Energizer Holdings, Inc. (Energizer). VARTA Consumer Batteries comprises a number of national subsidiaries, with its main production site located in Dischingen, Germany.

VARTA Consumer Batteries is one of the leading manufacturers of consumer device batteries in Europe and has been able to carve out a market leading position in numerous European countries. Its successful business development is based on a strong European distribution network with numerous local businesses as well as long-standing customer relationships with almost all European key retailers.



Markt + Technik picks VARTA CTO Rainer Hald as manager of the year

The magazine Markt&Technik has distinguished Chief Technology Officer (CTO) of VARTA AG Rainer Hald as manager of the year in the Battery and Battery packs category. Around 6,000 Markt&Technik readers took part in the online vote to choose "Manager of the Year 2019" and three winners were chosen from nine categories.

VARTA AG accelerates research and development for lithium-ion technology

The VARTA AG Group is already a leader in technology and innovation for lithium-ion batteries. These batteries will play a strategic role in even more applications in the future. In recent years, VARTA AG has successfully improved its lithium technology on an ongoing basis, repeatedly setting new industry standards in the process. The next major milestone in the further development of lithium-ion technology relates to the research and development of silicon-based anodes with the ultimate aim of transferring this technology into mass production – both for existing and larger scale formats. The Federal Ministry for Economic Affairs and Energy (BMWi) in Germany is providing financial backing for these projects. The European Union (EU) and the BMWi regard battery technology as a key technology, in particular with regard to the electrification of transport systems, while there are also other areas in which this technology will play a core role.

VARTA AG is moving up: shares included on MDAX and TecDAX

On December 04, 2019, Deutsche Börse announced that VARTA shares were to be included on both the MDAX and TecDAX. The MDAX comprises the 60 “medium-sized” German stock companies (Aktiengesellschaften) across all industries, which, in terms of market capitalization and stock market order book volume, rank directly below the 30 DAX entities. In addition, Deutsche Börse has also approved the inclusion of VARTA shares on the TecDAX. This index includes the 30 largest, most lucrative German technology companies based on trading volume. VARTA shares have also been listed on the SDAX – the share index for Small Caps – since March 18, 2019. The index composition took effect as of December 23, 2019.

VARTA AG included on SDAX

On March 05, 2019, Deutsche Börse announced that the VARTA shares were to be included on the SDAX from March 18, 2019. The SDAX is the German share index for small caps. It comprises the largest assets trading on the stock exchange after the DAX and MDAX.

VARTA AG successfully concludes capital increase of around € 104m to expand production capacities.

VARTA AG successfully concluded a capital increase for the expansion of production capacities in the area of lithium-ion batteries. A total of 2,221,686 new shares were issued at a price of € 46.70 per share. Gross issuance proceeds of around € 104m were generated from the capital increase for the Company.



VARTA receives German Brand Award

At this year's German Brand Awards, VARTA's showroom on the Group's battery history, the “Time Capsule”, won awards in the categories of “Brand Experience of the Year” and “Brand Communication – Architecture & Buildings”.



Energy storage solution increases stability of the power supply to the Greek island of Kythnos.

Actively helping to shape the energy future of Europe: the VARTA Group not only follows this maxim with its own division for research and development, but also by participating in research projects such as WideGRID. This project aims to develop new value-added and consumer-oriented services for smart networks in Europe, to increase the overall proportion of renewable energies in the European electricity mix and to accelerate the acceptance of electromobility throughout Europe. This is to be demonstrated by way of four pilot projects in Spain, Italy, Belgium and Greece. The project will be funded by the European Union's research and innovation program “Horizon 2020”.



Smaller, lighter, higher performance: Three new lithium-ion cells

Embedded World opened on February 26, 2019, in Nuremberg. The world's leading international trade fair for embedded systems focused particularly on topics such as the security of electronic systems, distributed intelligence and the Internet of Things. During the event, VARTA placed the spotlight on suitable energy supply for the networked world of tomorrow.

Share performance

For the German stock markets, 2019 was a very positive year. The most important indices all closed the year having posted significant gains. The DAX rose by 25%, while the SDAX and MDAX registered virtually identical gains of 31%. In addition, the TecDAX increased by 22% overall. For **VARTA AG shares**, 2019 was a highly successful year. Share performance was far better than the benchmark indices over this period. **VARTA AG shares** gained 387.9% year on year (Dec. 31, 2019: € 121.4; Dec. 31, 2018: € 24.88).

Market capitalization and trading volume significantly up

The very pleasing development of the stock markets was also positively reflected in the market capitalization of **VARTA AG**. As at year-end, the company was valued € 4.9bn by the stock market. The market capitalization has therefore increased fivefold over the course of the fiscal year (Dec. 31, 2018: € 0.95bn).

In order to ensure that **VARTA AG** shares are attractive to new investor groups, a particular focus of Investor Relations was to increase the average trading volume of the shares. In 2019, an average of just under 99,000 shares were traded each day. The average Xetra trading volume therefore trebled year on year (2018: 33,000 shares).

Index inclusion: From the SDAX to the MDAX and TecDAX in a single fiscal year

The strong stock market performance of VARTA shares led to their inclusion on the S-DAX as early as last March. The next index development came just nine months later. The company has been included on the MDAX since December 23, 2019, with the shares additionally listed on the TecDAX technology index. Within just a short period of time, **VARTA AG** has carved out an excellent position on both indices. By year-end, the company was ranked in 49th place out of 60 firms listed on the MDAX. This ensures that **VARTA AG** shares are also attractive to global investment firms.

Successful capital increase

On June 13, 2019, **VARTA AG** placed a total of 2,221,686 shares resulting from a capital increase with institutional investors as part of an international private placement. The placement was conducted without a markdown on the basis of the previous day's closing price of € 46.70 as part of an accelerated book building process. The gross proceeds from this capital increase totaled € 104m and are being used to finance the expansion to production capacities in the strongly growing area of rechargeable lithium-ion cells used for high-tech consumer products. The new shares will carry full dividend rights from financial year 2019. The share capital of VARTA AG now amounts to € 40,421,686 (40,421,686 shares).

Further internationalization of the shareholder structure

At year-end, **VARTA AG**'s shareholder structure was of an international nature. In addition to the anchor investor Montana Tech Components AG, which holds a stake of around 58.3%, there is a focus on shareholders from countries such as the United Kingdom, the USA, France and Germany, in addition to other European nations. Shares are held by institutional investors with long-term outlooks in particular. The proportion of freely tradeable shares was 41.7% as at year-end. The rise of around 6 percentage points in the volume of VARTA AG shares held in free float is attributable to the capital increase excluding shareholder subscription rights and the placement of shares held by the main shareholder.

Going global: Capital market communications targeting all corners of the world

The Investor Relations team continued and significantly intensified the global focus of its capital market communications during the 2019 stock market year. Overall, the company took part in a number of roadshows (15) and capital market conferences (8) across a total of 8 countries, the majority of which were held over the course of several days. The regional focus was on Germany (12), the UK (5), the USA and France (3 each) as well as Italy and Asia (1 each). For the first time, a two-day roadshow was conducted in Hong Kong and Singapore. In addition, **VARTA AG** intensified its contacts with the sales departments of various national and international banks. At the start of September, the company organized an analyst meeting in Frankfurt am Main.

Significant increase in analyst coverage

VARTA AG coverage has been extended significantly in comparison with 2018, with a total of six analysts in place as at year-end. One of the IR team's central objectives over the previous year was to gain additional international securities analysts for research purposes. The company had set a target of between four and six analysts by year-end 2019. The objective here is to provide a wide range of research opinions for the stock market. The extension of the coverage will remain a priority in 2020 as well. The focus will not only be on numbers, but also on coverage for specific countries. In this context, the focus will be on the US and Asian markets.

Annual General Meeting approves all agenda items by a large majority

On May 21, 2019, around 200 shareholders convened at the town hall in Ellwangen for **VARTA AG**'s second Annual General Meeting. With 88% of the share capital represented at the meeting, all six agenda items were approved with a majority of at least 93%. Dr. Michael Pistauer was newly elected to a position on the Supervisory Board. He succeeds Dr. Franz Guggenberger, who resigned his position with effect from the conclusion of the Annual General Meeting.

VARTA SIGNIFICANTLY OUTPERFORMS BENCHMARK INDICES





MADE IN GERMANY

**We guarantee the highest levels of reliability,
quality, safety and efficiency.**

Contents

CONSOLIDATED MANAGEMENT REPORT 45

1	GROUP STRUCTURE	46
1.1	Business model	46
1.2	Strategy and goals	48
1.3	Corporate management	49
1.4	Separate non-financial group report	50
1.5	Management and control	50
1.6	Corporate management declaration	50
2	ECONOMIC REPORT	50
2.1	Markets and influencing factors	50
2.2	Macroeconomic and industry-related framework conditions	51
2.3	Business development	51
3	DEVELOPMENT OF EARNINGS, FINANCIAL POSITION AND NET ASSETS	53
3.1	Earnings situation	53
3.2	Asset and financial position	55
4	RESEARCH AND DEVELOPMENT	57
5	INVESTMENTS EXCLUDING M&A (CAPEX)	58
6	EARNINGS SITUATION: SEGMENTS	58
7	INFORMATION ABOUT VARTA AG	59
8	EMPLOYEES	65
9	REMUNERATION REPORT	66
10	GUIDANCE, OPPORTUNITY AND RISK REPORT	68
10.1.	Opportunity and risk management system	68
10.2	Executive Board: Overall assessment of the opportunity and risk situation	69
10.3	Internal control system	69
10.4	Risk situation	70
10.5	Operational risks	70
10.6	Strategic risks	71
10.7	Financial and default risks	71
10.8	Other risks	72
10.9	Opportunities for future growth	72
10.10	Overall risk situation for the Group	72
11	OUTLOOK	73
12	SUPPLEMENTARY REPORT	74
13	FINAL DECLARATION REGARDING THE INDEPENDENCE REPORT	74
14	TAKEOVER LAW INFORMATION	74

NOTES TO THE CONSOLIDATED ACCOUNT 77

Consolidated management report for fiscal year 2019

VARTA Aktiengesellschaft, Ellwangen (Jagst)

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

1 GROUP STRUCTURE

1.1 BUSINESS MODEL

VARTA Aktiengesellschaft, Ellwangen, Germany (**VARTA AG**) is the parent company of the corporate Group. **VARTA AG** has been listed on the Frankfurt Stock Exchange in the Prime Standard segment since October 2017, in addition to being included on the select indices of the MDAX and TecDAX since December 23, 2019. The description below provides a (simplified) overview of the Group as at the balance sheet date.

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

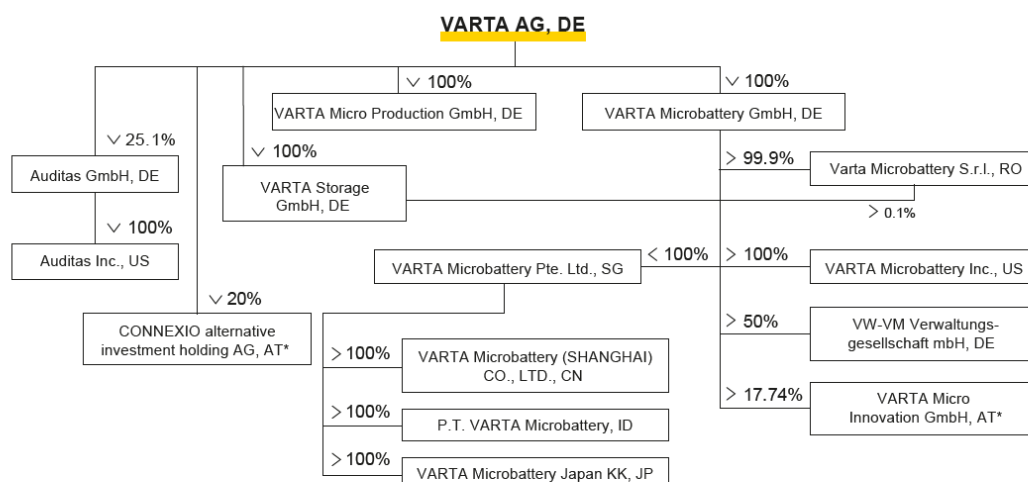
The business activities of the **VARTA AG** Group are divided into two separate business segments: **VARTA Microbattery GmbH** operates the Microbatteries segment, while **VARTA Storage GmbH** assumes responsibility for the Power & Energy segment.

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

Since the end of 2019, the Group has operated four production and battery manufacturing plants in Germany, Romania and Indonesia in addition to distribution centers in the USA, Europe and Asia, from which direct sales to customers in more than 75 countries around the world are conducted. Operating on a global basis today, **VARTA AG** can proudly look back on 130 years of company history.

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

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



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

Segments and organizational structure

Microbatteries

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

For applications in the area of **Healthcare**, zinc-air batteries are primarily manufactured for use in hearing aid devices. These are marketed under the “power one” and “ecopack” brands in addition to proprietary customer brands. Commercial success in the area of hearing aid batteries is dependent on innovative, reliable solutions that offer a long service life as well as consistent quality. Our market position is secured by proprietary automation processes within production in addition to our ability to provide an end-to-end service to our customers, ranging from initial product to the point of sale (POS).

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

In the **Industrial** product group, the company primarily manufactures rechargeable battery solutions for industrial and original equipment manufacturers (OEMs). These include applications such as servers, applications in car keys, alarm systems and smart meters, among others.

Power & Energy

In the power and energy segment, which is under the management and control of **VARTA Storage GmbH**, mobile and stationary energy storage solutions are developed, manufactured and sold. The segment is focused on the development, system integration and assembly of power pack solutions for OEM customers in various markets. To this end, the batteries used are predominantly based on lithium-ion technology. The second focus of this segment is on energy storage solutions for private households and commercial enterprises.

This segment is responsible for the production of rechargeable, standardized and customized battery packs. These can be seamlessly integrated into various industrial and wireless applications. Irrespective of the technology or complexity of tasks at hand, the company offers a full service from design to production for OEM customers. This segment is concentrated on solutions for portable industrial applications, communications devices and electric power tools in addition to devices used at home, in the garden and for medical applications.

The segment also develops and manufactures energy storage systems for private households and commercial applications. The product portfolio features a modular design. This ensures that every end user can find the right energy storage device for their specific requirements: from handy, compact, complete beginner systems to mass storage solutions for industrial facilities.

1.2 STRATEGY AND GOALS

As part of its annual budget planning, the **VARTA AG** Group defines its goals and strategies for the following fiscal year. As was the case in the previous year, the Group is ideally positioned to take advantage of the relevant growth trends across both segments. These include demographic changes, technological progress, increased connectivity (Internet of Things) and renewable energies (growing awareness of recycling materials), for example. As of January 1, 2020, the Company redefined its two segments. Further information on this can be found under Chapter 11 Outlook.

Demographic change

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

Technological progress

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

Connectivity

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

Renewable energies

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

In this respect, the **VARTA AG** Group focuses on the following growth areas and objectives:

Strengthening and expanding global market position in core products

In fundamental terms, the Group focuses on business areas in which it strives to attain long-term market-leading positions. This target is unchanged from the prior year.

In the Healthcare area, the company aims to consolidate and expand its market position on the back of further innovations. As is the case in the Healthcare area, the Group is also particularly keen to carve out a leading market position for true wireless headsets to capitalize effectively on the strong market growth in this area.

In terms of mobile energy solutions, the Power & Energy segment's focus lies on strong growth from gaining new customers. To this end, the Group is targeting major customers operating around the world. The aim is to increase the market share in Europe in particular and assume a leading position among European manufacturers. Trends toward sustainability, increased environmental awareness and rising demand for energy self-sufficiency should be of benefit to our accumulator batteries for intermediate energy storage solutions. Here, the defined goals include above-average growth in selected markets as well as steadily expanding the regions in which the company operates.

Expanding dynamic approach in innovation and technology

The Group is working on developing innovative products using fully automated high-speed production lines in Germany, above all in the Microbatteries segment. **VARTA Microbattery** therefore delivers solutions that offer a superb combination of quality, innovation, technology and value-for-money. The Microbatteries segment covers the entire value-added chain, from materials research to the finished product, including customer-friendly packaging concepts. On account of the very high level of demand for rechargeable lithium-ion batteries for the Entertainment area, the Group significantly expanded production capacities last year.

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

Strong financial profile enabling focus on profitable growth

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

1.3 CORPORATE MANAGEMENT

The **VARTA AG** Group is managed on the basis of internally defined financial and non-financial metrics to pursue a strategy centered on sustained value growth. The Executive Board has not changed its internal control and management mechanisms in comparison with the prior year. As was the case in the previous year, the following metrics were applied for corporate management purposes: Revenue, adjusted EBITDA, CAPEX. The management control system also represents the basis for VARTA AG's external reporting and is monitored by the Supervisory Board within the scope of its control function.

Financial and non-financial indicators

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

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

As was the case in the prior fiscal year, the Executive Board defined as special effects (where applicable) costs related to the IPO and capital increase, impacts on the profit and loss account resulting from the reimbursement claim from an assumption of debt in connection with pension obligations, effects from the share-based remuneration, disposal effects from sale and lease-back transactions, potential restructuring costs and expenses in connection with M&A transactions. In accordance with this definition, the earnings effect from share-based remuneration and from expenses incurred in connection with the acquisition of the VARTA Consumer Group was adjusted in fiscal year 2019.

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

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

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

1.4 SEPARATE NON-FINANCIAL GROUP REPORT

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

1.5 MANAGEMENT AND CONTROL

In 2019, the Executive Board of **VARTA AG** comprised two members: Herbert Schein (Chairman of the Executive Board/CEO) and Steffen Munz (CFO). The Executive Board members share joint responsibility for the management of the company.

The Supervisory Board was composed of the following members as at December 31, 2019: Prof. DDr. Michael Tojner (Chairman), Dr. Harald Sommerer (Vice Chairman), Frank Dieter Maier, Sven Quandt, Dr. Georg Blumauer and Dr. Michael Pistauer.

1.6 CORPORATE MANAGEMENT DECLARATION

The corporate management declaration in accordance with Section 289f of the German Commercial Code (HGB), which also contains the declaration of conformity in accordance with the German Corporate Governance Code (DCGK) pursuant to Section 161 of the German Stock Corporation Act (AktG) will be published on the **VARTA AG** website (www.varta-ag.com/investor-relations).

2 ECONOMIC REPORT

2.1 MARKETS AND INFLUENCING FACTORS

The markets in which the **VARTA AG Group** operates and the influence factors to which it is exposed have remained practically identical in comparison with the prior year. The **VARTA AG Group** manufactures and sells batteries around the world, benefiting from a positive consumer landscape despite its relative independence from the macroeconomic environment. This infers that any negative trends in the macroeconomic environment would

not entail any direct negative consequences for the business model, as the majority of products are unaffected by the economic cycle. For example, they tend to be used in medical fields.

In geographical terms, revenue distribution is highly diversified. Most of our products are sold in Asia followed by Europe and North America (see regional revenue distribution: Chapter 3.1). This therefore means that dependency on individual countries and their respective economic development is comparatively low. Due to the market and customer structure, the Asian market plays the most important role; many major manufacturers of wireless headsets produce their products in this region. The key influencing factors are discussed as part of the following chapter (2.2 Macroeconomic and industry-related framework conditions).

2.2 MACROECONOMIC AND INDUSTRY-RELATED FRAMEWORK CONDITIONS

The existing macroeconomic framework conditions in 2019 in the sales markets relevant to the **VARTA AG Group** continued to develop positively. Demographic trends are key to the sales of batteries for healthcare applications, while it is trends in consumer electronics that exert the greatest influence on sales of batteries for entertainment applications and the trend towards wireless products and renewable energies that most impact sales of products in the Power & Energy segment. IDTechEx Research expects revenue in the hearables market to double from \$ 15bn (2018) to \$ 30bn by the year 2029.

Increased life expectancy of people across all societies in addition to rising acceptance of hearing aids supports sales of hearing aids and therefore also of hearing aid batteries. In 2019, 9.1% of the global population was aged 65 or over, and this proportion will rise further to hit 11.7% by 2030 and 15.9% by 2050. In Europe and North America, this proportion of the population is much higher, at 18% (2030: 22.1%; 2050: 26.1%). At the same time, life expectancy is continually rising. In the reporting year, this stood at 72.6 years on a global basis, and is expected to rise to 77.1 years by 2050 (United Nations: World Population Prospects 2019 Highlights). The human requirement for hearing aids is therefore also set to rise. IDTechEx Research has published the following forecast for the development of revenue: Global hearing aid sales of \$ 7.8bn including the OTC market are expected from the reporting year (2019 onwards), equating to growth of 4.8% (2018: \$ 7.4bn). For 2020, the growth forecast amounts to 5.3% with a positive outlook for the next few years. Revenue will therefore be boosted by the strong rise in freely available hearing aids (OTC).

The area of Entertainment is benefiting from the unabated high level of customer demand for high-tech consumer products, in particular for wireless premium headsets with rechargeable lithium-ion cells. For wireless headsets, Zhiyan Consulting is anticipating a global increase of nearly 54% from 2018 to 2019, and of 50% for 2020. Moreover, the company is also very positive with regard to the future development in this area. Improvements to the operating time and expanded functionality will see the market share of wireless headsets increased further. The more wireless devices that are developed, particularly for micro-applications (e.g. headsets), the stronger the position of the **VARTA AG Group** here.

In the Power & Energy segment, demand for power tool batteries stands to benefit from the switch from corded to cordless end devices, for which ever more high-performance batteries are sought. According to Arvienne, a global revenue increase from \$ 1.7bn to \$ 3.5bn is expected for the period between 2017 and 2030. In the market segment of stationary energy storage systems, Innogy expects the installed storage capacity of 19 GWh in 2018 to rise to 395 GWh in 2030.

2.3 BUSINESS DEVELOPMENT

General comments from the Executive Board regarding the economic situation

The **VARTA AG Group** can look back with pride on a highly successful year in 2019. Key events during fiscal year 2019 included the very high level of demand for lithium-ion batteries for wireless lifestyle products, the expansion of production capacities in this area due to the level of demand, the high demand for zinc-air batteries for hearing aids in addition to the incredibly successful development of business in terms of stationary energy storage solutions. A double-digit organic growth rate of 33.5% to € 362.7m was recorded for Group revenue in fiscal year

2019. By scaling the business model, growth in consolidated operating earnings has once again outpaced that of revenue. Adjusted EBITDA rose by 94.1% to € 97.5m. Without the first-time application of IFRS 16, this increase would have amounted to 85.7%. It was especially positive to note that both the Microbatteries and the Power & Energy segments sustained high growth impetus and continued their very positive development. To finance the capacity expansion, the Company conducted a capital increase in the prior fiscal year that generated gross proceeds of € 102.1m. As a result of the first-time application of IFRS 16, the recognition of right-of-use assets and corresponding lease liabilities led to an increase in total assets of around € 24.9m.

Comparison of business development with prior year guidance

The consolidated financial statements from last year contained guidance for 2019 on the basis of the key performance indicators listed below. Overall, the positive business development was continued as expected in the fiscal year under review.

KPI	GUIDANCE FOR 2019	FY 2019
Financial indicators: Group		
Revenue	Significant revenue growth at stable currency exchange rates	Huge revenue growth at stable currency exchange rates
Adjusted EBITDA	Huge increase	Huge increase
CAPEX	Significant increase	Huge increase
Financial indicators: Microbatteries segment		
Revenue	Significant revenue growth	Huge revenue growth
Adjusted EBITDA	Huge increase in relation to revenue	Huge increase in relation to revenue
Financial indicators: Power & Energy segment		
Revenue	Huge increase	Huge increase
Adjusted EBITDA	Significant increase	Huge increase

3 DEVELOPMENT OF EARNINGS, FINANCIAL POSITION AND NET ASSETS

3.1 EARNINGS SITUATION

Consolidated income statement for the period January 1, 2019 to December 31, 2019

(€ k)	2019	2018
Revenue	362,692	271,650
Change in finished and unfinished goods	643	3,899
Own work capitalized	4,313	4,152
Other operating income	7,760	7,109
Cost of materials	-123,527	-106,867
Personnel expenses	-114,406	-92,440
Other operating expenses	-45,853	-40,114
EBITDA	91,622	47,389
Depreciation and amortization	-20,855	-10,518
Operating earnings (EBIT)	70,767	36,871
Financial income	601	160
Financial expenses	-1,127	-416
Other financial income	3,488	368
Other financial expenses	-2,644	-631
Financial result	318	-519
Profit and loss shares in companies recognized in the balance sheet under the equity method	-6	130
Earnings before taxes	71,079	36,482
Income tax expenses	-20,615	-10,779
Consolidated result	50,464	25,703
Appropriation of profit:		
Shareholders of VARTA AG	50,390	25,260
Non-controlling interests	74	443

Revenue

Revenue at the **VARTA AG** Group increased by 33.5% from € 271.7m to € 362.7m in the fiscal year 2019. Both the Microbatteries and Power & Energy segments posted year-on-year growth in sale revenue, with the Microbatteries segment recording the most significant increase in percentage terms.

The Microbatteries segment grew by 37.7% from € 218.9m to € 301.5m. By far the strongest revenue growth was again achieved in rechargeable lithium-ion cells for high-tech consumer products, especially for premium wireless headsets (hearables). This is a consequence of unabated high customer demand in a strongly growing market. In the area of hearing aids, the Company is currently benefiting from structural growth, the trend toward rechargeable hearing aids as well as the new business with a leading US retail chain initiated during the prior fiscal year.

Revenue in the Power & Energy segment rose from € 51.8m to € 60.8m, which equates to growth of 17.4%. The segment is benefiting in particular from a new customer order in the area of battery packs with a German premium electrical device manufacturer. Energy storage solutions continue to make a positive contribution to the growth of this segment.

The following chart shows Group revenue broken down according to certain geographical locations. In particular, business in Europe and Asia developed favorably. Due to the market and customer structure, the Asian market plays the most important role; many major manufacturers of wireless headsets produce their products in this region. Further information about the geographical distribution of the segments can be found in Section 6 “Segment Reporting” of the Notes to the Consolidated Accounts.

(€ k)	2019 REVENUE	2018 REVENUE	CHANGE (%)
Europe	143,196	137,424	4.2 %
Asia	154,860	72,870	112.5 %
North America	60,161	56,217	7.0 %
Other	4,475	5,139	-12.9 %
Group total	362,692	271,650	33.5 %

Expenses and other operating income

The cost of materials in the reporting year totaled € 123.5m compared with € 106.9m in the prior year, corresponding to an increase of 15.6%. This increase, which is disproportionately smaller than the revenue increase, can mainly be attributed to falling prices for metal-based raw materials and purchased components. Both segments were affected.

Personnel expenses rose from € 92.4m to € 114.4m. This is an increase of 23.8% year on year and was primarily the result of collective pay increases in Germany and inflation-based wage increases abroad. Furthermore, a rise in staff numbers is affecting growth above all in the area of CoinPower. Personnel costs include expenses for share-based remuneration in the amount of € 2.9m (2018: € 2.8m).

Other operating expenses increased by a total of € 5,739k from € 40,114k to € 45,853k. This is mainly due to the increase in legal and consulting expenses in connection with the acquisition of the VARTA Consumer companies in the amount of € 3,006k. Due to the expanded production capacities, energy expenses increased by € 1,161k compared to the previous year. The increase in outgoing freight and customs duties is due to the sharp rise in sales volumes.

Both personnel expenses and other operating expenses rose more slowly than revenue due to the scaling of the business model.

Other operating income rose by € 0.7m from € 7.1m in the previous year to € 7.8m in 2019. The increase is mainly due to various income from claims settlements in the current fiscal year.

Adjusted EBITDA

Adjusted EBITDA (operating earnings before interest, taxes, depreciation and amortization adjusted for special effects) represents a sustainable earnings indicator for the Group. At the same time, adjusted EBITDA is a suitable control variable for the Executive Board to assess the operating earnings capacity of the Group and/or the two segments. As special effects, the non-cash expenses for share-based remuneration in the amount of € 2,853k (2018: € 2,830k) and the expenses from M&A transactions of € 3,006k (2018: € 0) were adjusted. The following table shows the reconciliation from EBITDA to adjusted EBITDA:

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
EBITDA	91,622	47,389
Expenses from share-based remuneration	2,853	2,830
Expenses for M&A transactions	3,006	0
Adjusted EBITDA	97,481	50,219

Adjusted EBITDA rose from € 50.2m to € 97.5m during fiscal year 2019. This corresponds to growth of € 47.3m in comparison with the previous year. The increase in adjusted EBITDA can be attributed to the very high and profitable revenue growth in lithium-ion batteries and hearing aid batteries in addition to the simultaneous disproportionately low increase in expenses due to the scaling of the business model. Following the first-time application of the new standard IFRS 16, adjusted EBITDA increased by € 4.3m due to the reduction of lease expenses. Moreover, the expenses incurred for the M&A transaction to acquire the VARTA Consumer battery business in the amount of € 3.0m also had a positive effect on adjusted EBITDA.

Operating earnings (EBIT)

Operating earnings improved from € 36.9m to € 70.8m, equating to an increase of 91.9% in comparison with the previous year. The disproportionately low increase in material and personnel costs compared with revenue growth is primarily due to a more profitable revenue mix combined with relatively stable prices for metallic raw materials and purchased components. This affects both segments. Depreciation and amortization increased substantially € 10.5m in 2018 to € 20.9m in 2019, which is due primarily to the demand-driven investment in property, plant and equipment on account of the expansion of production capacities as well as the reduction of useful lives in the area of CoinPower cell production by expanding the shift model. Furthermore, EBIT increased by € 0.3m owing to the net effect from the first-time application of the new standard IFRS 16, resulting from the elimination of lease expenses and the increase in depreciation and amortization.

Financial result

The financial result increased in the reporting year from € -0.5m in 2018 to € 0.3m in 2019. This was mainly due to the adjustment of the debtor warrant for the debt waiver by VGG against VARTA Storage GmbH amounting to € 3,382k. In contrast, there was an increase in financial expenses from the conclusion of a syndicated loan agreement in the amount of € 0.7m and charges related to foreign exchange effects in the amount of € -1.4m compared with the previous year, in particular from advance payments and loans in USD.

Taxes

Tax expenses increased primarily on the back of the pre-tax result rising from € 10.8m in 2018 to € 20.6m in 2019. This produced an effective tax ratio of 29.0% (2018: 29.5%) in relation to the pre-tax result. For further details on taxes, please see the Notes to the Consolidated Accounts under the Chapter "Income tax expenses".

3.2 ASSET AND FINANCIAL POSITION

Consolidated balance sheet as at December 31, 2019

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
ASSETS		
Non-current assets	288,462	151,831
Current assets	380,368	249,865
Total assets	668,830	401,696

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
EQUITY AND LIABILITIES		
Equity	414,802	259,422
Non-current liabilities	88,779	60,422
Current liabilities	165,249	81,852
Total liabilities	254,028	142,274
Total assets	668,830	401,696

Non-current assets

Non-current assets increased by € 136.7m from € 151.8m in 2018 to € 288.5m in the year under review. This increase is mainly the result of the rise in property, plant and equipment. This item increased from € 112.8m to € 247.9m as at December 31, 2019. Production capacities were increased due to the strong demand for rechargeable lithium-ion cells for high-tech consumer products, especially for premium wireless headsets (hearables). The effect of IFRS 16 totaled € 24.9m in the fiscal year, with € 22.5m relating to buildings and € 2.4m to other assets.

Other assets increased from € 15.7m in 2018 to € 17.9m in 2019. The main reason for this increase is the update of reimbursement rights from the assumption of pension liabilities in the amount of € 2.2m.

Current assets

Current assets increased significantly from € 249.9m in 2018 to € 380.4m as at December 31, 2019. This increase is due, among other things, to trade receivables, which almost doubled by 97.2% to € 52.0m as a result of the increased revenue volume, and an inflow of funds of € 102.1m from the implemented capital increase.

Equity/equity ratio

Since the IPO in 2017, the **VARTA AG Group** has continued to have a high equity ratio of 62.0% (previous year: 64.6%) and can therefore finance the necessary investments in the expansion of production capacities from its own funds.

Equity rose from € 259.4m in 2018 to € 414.8m as at December 31, 2019. The main reason for this increase was the capital increase carried out in 2019, which generated gross proceeds of € 102.1m.

Non-current liabilities

Non-current liabilities increased by € 28.4m from € 60.4m in 2018 to € 88.8m as at December 31, 2019. The increase is due, on the one hand, to effects from the first-time application of IFRS 16 in the amount of € 20.5m, client prepayments of € 4.0m and the change in valuation assumptions used to calculate pension obligations in the amount of € 2.4m.

Current liabilities

Current liabilities increased from € 81.9m to € 165.2m. This was due in particular to the increase in trade payables and the increase in liabilities arising from the acquisition of property, plant and equipment by a total of € 32.9m and advance payments received of € 21.1m, the increase in income tax liabilities in the amount of € 7.1m and liabilities from the first-time application of IFRS 16 in the amount of € 4.6m.

Net working capital

Net working capital declined from € 42.0m in 2018 to € 18.0m in 2019. This corresponds to a decrease of 57.1% year on year. It resulted in a reduction in the net working capital ratio to 5.0% in relation to revenue (previous year: 15.4%), which is mainly due to effects in the operating business. The decline is essentially due to the

disproportionately low increase in inventories (€ +7.3m) and receivables (€ +25.6m) in addition to the disproportionately high increase in liabilities (€ +53.8m).

Cash flow statement

(€ k)	2019/12	2018/12
Cash and cash equivalents as at January 1, 2019	149,741	138,536
Cash flow from ongoing business activities	105,734	69,846
Cash flow from investment activities	-105,806	-58,982
Cash flow from financing activities	94,882	-114
Net change in cash and cash equivalents	94,810	10,750
Effects of exchange rate fluctuations	230	455
Cash and cash equivalents as at December 31, 2019	244,781	149,741

Cash flow from ongoing business activities in the reporting year amounts to € 105.7m and is therefore € 35.9m up on the prior year's figure. This is mainly due to the increase in the operating result. An additional noteworthy factor arises as a result of the first-time application of the new standard IFRS 16. This produces a shift in the cash flow statement. In accordance with IAS 17, lease payments were recognized under operating cash flow. However, pursuant to IFRS 16, the repayment and interest portion of the lease payment is considered as financing cash flow. As a result, payment flows in the operational area have declined, whereas the operating cash flow has risen.

The negative cash flow from investment activities in 2019 rose sharply to € 105.8m (previous year: 59.0m). The increased outflow of funds is mainly the result of investments in property, plant and equipment for the demand-driven expansion of production capacities in the areas of lithium-ion button cells and zinc-air batteries.

The cash flow from financing activities increased significantly from € -0.1m in 2018 to € 94.9m in 2019 due to the capital increase. The company generated an inflow of € 102.1m from this measure. The first-time application of IFRS 16 described above produced a negative effect in relation to the cash flow. In contrast to the operating cash flow, the financing cash flow decreased due to the recognition of the repayment portion pursuant to IFRS 16

A syndicated loan agreement in the amount of € 120m was concluded in the 2019 fiscal year. The financial resources serve, on the one hand, to finance the acquisition of the VARTA Consumer business and, on the other hand, to finance additional investments in capacity expansion.

This results in cash and cash equivalents of € 244.8m as at December 31, 2019, compared with € 149.7m in the previous year.

4 RESEARCH AND DEVELOPMENT

Expenses incurred as a result of research and development activities for the **VARTA AG** Group totaled € 15.5m in fiscal year 2019 (prior year: € 12.9m). This produces an R&D expense ratio of 4.3% in relation to revenue, compared with 4.8% in the previous year.

Microbatteries segment

The focus on technological leadership was shaped by a targeted further development of the segment's expertise in the field of zinc-air batteries for hearing aids (product group: Healthcare) and rechargeable lithium-ion button

cells (known as CoinPower batteries) in the "Entertainment & Industrial" product group. To this end, the emphasis was predominantly placed on further increasing capacities, the evaluation and qualification of new materials for CoinPower batteries, the use of less expensive raw materials and the development of more efficient production processes.

Expenses incurred in relation to research and development activities for the Microbatteries segment between January and December 2019 totaled € 11.4m (prior year: € 9.8m). This produces an R&D expense ratio of 3.8% in relation to revenue (prior year: 4.5%). The depreciation of capitalized development costs totaled € 0.6m in the past fiscal year. The capitalization ratio stood at 2.4% (prior year: 3.9 %). In the Microbatteries segment, the focus was above all on the development of smaller and higher-performance coin-shaped cells.

Power & Energy segment

The further development of the product portfolio was key to expanding our market position for lithium-ion home storage solutions. In this context, there was a focus on the VARTA Element S4 product range and a capacity expansion to 12 kWh.

The Linux-based energy management system (EMS) was integrated into the Pulse product range. All energy storage solutions were adapted in line with the modified requirements for generators (RfG) adopted by the EU for respective national approvals and subsequently re-certified. Moreover, the integration of the Linux-based EMS has allowed energy storage solutions to be connected with each other via the cloud. This has created interfaces for customers in the area of smart home devices to offer energy storage solutions.

Expenses incurred in relation to research and development activities within the Power & Energy segment increased in fiscal year 2019 to € 4.1m (prior year: € 3.1m). This produces an R&D expense ratio of 6.7% in relation to revenue (prior year: 6.0%). The depreciation of capitalized development costs totaled € 0.4m in 2019 (prior year: € 0.4m). The capitalization ratio stood at 26.0% (prior year: 43.8%). This primarily concerns product and production process development for flexible mass storage devices and the development of various residential storage system applications.

5 INVESTMENTS EXCLUDING M&A (CAPEX)

The Group refers to investments in intangible assets and property, plant and equipment as CAPEX. This is an important control variable for high-growth manufacturing companies. In 2019, **VARTA AG** launched an extensive investment program to be implemented between the years 2019-2021. The aim of these investments is to significantly expand capacities in the Microbatteries segment.

In fiscal year 2019, expenditure related to the purchase of intangible assets and property, plant and equipment totaled € 102.8m overall (prior year: € 56.3m).

The majority of investments in property, plant and equipment served to expand production capacity of lithium-ion button cells in response to demand. Replacement investments to renew production equipment, to develop new products and for quality assurance measures continue to be necessary at regular intervals.

6 EARNINGS SITUATION: SEGMENTS

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

Microbatteries	2019	2018
Revenue (€ m)	301.5	218.9
Adjusted EBITDA (€ m)	94.4	47.3
Adjusted EBITDA margin (%)	31.3	21.6

Revenue in the Microbatteries segment increased in fiscal year 2019 from € 218.9m to € 301.5m. This equates to very substantial revenue growth of 37.7% year on year. By far the strongest revenue growth is again being recorded for rechargeable lithium-ion batteries for high-tech consumer products, particularly premium true wireless headsets (hearables). This is a consequence of continued high customer demand in a market that is enjoying highly dynamic growth. Due to the market and customer structure, the Asian market is of great importance; many major manufacturers of wireless headsets produce their products in this region. Our global market position for hearing aid batteries has been further expanded in a market subject to structural growth. The Group is currently benefiting from the trend toward rechargeable hearing aids in addition to the new business with a leading US retail chain that was initiated during the prior fiscal year. Adjusted EBITDA rose from € 47.3m to € 94.4., which represents growth of 99.7%. This increased revenue can be attributed to strong growth in comparatively high margin product groups in addition to the disproportionately low rise in fixed costs related to scaling the business model. This produces an adjusted EBITDA margin of 31.3% in relation to revenue. The year-on-year improvement in the adjusted EBITDA margin amounts to 9.7 percentage points, having stood at 21.6% in 2018.

Power & Energy	2019	2018
Revenue (€ m)	60.8	51.8
Adjusted EBITDA (€ m)	3.1	2.9
Adjusted EBITDA margin (%)	5.1	5.7

In the Power & Energy segment, revenue rose from € 51.8m to € 60.8m. This equates to revenue growth of 17.4%. The segment is benefiting in particular from a new customer order in the area of battery packs with a German premium electrical device manufacturer. Energy storage solutions continue to make a positive contribution to the growth of this segment. Adjusted EBITDA improved from € 2.9m in 2018 to € 3.1m in 2019. At 5.1%, the adjusted EBITDA margin was slightly under the previous year's value.

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

7 INFORMATION ABOUT VARTA AG

The management report of **VARTA AG** and consolidated management report for fiscal year 2019 are combined pursuant to Section 315 (3) HGB in conjunction with Section 298 (3) HGB. The annual financial statements and the management report of the Company and corporate Group are published simultaneously in the German Federal Gazette.

Description of the Company

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

Earnings situation

Revenue in fiscal year 2019 stood at € 761k (2018: € 666k). These are essentially due to royalties from **VARTA Storage GmbH** of € 760k. In the same period, other operating income increased by € 1,969k from € 198k in the

previous year to € 2,167k in 2019. The main reason for this was the massive increase in exchange rate gains resulting from an investment in USD.

Other operating expenses in 2019 amounted to € 10,794k (2018: € 2,747k) and comprise mainly fees for consulting and auditing costs in the amount of € 4,429k (2018: € 623k), expenses connected with the allocation of costs of affiliated companies of € 471k (2018: € 702k), losses from currency translation of € 2,101k and expenses for advertising and public relations exercises of € 493k (2018: € 343k). The increase in consulting fees is mainly due to the preparation of the acquisition of VARTA Consumer Batteries in the amount of € 3,006k. In addition, the costs of the capital increase of € 1,633k are recognized under other operating expenses.

At the beginning of the fiscal year 2019, the members of the Executive Board of **VARTA AG** were reduced from three to two members. **VARTA AG** employed three members of staff in addition to the Executive Board. In total, personnel costs rose from € 3,298k in 2018 to € 5,586k in 2019. The increase is mainly due to the variable remuneration model for the Executive Board and bonus payments for **VARTA AG** employees.

Depreciation and amortization predominantly includes depreciation of intangible assets totaling € 908k and is therefore unchanged compared to the previous year.

Net interest income essentially improved due to an increase in loans to subsidiaries and short-term investments in an affiliated company from € 1,817k in the prior year to € 3,691k in 2019.

The profit transfer agreement with **VARTA Microbattery GmbH** yielded income in the amount of € 71,146k. Conversely, expenses related to the profit transfer agreement with **VARTA Storage GmbH** amounting to € 2,393k offset this to some extent. The overall result is an increase in income from profit transfer agreements, rising from € 29,774k in 2018 to € 68,753k in 2019.

Overall, therefore, net profit stood at € 69,340k, up from € 28,134k in the previous year.

Income statement of VARTA AG
for the fiscal year running from January 1, 2019 to December 31, 2019

		2019		2018	
		€ k	€ k	€ k	€ k
1.	Revenue		761		666
2.	Other operating income		2,167		198
	– of which from currency conversions € 2,100k (prev. year € 95k) –				
3.	Personnel expenses				
	(a) Wages and salaries	-5,534		-3,241	
	b) Social charges and costs for pension plans and support	-52	-5,586	-57	-3,298
	– of which for pensions € 0k (prev. year € 0k) –				
4.	Depreciation and amortization of intangible assets and property, plant and equipment		-937		-936
5.	Other operating expenses		-10,794		-2,747
	– of which from currency conversions € 2,101k (prev. year € 98k) –				
6.	Income from profit transfer agreements		71,146		33,588
7.	Other interest income and similar		4,009		1,855
	– of which from affiliated companies: € 3,979k (prev. year: € 1,811k) –				
8.	Expenses from assumption of losses		-2,393		-3,814
9.	Interest expenses and similar		-318		-38
	– of which from affiliated companies € 194k (prev. year: € 20k) –				
10.	Taxes on income and profit		-16,849		-5,522
11.	Result after tax/profit for the year		41,206		19,952
12.	Retaining earnings		28,134		8,182
13.	Net profit/loss		69,340		28,134

Assets and financial situation

As at December 31, 2019, fixed assets increased by € 42,685k from € 90,304 k in 2018 to € 132,989k as at December 31, 2019. This increase was due primarily to the rise in financial investments from € 86,589k to € 130,208k. This increase can be attributed to loans granted to subsidiaries. Current assets rose by € 110.385k from € 154,595k in 2018 to € 264.980k as at December 31, 2019.

Receivables from affiliated companies mainly relate to receivables amounting to € 71,146k (2018: € 33,588k) from the profit and loss transfer agreement concluded with **VARTA Microbattery GmbH** and a short-term loan to an affiliated company amounting to € 42,117k (2018: € 56,977k) and to **VARTA Microbattery GmbH** in the amount of € 5,178k.

In connection with the capital increase, cash at banks rose sharply by € 87,360k from € 55,866k in 2018 to € 143,226k in 2019. The high level of capital expenditure by affiliated companies on property, plant and equipment in the current fiscal year has had a counter-effect, which is why cash at banks has increased by less than the amount generated by the capital increase.

Overall, equity increased by a total of € 144,959k from € 215,735k in 2018 to € 360,694k as at December 31, 2019. On the one hand, this increase is due to the rise in net profit, which is attributable to the profit and loss transfer agreements with **VARTA Microbattery GmbH** and **VARTA Storage GmbH**. However, on the other hand, the capital reserve increased by € 101,531k from € 142,590k to € 244,121k as at December 31, 2019 owing to a paid-in surplus arising from the issuance of 2,221,686 new shares.

Provisions increased by € 11,586k from € 5,520k in 2018 to € 17,106k as at December 31, 2019. This rise is due in particular to higher tax provisions. Liabilities decreased by € 2,587k from € 21,348k in 2018 to € 18,761k as at December 31, 2019, mainly on account of the reduction in liabilities to affiliated companies in connection with the repayment of a loan by **VARTA AG** to **VARTA Microbattery GmbH**.

Balance sheet of VARTA AG as at December 31, 2019**Assets**

	12/31/2019		12/31/2018	
	€ k	€ k	€ k	€ k
A. Fixed assets				
I. Intangible assets				
Compensable concessions, industrial property rights and similar rights and assets as well as licenses to such rights and assets		2,591		3,498
II. Property, plant and equipment				
1. Other equipment, factory and office equipment	190		216	
2. Advance payments and assets under construction	-	190	1	217
III. Long-term investments				
1. Shares in affiliated companies	32,701		30,201	
2. Loan to affiliated companies	97,209		55,999	
3. Equity interests	30		30	
4. Other loans	268	130,208	359	86,589
		132,989		90,304
B. Current assets				
I. Receivables and other assets				
1. Claims against affiliated companies	118,440		96,282	
2. Other assets	3,314	121,754	2,447	98,729
II. Cash on hand and bank balances		143,226		55,866
		264,980		154,595
C. Prepaid expenses		102		29
D. Deferred tax assets		2,294		1,403
Total assets		400,365		246,331

	12/31/2019	12/31/2018
	€ k	€ k
A. Equity		
I. Subscribed capital	40,422	38,200
II. Capital reserve	244,121	142,590
III. Revenue reserves		
Statutory reserves	6,811	6,811
IV. Net profit	69,340	28,134
	360,694	215,735
B. Provisions		
1. Tax accruals	11,325	2,839
2. Other provisions	5,781	2,681
	17,106	5,520
C. Liabilities		
1. Liabilities to financial institutions	2	9
2. Trade payables	1,426	264
3. Liabilities to affiliated companies	16,609	20,436
4. Other liabilities	724	639
- of which from taxes € 105k (prev. year € 88k)		
	18,761	21,348
D. Deferred tax liabilities	3,804	3,728
Total equity and liabilities	400,365	246,331

Risks and opportunities

The business development of **VARTA AG** is to a great extent dependent on the risks and opportunities of the **VARTA AG** Group, which were previously outlined in the consolidated management report of the **VARTA AG** Group. There is the risk that the equity interests and loans to affiliated enterprises will be impaired. This is reviewed at least once a year. No impairment requirement was identified in fiscal year 2019.

In addition, the risks from legacy liabilities existing at **VARTA AG** should be highlighted. The former properties of **VARTA AG** and of its former subsidiaries served mainly as manufacturing plants for the production of batteries and are burdened with industry-typical legacy liabilities. A buyer of all former foreign shareholdings and one domestic participation has assumed these risks and possible risks arising in the future and has indemnified **VARTA AG** against these risks; however, the liability of **VARTA AG** continues to apply externally due to the legal situation which gives rise to liability on the part of the polluter. The buyer has now been liquidated, and an enterprise affiliated with the buyer, Global Equity Partners Beteiligungs-Management GmbH, Vienna, has hedged this indemnity with a guarantee in the amount of € 20m lasting until 2031. **VARTA AG** has evaluated the remaining risks and believes, taking into consideration the contractual claims for reimbursement, that any third-

party action under the legal liability is unlikely. **VARTA AG** will be exposed to that extent only if the risks described above exceed the hedge potential of the guarantor or if it is unable to fulfill its contractual obligations.

Outlook

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

8 EMPLOYEES

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

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

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

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

Employer appeal

Specific, targeted measures are implemented across **VARTA AG** which aim to foster long-term commitment to the company. Since the start of 2018, executives and employees deemed "high potential" have been given the opportunity to participate in a stock option program.

Furthermore, Group executives meet annually as part of the manager's conference. The Group also supports targeted initiatives for the further development of trainees within the company.

As at December 31, 2019, the number of employees across the entire Group had risen to 2,857, up from 2,284 in 2018. As at the balance sheet date, the number of employees was split on a regional basis as follows:

	DEC. 31, 2019	DEC. 31, 2018
Europe	1,894	1,354
Asia	944	911
USA	19	19

9 REMUNERATION REPORT

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

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

Remuneration of the Executive Board

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

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

Non-performance-based (fixed) remuneration components

The fixed remuneration components consist of a fixed basic salary, fringe benefits and a contribution towards a private pension scheme. The fixed basic remuneration is paid as a monthly salary. In addition, the members of the Executive Board receive fringe benefits, which are taxed individually according to the current tax regulations if they accrue a non-cash benefit from private use. These fringe benefits consist essentially of the private use of a company car and the payment of insurance premiums. The D&O insurance deductible, which is borne by the members of the Executive Board personally, corresponds to 10% of the respective losses, in accordance with Section 93 (2) Clause 2 AktG, but is a maximum of one-and-a-half times the fixed annual remuneration.

No pension commitments have been made.

Performance-based (variable) remuneration components

The performance-based remuneration components are tied to the development of certain quantitative objectives. The Supervisory Board has defined EBIT and EBITDA as target figures.

The Supervisory Board resolves the annual corporate targets for the calculation of the variable remuneration components. It also determines the achievement of the objectives.

In November 2019, one of the two Executive Board contracts was amended in anticipation of forthcoming amendments by the Act Implementing the Second Shareholders' Rights Directive (ARUG II). With this adjustment, the Executive Board contracts were also more closely harmonized in the run-up to ARUG II.

As part of the implementation of ARUG II, a new, harmonized remuneration system for both Management Board members is to be created.

As part of this adjustment, in November 2019 one of the two Executive Board contracts was adjusted from long-term share-based remuneration originally designed for five years to a three-year value growth remuneration. The term of the value growth remuneration is now consistent with the term of the employment contract. The value growth remuneration is a long-term component, which is aimed at a long-term cooperation between **VARTA AG** and the Executive Board. The key exercise condition is an existing employment relationship of at least three years.

Payments from the value growth component are due once at the end of the contract term.

Share-based remuneration

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

Total Executive Board remuneration in fiscal year 2019 (2018)

NON-PERFORMANCE-BASED (FIXED) REMUNERATION INCLUDING FRINGE BENEFITS	PERFORMANCE-BASED VARIABLE REMUNERATION	BY THE COMPANY SHARE-BASED REMUNERATION GRANTED BY THE COMPANY	TOTAL REMUNERATION
€ k	€ k	€ k	€ k
799 (910)	2,537 (1,634)	0 (1,609)	3,336 (4,153)

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

Supervisory Board remuneration:

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

Total Supervisory Board remuneration for fiscal year 2019 (2018)

For the reporting year 2019, the Supervisory Board received total compensation in the amount of € 208k (2018: € 190k). This total includes the reimbursement of the expenses incurred by each member of the Supervisory Board as well as the VAT due on the remuneration and reimbursement of expenses. The premium of the D&O insurance taken out for the members of the Supervisory Board is also borne by the Company. In addition, consulting and other services were remunerated in the amount of € 33k (2018: € 3k).

Individual remuneration of Supervisory Board members in fiscal year 2019 (2018)

(€ k)	FIXED REMUNERATION (ALL FIGURES NET)	OTHER CONSULTING SERVICES (ALL FIGURES NET)
Prof. DDr. Michael Tojner (Chairman)	50 (50)	0 (0)
Dr. Harald Sommerer (Deputy Chairman)	50 (50)	0 (0)
Dipl.-Ing. Frank Dieter Maier	30 (30)	0 (0)
Sven Quandt	30 (0)	0 (0)
Dr. Michael Pistauer	18 (0)	0 (0)
Dr. Georg Blumauer	30 (30)	33 (3)
Total	208 (160)	33 (3)

Other

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

10 GUIDANCE, OPPORTUNITY AND RISK REPORT

10.1 OPPORTUNITY AND RISK MANAGEMENT SYSTEM

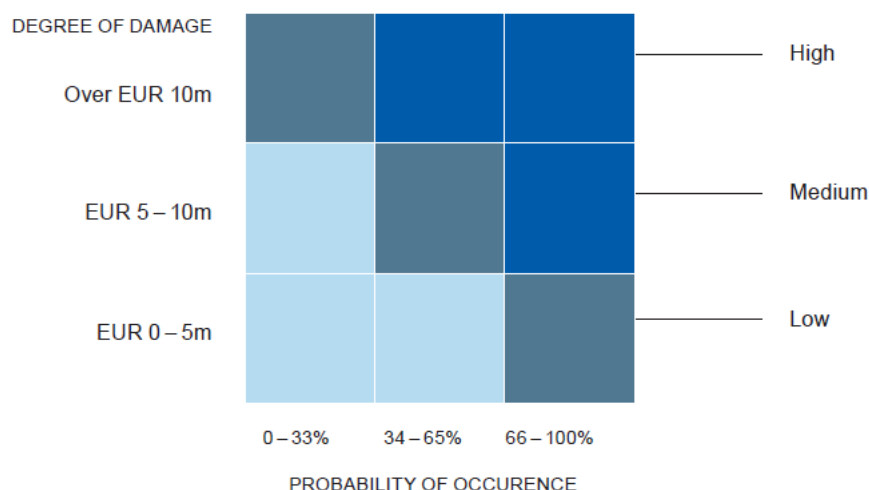
The Company has instituted management and control measures for the early detection and assessment of risks as well as for the handling of existing risks. These are enshrined in an early risk detection, internal control and risk management system.

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

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

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

The following chart shows the ranges applied to quantify risks.



10.2 EXECUTIVE BOARD: OVERALL ASSESSMENT OF THE OPPORTUNITY AND RISK SITUATION

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

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

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

10.3 INTERNAL CONTROL SYSTEM

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

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

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

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

10.4 RISK SITUATION

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

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

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

10.5 OPERATIONAL RISKS

The growth will result in an increased demand for production and storage space, which will lead to an increase in fire risks through the use of previously free space within the production and storage areas that have been available to date. This risk is classified as medium. The completion of the high-bay warehouse in 2020 will greatly reduce this risk. Risks to work safety and environmental protection are limited by comprehensive process and control specifications. In addition, insurance protection commensurate with the risks identified is in place.

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

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

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

10.6 STRATEGIC RISKS AND MARKET RISKS

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

The strong market growth in rechargeable lithium-ion batteries for wireless headphones is encouraging Asian competitors to replicate the patented products. The Company holds relevant intellectual property rights in Europe, the USA, China and Japan and, where necessary, takes legal action against patent infringements. The risk is considered to be medium.

In particular, technological leadership and innovative capacity are major strengths of the Company. With a focus on research and development as well as a large network of research partners, the Group is excellently placed to help shape the technological progress of the relevant industries. We keep a close eye on restriction through potential substitute technologies. In the medium term, no material effects of potential replacement technologies in core Group business areas are discernible. Rather, this is more of an opportunity to help shape the technological advances in the various business segments.

Nevertheless, in a fast-growing and innovative environment, it is, of course, important to make the right decisions at all times so that the company is able to compete and thrive in the market over the long term. Despite the external nature of most risks, strategic risks must be detected in a timely fashion and the reaction must be commensurate with the risks. The market and competitive environment are constantly monitored in order to detect any possible risks in good time. The extent of any risk is determined primarily by the sales volume. Depending on the circumstances, product-specific and, as the case may be, regionally differing measures are taken.

Customer concentration has increased due to strong growth in the Entertainment sector. However, it is still the case that no single customer accounts for more than 20% of Group revenue. The Company is countering the higher concentration of customers in the Entertainment sector by broadening its customer base. The acquisition of VARTA Consumer also contributes to the diversification of revenue streams. Overall, this risk is classified as medium.

10.7 FINANCIAL AND DEFAULT RISKS

The Group is exposed to exchange rate risks on account of its international sales and worldwide purchases of raw materials and components. These risks are analyzed and evaluated in detail. Foreign currency risks are hedged by forward exchange transactions and therefore reduced. The forward transactions are matched by planned operating payment streams in at least comparable amounts.

Investments and derivatives of financial instruments are pursued exclusively with banks with good creditworthiness. We take out credit insurance to minimize the default risk for most credit transactions based on the exchange of goods and services. We also obtain credit information and gather historical data from past business transactions in order to evaluate the creditworthiness of clients and to avoid payment defaults, in particular regarding past payment behavior. A comprehensive debtor management system has been set up for this

purpose. To the extent that default risks can be discerned among individual financial assets, their value is corrected accordingly.

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

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

The remaining residual risks can be regarded as immaterial.

10.8 OTHER RISKS

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

10.9 OPPORTUNITIES FOR FUTURE GROWTH

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

One of the success factors is the centralized planning and control system for the global flow of goods, which is supported by electronic data processing. It allows the Group to optimize processes related to the flow of goods between subsidiaries and across borders. With the further expansion of a production site in Germany, the development of production capacities is being pushed forward in order to be able to meet the increasing demand for lithium-ion batteries.

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

10.10 OVERALL RISK SITUATION FOR THE GROUP

The risk from unfavorable changes in exchange rates and raw material prices is countered by hedging the main currencies and raw materials. The risks of rising transportation costs will be offset by the new production site in Eastern Europe and the resulting shorter freight distances. The risks of labor cost disadvantages compared with competitors based mainly in the Far East is countered by further automation of production processes in Germany and by the optimal use of the production network in Asia and Eastern Europe. Building extensions helps to counteract the risks associated with a lack of production and storage space. To counter the risk of dependence on individual customers, the customer base is being broadened. The acquisition of VARTA Consumer also contributes to the diversification of revenue streams. The Company counters the risk of replacement technologies by constantly monitoring the market and developing products.

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

11 OUTLOOK

The structural growth of the core markets, the company's strong market position in these core markets according to its own assessment and the continued massive investments in the expansion of production capacities will lead to a positive business development in 2020. The first-time consolidation of the acquired VARTA Consumer business will also lead to a very significant increase in Group revenue and adjusted EBITDA. This outlook is based on the assumption of constant exchange rates.

In view of the global spread of the coronavirus (COVID-19), negative impacts on the **VARTA AG** Group cannot be ruled out. This could impact production activities at our locations, transportation to customers and our suppliers. It can also not be ruled out that our customers are temporarily unable to accept deliveries of our products due to disrupted production processes at their own sites. At the time that these annual financial statements were prepared, these risks were not present, meaning that VARTA does not therefore expect any adverse impacts for its outlook due to COVID-19.

VARTA AG Group

Group revenue is expected to total between € 780m and € 800m in 2020, equating to a year-on-year increase of around 115%-120% (including VARTA Consumer). Organic revenue growth, excluding VARTA Consumer, will be between 32% and 38%.

Adjusted Group EBITDA in 2019 will be in a corridor between € 175m and € 185m, representing an increase of between 79% and 90% compared to the previous year (including VARTA Consumer). Excluding VARTA Consumer, adjusted EBITDA will grow between 50% and 60% compared to 2019.

Due to the sustained very high demand for lithium-ion batteries (CoinPower), production capacities are being further expanded on a massive scale. CAPEX – i.e. payments made to purchase intangible assets and property, plant and equipment – is set to total between € 300m and € 330m in the year ahead.

The Microbatteries business and the “Power Pack Solutions” area will in future be combined in the “Microbatteries & Solutions” segment. This includes the lithium-ion battery business. The focus of “Microbatteries & Solutions” will in future be on the OEM business. In future, the consumer battery business will form the new “Household Batteries” segment together with the energy storage business of the former **VARTA AG**. Within the **VARTA AG** Group, the division focuses on the consumer business with its own sales, marketing and production.

Microbatteries & Solutions segment

In the hearing aid batteries business, the company intends to further consolidate its market-leading position (own assumption) in a market subject to structural growth. Due to strong demand for lithium-ion batteries for wireless headsets, the company plans to carry out a huge expansion to production capacities in the Entertainment & Industrial area; this will constitute the largest growth potential in the Microbatteries segment. The Microbatteries & Solutions segment is expected to achieve very significant double-digit percentage revenue growth on a comparable basis in the 2020 fiscal year. As a result of the further scaling of our business model, we also expect to see a sharp rise in adjusted EBITDA, which is set to experience above-average growth in relation to revenue.

Household Batteries segment

Very significant growth is expected for stationary energy storage systems, which should at least match market growth. In addition, the acquired VARTA Consumer business will generate additional revenue of around € 300m in fiscal year 2020. An EBITDA margin in the low double-digit range is expected for fiscal year 2020.

Our long-standing experience over many years in the battery business is factored into the opportunity and risk guidance mapping further business development. This report contains information and guidance referring to the

company's future development. However, it must be noted that actual results may vary greatly from the expectations surrounding the projected developments.

12 SUPPLEMENTARY REPORT

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

13 FINAL DECLARATION REGARDING THE INDEPENDENCE REPORT

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

14 TAKEOVER LAW INFORMATION

The subscribed capital of **VARTA AG** as at December 31, 2019 totaled € 40,421,686. The subscribed capital is divided into 40,421,686 shares. These are par value shares registered to the bearer representing a pro rata amount of the nominal capital of € 1.00.

Appointment and dismissal of Executive Board members

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

Executive Board authorization to issue shares

By resolution of the Annual General Meeting on October 6, 2017, the Executive Board was authorized to increase the share capital one or several times against contributions in cash and/or in kind up to an amount of € 9,618,314.00 (Authorized Capital 2017 I) or up to an amount of € 2,960,000 (Authorized Capital 2017 II) up to October 5, 2022. Use was made of Authorized Capital I in the amount of € 2,221,686.00 as part of the capital increase in June 2019. Moreover, the Annual General Meeting of October 6, 2017 approved a conditional capital increase of the share capital of up to € 11,840k to grant shares upon the exercising of option and/or conversion rights or the fulfilment of option and/or conversion obligations.

Restrictions concerning voting rights or share transfers

There are no restrictions on voting rights. All shares of the Company have the same voting right. There are no restrictions on the transferability of the Company's shares.

Shareholdings exceeding 10% of the voting rights

As Chairman of the Supervisory Board at **VARTA AG** and majority shareholder of Montana Tech Components AG, Reinach (Switzerland), via stakes of 56.86% and 1.47% respectively in its subsidiaries VGG GmbH, Vienna (Austria) and ETV Montana Tech Holding AG, Vienna (Austria), Prof. DDr. Michael Tojner holds a stake amounting to 58.33% in **VARTA AG**.

Shares with special rights conveying a controlling authority

There are no shares with special rights conferring controlling powers.

Ellwangen, March 26, 2019
VARTA Aktiengesellschaft

Herbert Schein

Steffen Munz



STRONG FINANCIAL PROFILE

**We pursue a conservative investment strategy
with a strong focus on internal yield criteria.**

Consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION	80
CONSOLIDATED INCOME STATEMENT	82
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME	83
CONSOLIDATED STATEMENT OF CASH FLOWS	84
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	85
1 GENERAL INFORMATION	86
2 CHANGES IN THE SCOPE OF CONSOLIDATION	87
3 NOTES EXPLAINING THE CONSOLIDATED ACCOUNTING PRINCIPLES	87
3.1 Declaration of compliance	87
3.2 Going concern	87
3.3 Consolidation principles	87
3.4 Measurement basis	88
3.5 Functional and presentational currency	88
3.6 Maturities	88
4 KEY ACCOUNTING AND MEASUREMENT POLICIES	88
4.1 Currency translation	88
4.2 Financial instruments	89
4.3 Goodwill	89
4.4 Intangible assets	90
4.5 Property, plant and equipment	90
4.6 Leases	91
4.7 Trade receivables	92
4.8 Inventories	92
4.9 Share-based remuneration	92
4.10 Impairment test	93
4.11 Defined benefit obligations and defined contribution commitments	94
4.12 Government grants	95
4.13 Contingent liabilities	95
4.14 Deferred liabilities	95
4.15 Other financial liabilities	95
4.16 Provisions	95
4.17 Revenue recognition	95
4.18 Financial result	96
4.19 Income taxes	96
4.20 Segment reporting	97
4.21 Changes to accounting standards	98
4.22 New and amended IFRS standards after December 31, 2018	99
5 MATERIAL ASSUMPTIONS AND ESTIMATES	100
6 SEGMENT REPORTING	102
7 PROPERTY, PLANT AND EQUIPMENT	106
8 INTANGIBLE ASSETS	108
9 LONG-TERM INVESTMENTS AND OTHER PARTICIPATIONS RECOGNIZED IN THE BALANCE SHEET UNDER THE EQUITY METHOD	110
10 LEASES	110
11 OTHER FINANCIAL ASSETS	111

12	INVENTORIES	111
13	TRADE RECEIVABLES AND CONTRACT ASSETS	112
14	OTHER ASSETS	113
15	CASH AND CASH EQUIVALENTS	113
16	DEFERRED TAXES	115
17	EQUITY	116
18	EARNINGS PER SHARE	117
19	OTHER FINANCIAL LIABILITIES	117
20	PROVISIONS FOR EMPLOYEE BENEFITS	118
20.1	Composition of provisions for employee benefits	118
20.2	Pensions	118
20.3	Provisions for severance payments	122
21	TAX LIABILITIES	123
22	TRADE PAYABLES, CONTRACT LIABILITIES AND ADVANCE PAYMENTS RECEIVED	124
23	OTHER LIABILITIES	124
24	OTHER PROVISIONS	126
25	DEFERRED LIABILITIES	127
26	REVENUE	127
27	DECREASE / INCREASE IN FINISHED AND UNFINISHED GOODS	128
28	COST OF MATERIAL	128
29	PERSONNEL EXPENSES	128
30	DEPRECIATION AND AMORTIZATION	129
31	OTHER OPERATING INCOME	129
32	OTHER OPERATING EXPENSES	130
33	SHARE-BASED PAYMENT ARRANGEMENTS	131
34	NET INTEREST INCOME	132
35	NET FINANCIAL INCOME	132
36	INCOME TAX EXPENSES	133
37	CONSOLIDATED STATEMENT OF CASH FLOWS	134
38	RISK MANAGEMENT	135
38.1	Internal control system	135
38.2	Financial risk management	135
39	RELATED PARTIES	146
39.1	Related companies	147
39.2	Related persons	150
40	MANAGEMENT OF VARTA AG	150
41	CONTINGENT LIABILITIES	152
42	INVESTMENT COMPANIES	154
43	ADDITIONAL DISCLOSURES IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE (HGB)	155
44	EVENTS AFTER THE REPORTING DATE	156

Consolidated statement of financial position as at December 31, 2019
VARTA Aktiengesellschaft, Ellwangen (Jagst)

(€ k)	NOTES	December 31, 2019	December 31, 2018
ASSETS			
Property, plant and equipment	7	247,896	112,803
Intangible assets	8	20,783	21,174
Long-term investments and other participations recognized in the balance sheet under the equity method	9	55	348
Other financial assets	11/38	548	359
Deferred tax assets	16	1,271	1,477
Other assets	14	17,909	15,670
Non-current assets		288,462	151,831
Inventories	12	63,995	56,699
Contract assets	13/38	2,032	2,370
Trade receivables	13/38	51,966	26,345
Tax refund claims	14	216	549
Other assets	14/38	17,378	14,161
Cash and cash equivalents	15	244,781	149,741
Current assets		380,368	249,865
Total assets		668,830	401,696

(€ k)	NOTES	December 31, 2019	December 31, 2018
EQUITY AND LIABILITIES			
Subscribed capital		40,422	38,200
Capital reserve		250,619	149,374
Retained earnings		68,700	41,627
Net income		50,390	25,260
Other reserves		4,456	3,535
Equity of the VARTA AG Group	17	414,587	257,996
Non-controlling interests	17	215	1,426
Total Equity	17	414,802	259,422
Lease liabilities		20,476	-
Other financial liabilities	19	2,832	6,200
Provisions for employee benefits	20	27,241	23,639
Advance payments received	22/38	34,296	30,247
Other liabilities	23	95	93
Other provisions	24	3,839	243
Non-current liabilities		88,779	60,422
Tax liabilities	21	14,325	7,261
Lease liabilities		4,603	-
Other financial liabilities	19	4,058	2,720
Provisions for employee benefits	20	1,195	1,048
Contract liabilities	22/38	11,198	8,435
Trade payables and advance payments received	22/38	88,807	35,021
Other liabilities	23	20,025	11,018
Other provisions	24	4,407	4,304
Deferred liabilities	25	16,631	12,045
Current liabilities		165,249	81,852
Liabilities		254,028	142,274
Equity and total liabilities		668,830	401,696

Consolidated income statement for the period 01/01 – 12/31/2019
VARTA Aktiengesellschaft, Ellwangen (Jagst)

(€ k)	NOTES	2019	2018
Sales revenue	26/6	362,692	271,650
Increase in finished and unfinished goods	27	643	3,899
Own work capitalized		4,313	4,152
Other operating income	31	7,760	7,109
Cost of materials	28	-123,527	-106,867
Personnel expenses	29	-114,406	-92,440
Other operating expenses	32	-45,853	-40,114
EBITDA		91,622	47,389
Depreciation and amortization	30	-20,855	-10,518
Operating earnings (EBIT)		70,767	36,871
Financial income	34	601	160
Financial expenses	34	-1,127	-416
Sundry financial income	35	3,488	368
Sundry financial expenses	35	-2,644	-631
Financial result		318	-519
Profit and loss shares in companies recognized in the balance sheet under the equity method, after taxes	9	-6	130
Earnings before taxes		71,079	36,482
Income tax expenses	36	-20,615	-10,779
Consolidated result		50,464	25,703
Appropriation of profit:			
Shareholders of VARTA AG		50,390	25,260
Non-controlling interests		74	443

Consolidated statement of comprehensive income for the period 01/01 – 12/31/2019
VARTA Aktiengesellschaft, Ellwangen (Jagst)

(€ k)	NOTES	2019	2018
Consolidated result		50,464	25,703
Items that will not be reclassified under profit or loss			
Revaluation of the net defined benefit liability	20	-1,900	188
Revaluation of the reimbursement claim	20	2,626	180
Related tax	21	-200	-102
		526	266
Items that were reclassified or may be reclassified later under profit or loss			
Currency translation differences	36	537	1,345
Result of fair value changes in cash flow hedges	38	545	-729
Related tax	36	-159	212
		923	828
Other comprehensive income for the period, net of tax		1,449	1,094
Comprehensive income		51,913	26,797
Profit attributable to:			
Shareholders of VARTA AG		51,837	26,351
Non-controlling interests		76	446

Earnings per share (€)

	NOTES	2019	2018
Basic earnings per share	18	1.28	0.66
Diluted earnings per share	18	1.28	0.66

Consolidated statement of cash flows for the period 01/01 – 12/31/2019
VARTA Aktiengesellschaft, Ellwangen (Jagst)

(€ k)	NOTES	December 31, 2019	December 31, 2018
Cash flow from ongoing operating activities			
Earnings before taxes		71,079	36,482
Net financial result less sundry financial expense/sundry financial income	35	526	256
Results from at equity measurement	9	6	-130
Depreciation and amortization	30/7/8	20,855	10,518
Gains and losses from the sale of property, plant and equipment and intangible assets		134	4
Other non-cash income and expenses		-1,539	1,317
Changes in working capital			
Inventories	12	-7,154	-2,288
Trade receivables and other current assets	13	-28,230	-8,031
Trade payables and other current and non-current liabilities	22	58,030	38,026
Provisions and liabilities from pensions	20	4,881	583
Income tax paid		-12,854	-6,891
Cash flow from ongoing operating activities		105,734	69,846
Cash flow from investing activities			
Capital expenditure on the acquisition of intangible and tangible assets	30/7/8	-102,803	-56,275
Own work capitalized	8	-4,313	-4,152
Cash receipts from the sale of intangible and tangible assets		542	96
Payments from raising loans		0	-394
Investment in investments		-204	0
Receipts from the repayment of loans	11	0	87
Repayment of capital reserve from associated companies		377	1,500
Interest received		595	156
Cash flow from investing activities		-105,806	-58,982
Cash flow from financing activities			
Receipts from capital measures		103,753	0
Payments for the costs of the capital increase		-1,633	0
Incurrence of financial liabilities	19	2,243	1,470
Repayment of current financial liabilities	19	-9,065	-1,489
Interest paid		-416	-95
Cash flow from financing activities		94,882	-114
Net change in cash and cash equivalents		94,810	10,750
Cash and cash equivalents as of January 1	15/37	149,741	138,536
The effects of changes in foreign exchange rates		230	455
Cash and cash equivalents as of December 31	15	244,781	149,741

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

(€ k)	SUBSCRIBED CAPITAL*	CAPITAL RESERVE	RETAINED EARNINGS*	OTHER RESERVES		NON- CONTROLLING INTERESTS	TOTAL EQUITY
				CURRENCY DIFFERENCES	HEDGING RESERVE		
As of December 31, 2017	38,200	146,719	41,843	2,582	128	980	230,452
IFRS 15 – Adjustment 01/01/2018	0	0	-633	0	0	0	-633
IFRS 9 – Adjustment 01/01/2018	0	0	151	0	0	0	151
As of January 1, 2018	38,200	146,719	41,361	2,582	128	980	229,970
Effect of share-based payment	0	2,655	0	0	0	0	2,655
Total comprehensive income							
Profit/loss for the year	0	0	25,260	0	0	443	25,703
Other comprehensive income	0	0	266	1,342	-517	3	1,094
Total comprehensive income	0	0	25,526	1,342	-517	446	26,797
As of December 31, 2018	38,200	149,374	66,887	3,924	-389	1,426	259,422

* Retained earnings including profit/loss for the year

(€ k)	SUBSCRIBED CAPITAL*	CAPITAL RESERVE	RETAINED EARNINGS*	OTHER RESERVES		NON- CONTROLLING INTERESTS	TOTAL EQUITY
				CURRENCY DIFFERENCES	HEDGING RESERVE		
As of January 1, 2019	38,200	149,374	66,887	3,924	-389	1,426	259,422
Effect of share-based payment	0	870	0	0	0	0	870
Change in disclosure of minority interests**	0	0	1,287	0	0	-1,287	0
Capital increase	2,222	101,531	0	0	0	0	103,753
Transaction costs from capital increase	0	-1,156	0	0	0	0	-1,156
Total comprehensive income							
Profit/loss for the year	0	0	50,390	0	0	74	50,464
Other comprehensive income	0	0	526	535	386	2	1,449
Total comprehensive income	0	0	50,916	535	386	76	51,913
As of December 31, 2019	40,422	250,619	119,090	4,459	-3	215	414,802

* Retained earnings including profit/loss for the year

** Cf. Chapter 17 "Equity"

Consolidated financial statements 2019 of VARTA AG

as of December 31, 2019

1 GENERAL INFORMATION

VARTA Aktiengesellschaft (**VARTA AG**) is a company headquartered in Ellwangen (Jagst), Germany, registered in the Commercial Register of the Ulm District Court, Germany, under HRB 728059. The company's present consolidated financial statements comprise the company and its subsidiaries (collectively the "**VARTA AG** Group"). The reporting date for **VARTA AG**, all subsidiaries and for the consolidated accounts is December 31, 2019. These consolidated accounts are presented in euro, which is the company's functional currency. All financial information presented in euro was, unless specified otherwise, rounded up to the next thousand. The consolidated financial statements were prepared in compliance with the International Financial Reporting Standards (IFRS).

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

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

The shares of **VARTA AG** are traded on the regulated market under the securities identification number (SIN) A0TGJ5, the international securities identification number (ISIN) DE000A0TGJ55 and the ticker symbol "VAR1". VARTA has also been listed on the MDAX and the TecDAX since December 23, 2019.

2 CHANGES IN THE SCOPE OF CONSOLIDATION

There were no corporate acquisitions or corporate divestments to report in fiscal year 2019.

	2019		2018	
	FULL CONSOLIDATION	EQUITY CONSOLIDATION	FULL CONSOLIDATION	EQUITY CONSOLIDATION
As at January 1	12	2	11	2
Disposal from the scope of consolidation	0	-1	0	0
Start-up	0	0	1	0
As at December 31	12	1	12	2

The companies included in the scope of consolidation are listed in Chapter 42 "Investment companies".

3 NOTES EXPLAINING THE CONSOLIDATED ACCOUNTING PRINCIPLES

3.1 DECLARATION OF COMPLIANCE

Pursuant to Section 315e (1) HGB, the consolidated financial statements of **VARTA AG** and its subsidiaries for fiscal year 2019 were prepared in accordance with the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the supplementary provisions of German commercial law contained in Section 315a (2) HGB. The standards of the IASB applicable on the reporting date, which have been endorsed by the European Union, are applied here. The term IFRS also comprises the International Accounting Standards (IAS), which are not yet remain valid. The interpretations of the International Financial Reporting Interpretations Committee (IFRIC), application of which is obligatory on December 31, 2019, were also applied.

3.2 GOING CONCERN

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

3.3 CONSOLIDATION PRINCIPLES

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

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

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

The consolidated companies are presented in a table in Chapter 42 "Investment companies" of these notes to the consolidated financial statements.

3.4 MEASUREMENT BASIS

Assets are classified and measured either at amortized cost, at fair value with changes in value in other comprehensive income (FVOCI) or at fair value with changes in value in profit or loss (FVTPL). Non-current assets held for sale and groups of assets are held at the lower of their carrying amount and fair value less anticipated selling costs.

3.5 FUNCTIONAL AND PRESENTATIONAL CURRENCY

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

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

Please note that rounding differences may occur in comparison with the mathematically precise figures calculated (monetary units, percentages, etc.).

3.6 MATURITIES

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

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

4 KEY ACCOUNTING AND MEASUREMENT POLICIES

4.1 CURRENCY TRANSLATION

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

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

1 EURO EQUALS	AVERAGE RATE		REPORTING DATE RATE	
	2019	2018	2019	2018
US dollar (USD)	1.1195	1.1810	1.1234	1.1450

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

4.2 FINANCIAL INSTRUMENTS

IFRS 9 contains three basic categories for classifying financial assets: measured at amortized cost, measured at fair value with changes in value in other comprehensive income (FVOCI) and measured at fair value with changes in value in profit or loss (FVTPL). Financial assets are classified according to IFRS 9 on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. According to IFRS 9, derivatives that are embedded in contracts where the basis is a financial asset within the scope of the standard are never accounted for separately. Instead, the hybrid instrument is assessed as a whole with regard to classification.

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

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

Non-derivative financial instruments comprise investments in equity and debt instruments, trade receivables, other receivables, cash and cash equivalents, credits and loans, trade payables as well as other liabilities.

For a debt instrument to meet the criteria for measurement at amortized cost or for FVOCI measurement, it must generate cash flows, which solely constitute principal and interest payments on the outstanding capital amount. Purchases or sales of financial assets are stated or derecognized on the trading date.

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

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

Forward foreign exchange transactions and commodity swaps are stated at fair value when the deal is concluded with directly attributable transaction costs being posted through profit or loss. They are subsequently measured at fair value. Changes in the valuation of the effective part of a derivative are initially recognized in the reserve for cash flow hedges without affecting the income statement and only recognized through profit or loss when the underlying transaction is realized, provided that the hedged transaction leads to recognition of a financial asset and the requirements for hedge accounting in accordance with IFRS 9 are met. If the requirements are not met, it will be measured at fair value through profit or loss. If the hedged expected transaction subsequently leads to recognition of a non-financial asset, the amount is derecognized from the cash flow hedge reserve and included directly in initial procurement costs. The ineffective part is recognized immediately through profit or loss.

The effectiveness of hedging transactions, which meet the requirements for hedge accounting, is reviewed prospectively. The critical terms match method is applied prospectively.

Derivatives are recognized on the trading date.

4.3 GOODWILL

The amount by which the sum of consideration transferred as part of a corporate acquisition exceeds the pro rata fair values of the individually identifiable assets and liabilities acquired is recognized as goodwill.

4.4 INTANGIBLE ASSETS

4.4.1 Research and development

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

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

Capitalized development costs are measured at cost of acquisition or manufacture less cumulative depreciation and other loss allowances (see Chapter 4.10 "Impairment Test"). Determination of the useful life is dependent on the project and is based on the anticipated useful life of the development.

4.4.2 Other intangible assets

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

Intangible assets with determinable useful lives are accounted for at cost less cumulative depreciation and impairments (see Chapter 4.10 "Impairment Test"). Intangible assets are capitalized if it is likely that an economic benefit will be attained from them. All other expenses are charged directly to the income statement at the time they are recognized. Intangible assets are depreciated on a straight-line basis over their estimated useful lives; depreciation starts from the date they are available for use. The estimated useful life for commercial property rights, licenses and other intangible assets amounts to three to ten years.

Intangible assets with an unlimited useful life are not depreciated but subjected to an impairment test each year (see Chapter 4.10 "Impairment Test").

4.5 PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

4.6 LEASES

The Group leases various office buildings, warehouses as well plants and vehicles. Leases are usually concluded for fixed periods from 3 to 10 years but may include options to extend. Lease terms are negotiated individually and include a multitude of different terms. Leases do not include any credit conditions, but leased assets may not be used as collateral for raising loans.

Up to and including 2018, leases concluded in the **VARTA** Group were classified as operating leases. Payments under operating leases (less any incentives received from the lessor) were recognized through profit and loss on a straight-line basis over the term of the lease.

Since January 1, 2019, the Group has assessed whether the agreement establishes a leasing relationship or contains one. This is the case if the agreement entitles use of an identified asset to be controlled for a certain period in return for payment of a fee. **VARTA** uses the definition of a leasing relationship specified in IFRS 16 to assess whether an agreement contains the right to control an identified asset. Each lease installment is divided into a repayment portion and a financing portion. Financing expenses are recognized through profit or loss over the term of the leasing relationship, meaning that a constant periodic interest rate on the remaining amount of the liability is produced for each period. The right of use is written down on a straight-line basis over the shorter of the two periods of the useful life and term of the lease agreement.

Assets and liabilities under leasing relationships are recognized at present values when recognized for the first time. Lease liabilities comprise the present value of the following lease payments

- fixed payments (including in-substance fixed payments less any lease incentives to be obtained)
- variable lease payments linked to an index or (interest) rate

Lease payments are discounted by the implicit interest rate on which the leasing relationship is based, if this can be determined. Otherwise, they are discounted by the incremental borrowing rate of interest, i.e. the interest rate, which the **VARTA** Group would have to pay if it had to raise funds to acquire an asset with a comparable value and comparable terms in a comparable economic environment.

Rights of use are measured at cost, which comprises the following:

- the amount of the initial measurement of the lease liability
- all initial direct costs incurred and
- estimated costs, which will arise from dismantling or removing the underlying asset, from restoring the site in which it is located or from returning the underlying asset to the condition required in the lease agreement.

VARTA makes use of both the relief for short-term leases and leases based on minor-value assets. These are recognized as expense in profit or loss on a straight-line basis. Leases with a term of up to 12 months are regarded as short-term leases. Minor-value assets include IT equipment and smaller office furniture for instance.

The lease liability is measured at amortized carrying amounts using the effective interest method. They are remeasured if future lease payments change because of a change to an index or (interest) rate, if the Group changes its assessment of whether an option to purchase, extend or terminate will be exercised or if an in-substance fixed lease payment changes. In the event of a lease liability being remeasured in this way, the carrying amount of the right of use is adjusted accordingly.

4.7 TRADE RECEIVABLES

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

In addition to individual loss allowances required for specific known credit risks, loss allowances based on past experience are also created in accordance with the "expected credit losses" (ECL) model. As soon as there is sufficient evidence that a receivable will definitely no longer be paid, the receivable is derecognized directly or netted off against the individual loss allowance created for this purpose.

Revenue is recognized by the Group when control of the goods or services passes to the customer. **VARTA** recognizes a contract asset against revenue when control has passed to the customer on the basis of the requirements, but the service cannot be invoiced yet. A contract liability is recognized if the customer has paid the purchase price (in full or in part) or the company has a claim to such as payment even before the company could transfer the goods or provide the services in question.

4.8 INVENTORIES

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

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

4.9 SHARE-BASED REMUNERATION

The **VARTA AG** Group offers various share-based remuneration programs. These are an employee stock option program (ESOP), which was established by VGG GmbH, Vienna and a Long-Term Incentive Program (LTI program) for a member of the Executive Board, which was changed to a long-term, non-share-based performance-related (increase in value) remuneration program in the fiscal year 2019. The amount of the increase in value remuneration to be paid is dependent on EBITDA achieved in future.

The ESOP is paid in shares or cash. At **VARTA AG**, personnel costs are recognized over the vesting period. They are offset under capital reserves. The LTI program provided for payment in shares or in cash, and therefore represented a combination of a share-based component and a component paid in cash until the contract was changed. At **VARTA AG**, personnel costs were recognized over the vesting period and were offset either under capital reserves (for payment in shares) or under personnel liabilities until the contract was changed. When the contract was changed, it was reclassified into non-current other deferred liabilities for personnel.

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

4.10 IMPAIRMENT TEST

4.10.1 Financial assets

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

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

According to the expected loss model, all assets are divided into three categories:

Initially, assets are allocated to category 1 irrespective of their credit quality. Only assets that have an explicit indication of expected losses are assigned to the second or third category. In cases of a deterioration of creditworthiness, assets are re-assigned to CQS 2 or CQS3. The **VARTA AG** Group applies the simplified approach to current trade receivables (see 38.2 "Financial risk management").

Financial assets at amortized cost

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

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

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

4.10.2 Non-financial assets

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

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

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

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

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

4.11 DEFINED BENEFIT OBLIGATIONS AND DEFINED CONTRIBUTION COMMITMENTS

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

Defined contribution plans

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

Defined benefit plans

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

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

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

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

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

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

Assumption of a joint debt obligation

An agreement was concluded with a company in 2017 in which the company agreed to assume the pension obligations of a Group company as part of a joint debt obligation in return for payment of an agreed fee. In this connection, the accrued pension obligations existing as of December 31, 2016 are accounted for in the Group company in question and settled with the beneficiaries; at the same time a claim for reimbursement against the company and the regular netting off of paid pension claims is accounted for. The amortized claim to reimbursement is determined in accordance with IAS 19; the fair value of the asset is reviewed annually, taking account of the safeguards that have been implemented.

4.12 GOVERNMENT GRANTS

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

Other government grants in relation to assets are initially recognized as deferred income at fair value if there is an appropriate degree of certainty that they will be awarded and that the Group will meet the conditions associated with the grant.

Subsequently, these other government grants are recognized as other income in profit or loss on a scheduled basis of the term of the asset's useful life.

4.13 CONTINGENT LIABILITIES

If the recognition criteria for provisions are not met and the possibility of a cash outflow if they are met is unlikely, they will be disclosed as a contingent liability (if they can be measured sufficiently). The amount disclosed as a contingent liability corresponds to the best-possible estimate of the possible obligation on the reporting date. Provisions and contingent liabilities are reviewed regularly and amended in the event of new findings or changes to circumstances.

4.14 DEFERRED LIABILITIES

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

4.15 OTHER FINANCIAL LIABILITIES

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

4.16 PROVISIONS

Provisions are liabilities where the amount or timing is uncertain. They are recognized if the Group has a present obligation to third parties based on a past event, a cash outflow to meet this obligation is likely and the amount can be reliably determined. Provisions are discounted if the effect is material. Provisions where the probable cash outflow will take place within the next year are classified as current, all other provisions as non-current.

4.17 REVENUE RECOGNITION

In accordance with IFRS 15, revenue is recognized when a customer obtains control of goods and services.

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

The majority of the revenue from product sales is recognized at a point in time, since in most cases no customer-specific products are sold without an alternative use. In the **VARTA AG** Group, an alternative use also exists when specific products can be sold to other customers at negligible cost (e.g. change of packaging).

Rebate in kind claims are taken into account as a decrease in revenues on the basis of the best estimate at the time of the product delivery from which the claim accrues. When the rebate in kind is supplied, the revenue-reducing contractual obligation is canceled. Customers' claims from bonus agreements or take-back obligations are recognized as a contractual liability at the time of the product delivery. For consignment stock, revenue is to be recognized at **VARTA** when the customer obtains control, i.e. as soon as the goods are in the customer's consignment warehouse and not only when he withdraws the goods from the warehouse.

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

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

4.18 FINANCIAL RESULT

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

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

4.19 INCOME TAXES

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

Current income taxes are calculated on the basis of the taxable result using the tax rates applicable at the reporting date.

Deferred taxes are calculated in principle on all temporary differences between the reported balance sheet values of assets and liabilities. They are measured at the tax rates applicable or probably applicable to the respective Group companies.

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

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

4.20 SEGMENT REPORTING

The Group is set up as a divisional or branch organization. Its operating activity is organized via the application-oriented “Microbatteries” and “Power & Energy” business segments. Business is managed in the respective divisions along the operating value-added chain across all geographical regions and countries.

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

Microbatteries

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

For applications in the area of **Healthcare**, zinc-air batteries are primarily manufactured for use in hearing aid devices. These are marketed under the “power one” and “ecopack” brands in addition to proprietary customer brands. Commercial success in the area of hearing aid batteries is dependent on innovative, reliable solutions that offer a long service life as well as consistent quality. Our market position is secured by proprietary automation processes within production in addition to our ability to provide an end-to-end service to our customers, ranging from initial product to the point of sale (POS).

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

In the **Industrial** product group, the company primarily manufactures rechargeable battery solutions for industrial and original equipment manufacturers (OEMs). These include applications such as servers, applications in car keys, alarm systems and smart meters, among others.

Power & Energy

In the power and energy segment, which is under the management and control of **VARTA Storage GmbH**, mobile and stationary energy storage solutions are developed, manufactured and sold. The segment is focused on the development, system integration and assembly of power pack solutions for OEM customers in various markets. To this end, the batteries used are predominantly based on lithium-ion technology. The second focus of this segment is on energy storage solutions for private households and commercial enterprises.

This segment is responsible for the production of rechargeable, standardized and customized battery packs. These can be seamlessly integrated into various industrial and wireless applications. Irrespective of the technology or complexity of tasks at hand, the company offers a full service from design to production for OEM customers. This segment is concentrated on solutions for portable industrial applications, communications devices and electric power tools in addition to devices used at home, in the garden and for medical applications.

The segment also develops and manufactures energy storage systems for private households and commercial applications. The product portfolio features a modular design. This ensures that every end user can find the right energy storage device for their specific requirements: from handy, compact, complete beginner systems to mass storage solutions for industrial facilities.

4.21 CHANGES TO ACCOUNTING STANDARDS

Accounting standards applied for the first time in 2019

The Group applied IFRS 16 for the first time as of January 1, 2019. A number of other new standards had to be applied for the first time as of January 1, 2019, however, these do not have any material impact on the consolidated financial statements. Furthermore, the **VARTA AG** Group has only applied the new or revised standards for which application was compulsory for the reporting year 2019.

4.21.1 Impact of first-time application of IFRS 16

Following first-time application of IFRS 16, the Group recognized lease liabilities for leases previously classified as operating leases under IAS 17. These liabilities are measured at the present value of the remaining lease payments discounted by the lessee's incremental borrowing rate of interest as of January 1, 2019. The lessee's weighted average incremental borrowing rate of interest, which was applied to lease liabilities as of January 1, 2019, amounts to 1.64%.

There were no leases classified as finance leases prior to the first-time application of IFRS 16.

(€ k)	JANUARY 1, 2019
Rights of use - property, plant and equipment	23,957
Lease liabilities	23,957

(€ k)	2019
Obligations from operating leases disclosed as of December 31, 2018	26,404
(Less): leases not recognized in accordance with the option, whose term ends within 12 months of the date of first-time application	-431
(Less): leases not recognized in accordance with the option, where the underlying asset is of minor value	-28
Discounted by the lessor's incremental borrowing rate of interest at the time IFRS 16 was applied for the first time	24,416
Lease liability accounted for on January 1, 2019	23,957

Impact on segment disclosures

EBITDA increased as a consequence of the change to the accounting policy as of January 1, 2019. The impact on EBITDA and EBIT is spread across the segments as follows:

(€ k)	Microbattery	Power & Energy
Increase in EBITDA	3,350	927
Increase in EBIT	178	49

Reliefs applied

The Group made use of the following reliefs when applying IFRS 16 for the first time:

- Accounting for leases with a residual term of less than 12 months as of January 1, 2019 as short-term leases.
- The retroactive determination of the term of leasing relationships where the agreements offer the option of extending or terminating them (use of hindsight).

4.21.2 Impact of IFRIC 23

IFRIC 23 clarifies the application of the IAS 12 recognition and measurement requirements, if it is uncertain how items are dealt with from an income tax perspective. Estimates and assumptions must be made for recognition and management purposes, such as whether an assessment is undertaken separately or with other uncertainties, a probable or expected value is used for the uncertainty and whether changes have occurred compared with a previous period. The risk of detection for accounting for uncertain balance sheet items is insignificant. They are accounted for on the assumption that the tax authorities will investigate the questionable circumstances and that they have all the relevant information.

The estimates, assumptions and judgments mentioned must be disclosed in the notes in each case. Any potential impact of the uncertainty must also be disclosed as a tax-related contingent liability in accordance with IAS 12.88.

This had no material effects on the consolidated financial statements of **VARTA AG**.

4.22 NEW AND AMENDED IFRS STANDARDS AFTER DECEMBER 31, 2019

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

New or amended standards and interpretations		IMPLEMENTATION
Adoption in EU law		
Amendments:		
Framework	Amendments to references to the framework in IFRS standards	January 1, 2020
IFRS 7/ IFRS 9/ IAS 39	Amendments associated with the IBOR reform	January 1, 2020
IAS 1/ IAS 8	Amendments in relation to the definition of "material"	January 1, 2020
Not yet adopted in EU law:		
Standards:		
IFRS 17	Insurance Contracts	January 1, 2021
Amendments:		
IFRS 3	Amendments to clarify the definition of a business	January 1, 2020
IAS 1	Changes in the classification of liabilities as current or non-current	January 1, 2022
IFRS 10/ IAS 28	Sale or contribution of assets between an investor and an associate or joint venture	Indefinite

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

Changes to the accounting framework

The new framework contains revised definitions of assets and liabilities as well as new guidelines on measurement and derecognition, presentation and disclosures. The new framework does not constitute a fundamental revision of the document, as originally intended when the project started in 2004. Rather, the IASB restricted itself to those topics that were previously unregulated, or which have discernible weaknesses which had to be remedied. The revised framework is not subject to the endorsement process.

Together with the revised concept, the IASB has also issued changes to references to the framework in some standards. These include changes to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22 and SIC -32. The changes to the standards as a consequence of the publication of the new framework are subject to the endorsement process.

IFRS 3 Business Combinations

The narrowly defined changes to IFRS 3 aim to solve the problems that arise when a company determines whether it has acquired a business or a group of assets. The problems arise from the fact that the accounting provisions for goodwill, acquisition costs and deferred taxes when acquiring a business are unlike those when acquiring a group of assets.

Amendments associated with the IBOR reform

The amendments to IFRS 9, IAS 39 and IFRS 7 are expected to mitigate the effects of the reform of reference interest rates (known as the IBOR reform) on financial reporting. The amendments aim to ensure that hedging relationships in the balance sheet (hedge accounting) can remain in place or continue to be designated despite the uncertainties associated with the anticipated replacement of various reference interest rates. Application of the amendments is compulsory for fiscal years starting on or after January 1, 2020. Voluntary premature application is permissible.

Amendments to IAS 1/IAS 8 – Amendments in relation to the definition of “material”

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

IFRS 17 – Insurance Contracts

The standard regulates accounting for insurance contracts. IFRS 17 replaces the previously valid transitional standard IFRS 4. The scope covers insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. Under IFRS 17, insurance contracts are measured in principle according to the general model. The fulfillment value and contractual service margin are determined for a group of insurance contracts when it is recognized for the first time. Depending on the scope of changes to the underlying parameters, either the actuarial result or actuarial financial income/expenses will be affected in the subsequent measurement or the contractual service margin may be adjusted first, which will only affect the income statement in subsequent periods.

Changes to IAS 1 – Changes to the Classification of Liabilities as Current or Non-Current

The changes introduced a more generally accepted approach for the classification of liabilities, which is based on contractual agreements in place at the reporting date, to IFRS. The changes only relate to the recognition of liabilities in the presentation of the financial position – not the amount or date of recognition of assets, liabilities, income or expenses or the disclosures which companies provide about these items.

IFRS 10/IAS 28 – Sale or contribution of assets between an investor and an associate or joint venture

The changes react to a conflict in the existing guidelines and the resulting diversity in practice. If a parent company loses control of a subsidiary in a transaction with an associate or a joint venture (JV), there is a conflict between the existing guidelines on consolidation and on accounting in accordance with the equity method. According to the consolidation standard, the parent company recognizes the entire profit from the loss of control. However, according to the standard for associates and JVs, the parent company only recognizes the profit in the amount of the shares of non-affiliated investors in the associate or JV. In response to this conflict and the different practice resulting therefrom, the IASB published Sales or contributions of assets between an investor and its associate/joint venture (amendments to IFRS 10 and IAS 28) on September 11, 2014. The date for these changes to come into effect has now been postponed until a more comprehensive review is completed.

5 MATERIAL ASSUMPTIONS AND ESTIMATES

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

Useful lives of non-current assets

Property, plant and equipment and intangible assets acquired for consideration are stated at cost of acquisition or manufacture and depreciated on a scheduled, straight-line basis over their respective useful lives. In determining useful life, factors such as wear and tear, aging, technical standards, contract term and changes in demand are taken into consideration. Changes to these factors can entail a reduction or extension in the economic useful life of an asset. In this case, the remaining useful life would be depreciated over the remaining shorter or longer useful life and this would lead to higher or lower amounts of annual depreciation. The adjustments to the depreciation period required by a change in the expected useful life are, if applicable, treated as changes to estimates. More detailed information can be found in Chapter 30 "Depreciation" of these notes to the consolidated financial statements.

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

Loss allowances on non-current assets

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

More detailed information on the impairment tests conducted is provided under Chapter 4.10 "Impairment Test". The assumptions reached for this purpose may, however, be subject to amendments, which might lead to loss allowances in future periods.

Defined benefit obligations

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

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

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

Other provisions

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

Income taxes

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

Tax matters are assessed according to the legal regulations currently in force but may also be subject to estimates if the legal regulations are not definitive or the basic principles can lead to a different assessment. The calculation of income tax is therefore subject to estimates. However, given the level of technical expertise involved, any tax risk arising from such estimates is considered low.

Sales revenue

Revenue is measured on the basis of the consideration specified in a contract with a customer. The Group recognizes revenue when it transfers control over a good or a service to a customer. The following material types of performance obligations from contracts with customers and the revenue recognition associated therewith were identified within the VARTA Group:

Consignment warehouses, Incoterms, customer-specific products, customer projects, bonus and bonus in kind agreements

There is scope for discretion with regard to the indicators for assessing the time at which control is transferred, which differ depending on the type of contract and the performance obligation. In fundamental terms, the way in which the contract is drafted plays a significant role. For consignment warehouses, the interpretation of consignment contracts is significant, namely whether control is transferred on withdrawal or when the items are delivered to the consignment warehouse. The judgment of whether the products constitute customer-specific products depends on the extent to which they are bespoke and whether there are alternative, commercially viable uses for them. For customer projects, the assessment of the contract depends on whether the delivery or performance takes place at a specific point in time or over time. Other scope for discretion results, in particular, from old and long-running contracts, which were structured before the introduction of IFRS 15 and must therefore be assessed individually.

6 SEGMENT REPORTING

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

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

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

Information according to reportable segments:

	MICROBATTERIES		POWER & ENERGY		Σ TOTAL		RECONCILIATION		CONSOLIDATED FINANCIAL STATEMENTS	
(€ k)	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Revenue with third parties*	301,458	218,863*	60,784	51,756	362,242	270,619	448	1,031	362,692	271,650
Thereof Point-in-time	294,870	214,477	51,046	46,403	345,916	260,880	448	1,031	346,364	261,911
Thereof Point-over-time	6,588	4,386	9,738	5,353	16,326	9,739	0	0	16,326	9,739
Depreciation and amortization	-17,797	-8,634	-3,058	-1,883	-20,855	-10,517	0	0	-20,855	-10,518
Material effects in income and expenses	0	0	0	0	0	0	-5,859	-2,830	-5,859	-2,830
EBITDA	94,393	47,274	3,088	2,940	97,481	50,214	-5,859	-2,826	91,622	47,389

* There are no material revenue relationships between the segments

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

	2019			2018		
(€ k)	NOT ASSIGNABLE TO CORE BUSINESS	SPECIAL EFFECTS	Σ TOTAL	NOT ASSIGNABLE TO CORE BUSINESS	SPECIAL EFFECTS	Σ TOTAL
Sales revenue	448	0	448	1,031	0	1,031
Effects in income and expenses	0	-5,859	-5,859	0	-2,830	-2,830
EBITDA	0	-5,859	-5,859	0	-2,830	-2,830

Items that are not assigned to a segment are shown in "Not assignable to core business". Revenue mainly contains the sales revenue from IT services of € 448k (2018: € 1,031k). The effects in income and expenses mainly consist of special effects, which cannot be assigned directly to a segment.

Circumstances which are taken into account in adjusting EBITDA are shown in the column "Special effects". In fiscal year 2019, effects from a M&A transaction and the effects of share-based remuneration are included here. The effects of the M&A transaction came to € 3,006. The effects of share-based remuneration came to € 2,853k (2018: € 2,830k), with a counter entry in the capital reserve and other deferrals. Both effects are assignable to **VARTA AG** as the parent company.

In the "Microbatteries" segment, increased production by CoinPower plants led to higher intensity of use at the plants, which is why more wear and tear and a shorter useful life is expected. This situation resulted in higher depreciation and amortization of € 3,535k compared with the previous useful life, of which € 556k is attributable to plants, which was capitalized in the current year 2019. Furthermore, depreciation and amortization increased as a result of the first-time application of the new standard IFRS 16 Leases by € 3,172k in the "Microbatteries" segment and by € 878k in the Power & Energy segment.

The following table shows the reconciliation of EBITDA in the segments to earnings before taxes.

(€ k)	2019	2018
EBITDA	91,622	47,389
Depreciation and amortization	-20,855	-10,518
EBIT	70,767	36,871
Financial result	318	-519
Result from joint ventures	-6	130
Earnings before taxes	71,079	36,482

Geographical segment information

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

(€ k)	2019		2018	
	REVENUES*	NON-CURRENT ASSETS**	REVENUES*	NON-CURRENT ASSETS**
Europe	143,196	262,295	137,424	131,015
Thereof in Germany	67,685	251,737	62,480	129,725
America	60,161	748	56,217	54
Asia	154,860	5,636	72,870	2,908
Other	4,475	0	5,139	0
Total Group	362,692	268,679	271,650	133,977

* Revenues are based on the customer's headquarters.

** For this purpose, non-current assets include property, plant and equipment and intangible assets.

The revenue of the "Power & Energy" segment is mainly contained in the item for Europe. Accordingly, the revenue of the Asia and America regions is mainly assigned to the "Microbatteries" segment.

Products and services

The Group's revenue and trade receivables and contract assets are split as follows between products and services:

(€ k)	2019		2018	
	REVENUES	TRADE RECEIVABLES	REVENUES	TRADE RECEIVABLES
Of which from product sales	358,590	53,132	266,139	27,375
Of which from the sale of services	4,102	866	5,511	1,340
Total Group	362,692	53,998	271,650	28,715

Significant customers

In 2019, revenue with a specific customer amounted to € 70,375k, which equates to a share of revenue of more than 10% of consolidated revenue. In the previous year, revenue with one customer and a share of revenue of more than 10% amounted to € 30,022k. In both cases, the revenue was assigned to the "Microbatteries" segment.

7 PROPERTY, PLANT AND EQUIPMENT

(€ k)	BUILDINGS	RIGHT OF USE BUILDINGS	TECHNICAL EQUIPMENT AND MACHINERY	RIGHT OF USE TECHNICAL EQUIPMENT AND MACHINERY	OTHER EQUIPMENT	RIGHT OF USE OTHER EQUIPMENT	CONSTRUCTION IN PROGRESS AND PREPAYMENTS	TANGIBLE FIXED ASSETS
Acquisition values								
As of Jan 1, 2018	260	0	67,708	0	24,834	0	16,846	109,648
Currency differences	-2	0	142	0	88	0	-2	226
Additions	0	0	5,330	0	3,102	0	49,149	57,581
Disposals	0	0	-261	0	-386	0	0	-647
Reclassifications	0	0	3,469	0	2,166	0	-5,657	-22
As of Dec 31, 2018	258	0	76,388	0	29,804	0	60,336	166,786
Currency differences	2	4	4	0	34	5	-8	41
First-time application IFRS 16	0	21,322	0	42	0	2,593	0	23,957
Additions	351	4,719	60,258	0	4,702	692	54,045	124,767
Disposals	-251	-442	-2,117	0	-1,081	0	5,412	1,521
Reclassifications	0	0	0	0	2,863	0	-2,863	0
As of Dec 31, 2019	360	25,603	134,533	42	36,322	3,290	116,922	317,072

Cumulative depreciation and amortization and impairment losses

(€ k)	BUILDINGS	RIGHT OF USE BUILDINGS	TECHNICAL EQUIPMENT AND MACHINERY	RIGHT OF USE TECHNICAL EQUIPMENT AND MACHINERY	OTHER EQUIPMENT	RIGHT OF USE OTHER EQUIPMENT	CONSTRUCTION IN PROGRESS AND PREPAYMENTS	TANGIBLE FIXED ASSETS
As of Jan 1, 2018	103	0	31,582	0	14,516	0	0	46,201
Currency differences	-1	0	89	0	70	0	0	158
Additions	20	0	5,654	0	2,496	0	0	8,170
Disposals	0	0	-254	0	-292	0	0	-546
Reclassifications	0	0	19	0	-19	0	0	0
As of Dec 31, 2018	122	0	37,090	0	16,771	0	0	53,983
Currency differences	2	-5	33	0	32	0	0	62
Additions	39	3,325	11,103	33	3,255	692	0	18,447
Disposals	-148	-38	-2,086	0	-1,044	0	0	-3,316
Reclassifications	0	-145	0	0	0	145	0	0
As of Dec 31, 2019	15	3,137	46,140	33	19,014	837	0	69,176
Carrying amounts								
Carrying amounts on Jan 1, 2018	157	0	36,126	0	10,318	0	16,846	63,447
Carrying amounts on Dec 31, 2018	136	0	39,298	0	13,033	0	60,336	112,803
Carrying amounts on Dec 31, 2019	345	22,466	88,393	9	17,308	2,453	116,922	247,896

The major part of investment in property, plant and equipment served to expand production capacity of lithium-ion button cells in response to demand. Depreciation and amortization have increased significantly from € 8,170k in 2018 to € 18,447k in 2019, which is attributable, in particular, to the demand-driven investment in property, plant and equipment because of the expansion of production capacity and reduction in useful lives in Coin Power battery production as a result of extending the shift model. More detailed information is provided in Chapter 30 "Depreciation".

Additions include own work capitalized of € 3,070k (2018: € 2,399k). This increase was attributable to higher investment overall.

Replacement investment to renew production equipment, to develop new products and for quality assurance measures is also required at regular intervals.

There were no restrictions on rights of ownership or disposal for property, plant and equipment during fiscal years 2019 and 2018. Order commitments from the purchase of property, plant and equipment amounted to € 153,516k (2018: € 14,800k).

8 INTANGIBLE ASSETS

(€ k)	GOODWILL	TRADEMARK RIGHT AND OTHER INTANGIBLE ASSETS	COMMERCIAL PROPERTY RIGHTS	DEVELOPMENT COSTS	TOTAL
Acquisition values					
As of Jan 1, 2018	500	11,734	958	15,412	28,604
Additions	0	191	0	1,753	1,944
Reclassifications	0	22	0	0	22
As of Dec 31, 2018	500	11,947	958	17,165	30,570
Currency differences	0	1	0	0	1
Additions	0	678	0	1,340	2,018
Disposals	0	-49	0	0	-49
As of Dec 31, 2019	500	12,577	958	18,505	32,540

(€ k)	GOODWILL	TRADEMARK RIGHT AND OTHER INTANGIBLE ASSETS	COMMERCIAL PROPERTY RIGHTS	DEVELOPMENT COSTS	TOTAL
Cumulative depreciation and amortization					
As of Jan 1, 2018	0	2,187	299	4,562	7,048
Additions	0	326	132	1,890	2,348
As of Dec 31, 2018	0	2,513	431	6,452	9,396
Currency differences	0	-8	0	0	-8
Additions	0	304	132	1,972	2,408
Disposals	0	-39	0	0	-39
As of Dec 31, 2019	0	2,770	563	8,424	11,757
Carrying amounts					
Carrying amounts on Jan 1, 2018	500	9,547	659	10,850	21,556
Carrying amounts on Dec 31, 2018	500	9,434	527	10,713	21,174
Carrying amounts on Dec 31, 2019	500	9,807	395	10,081	20,783

Of the own work capitalized amounting to € 4,313k (2018: € 4,152k), self-manufactured intangible assets, which are not yet ready for use, totaling € 1,340k (2018: € 1,753k) were recognized in 2019.

Research and development expenses amounting to € 15,505k (2018: € 12,948k) were recognized in the income statement.

There were no restrictions on rights of ownership or disposal for intangible assets during fiscal years 2019 and 2018.

Impairment test

An impairment test is carried out each year on December 31 for goodwill and intangible assets, which have an indeterminable useful life, and for self-constructed intangible assets, which are not yet ready for use, where the value in use is used as the recoverable amount.

The carrying amount of the brand worth € 9,094k was allocated to the individual cash generating units as follows:

“Microbatteries” accounts for a total of € 6,894k, while “Power & Energy” was responsible for € 2,200k. The brand’s useful life is classified as unlimited, as **VARTA** has succeeded in creating a strong brand during its 130 years of company history, which contributes significant value to the company with its unique selling point. Capitalized development services that had not yet been completed on the reporting date and have therefore not yet been used were attributable in the amount of € 269k to the CGU “Microbatteries” and in the amount of € 1,071k to the CGU “Power & Energy”. The goodwill of € 500k resulted from the acquisition of Auditas and was assigned to the “Microbatteries” segment in its entirety.

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

(IN PER CENT)	2019		2018	
	CGU MICROBATTERIES	CGU POWER & ENERGY	CGU MICROBATTERIES	CGU POWER & ENERGY
Discount rate (WACC) pre-tax	11.6	10.3	8.8	8.9
Growth rate	1.0	0.9	2.1	2.1
Tax rate	28.5	18.8	29.0	28.9

Data from the current long-term planning for the years from 2020 to 2022 were used for the calculation, where 2020 corresponds to detailed budget planning, while 2021 and 2022 are updated. The most significant planning variable to determine cash flows is income development, which is essentially driven by the trend in sales. Furthermore, CAPEX is relevant to calculating the cash flow situation. Growth rates include a discount of 50% on the weighted underlying inflation rates from 2019.

For the CGU “Microbatteries”, the key assumptions here are that the market leading position for zinc-air hearing aid batteries in a market subject to structural growth will be further extended and that strong demand for wireless lifestyle products, such as headsets, will lead to a sharp increase in revenue from lithium-ion batteries. Expectations are that margins per product area can be kept constant and earnings can be increased over the planning period.

For the CGU “Power & Energy”, it was assumed that the sales volumes in stationary energy storage solutions would increase to market level. Revenue was also recognized from projects acquired with major customers for

battery packs. The large unit volumes also led to increased automation in the assembly of battery packs. The plan is to keep the margins in this segment stable and to increase earnings over the planning period.

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

(€ k)	December 31, 2019	December 31, 2018
VW-VM Forschungsgesellschaft mbH & Co. KG i.L., Ellwangen, Germany	-	293
VW-VM Verwaltungsgesellschaft mbH, Ellwangen, Germany	12	12
Total carrying amounts of long-term investments accounted for using the equity method	12	305
VARTA Micro Innovation GmbH, Graz, Austria	13	13
Connexio alternative investment & holding AG, Vienna, Austria	30	30
Total carrying amounts of other participations	43	43
Total carrying amounts of investments accounted for using the equity method and other participations	55	348

The joint venture VW-VM Forschungsgesellschaft mbH & Co. KG i.L., provided the Group with research services, which were primarily intended to develop high-performance battery cells to drive electrical or plug-in hybrid vehicles. In accordance with the joint venture agreement and the resolution by the partners, the company's business activity was terminated on December 31, 2017. The company was deleted from the Commercial Register with effect from September 6, 2019. A pro rata loss of € 6k was incurred up to preparation of the closing liquidation balance sheet as of March 31, 2019.

10 LEASES

The Group leases various office buildings, warehouses as well as plants and vehicles. Leases are usually concluded for fixed periods from 3 to 10 years but may include options to extend or may even be unlimited in individual cases. Changes to leased fixed assets are presented in Chapter 7 "Property, Plant And Equipment".

The total of future lease payments based on non-terminable leases amounts to:

(€ k)	December 31, 2019	December 31, 2018
Lease liabilities - short term	4,603	0
Lease liabilities - long term	20,476	0
Total	25,079	0

(€ k)	December 31, 2019	December 31, 2018
thereof residual term of up to 1 year	5,172	4,745
thereof residual term of 1 to 5 years	14,196	12,433
thereof residual term of more than 5 years	8,121	9,226
Total minimum lease payments (undiscounted)	27,489	26,404

Disclosures on the consolidated statement of cash flows

(€ k)	December 31, 2019	December 31, 2018
Total cash outflow from leases	-5,892	0

(€ k)	December 31, 2019	December 31, 2018
Amounts recognized in the income statement		
Interest expenses on lease liabilities	385	0
Variable lease payments, which are not included in the measurement of lease liabilities	0	0
Income from subleasing leased assets	0	0
Expenses from short-term leases	973	0
Expense from leases of low-value assets, excl. short-term leases of low-value assets	640	0
Lease expenses from operating leases in accordance with IAS 17	0	4,998
Total	1,998	4,998

There has been a sale and lease back agreement with WertInvest Ellwangen Immobilien GmbH since 2015. The agreement has been in place without any changes since then.

Variable lease payments, residual value guarantees and options to extend and terminate do not apply at present.

11 OTHER FINANCIAL ASSETS

(€ k)	December 31, 2019	December 31, 2018
Loans	548	359
Of which non-current	548	359

In the previous year, non-current receivables from affiliated companies of € 359k were reported under loans. As of December 31, 2019, these amounted to € 548k.

12 INVENTORIES

Inventories can be divided into the following items:

(€ k)	December 31, 2019	December 31, 2018
Raw materials and supplies	27,037	24,512
Unfinished goods	15,665	11,908
Finished goods and merchandise	20,515	19,507
Advance payments made	778	772
Inventories	63,995	56,699
Impairment income (+) / expense (-) recognized in the income statement	-1,223	-1,347

Raw materials and supplies and unfinished goods increased slightly in fiscal year 2019. This is due to the increase in business volume. The amount of inventory impairments recognized as expense in the reporting period

amounted to € 1,304k (2018: € 1,575k). The amount of reversals undertaken, which was recognized as impairment of the cost of materials in the reporting period, amounted to € 81k (2018: € 228k). The carrying amount of inventories after impairment totaled € 7,829k (2018: € 8,514k).

13 TRADE RECEIVABLES AND CONTRACT ASSETS

(€ k)	December 31, 2019	December 31, 2018
Receivables due from third parties (gross)	52,012	26,590
Receivables due from related parties	126	188
Receivables due from joint ventures and companies in which participations are held	0	5
Contract assets	2,032	2,370
Gross trade receivables and contract assets	54,170	29,153
Less loss allowances	-172	-438
Net trade receivables and contract assets	53,998	28,715

The existing net receivables are reduced by € 7,911k by the framework agreement for the sale of receivables, as of December 31, 2019 (December 31, 2018: € 8,546k; see 38.2 "Financial Risk Management")

Receivables (gross) due from third parties have risen by € 25,422k year on year. This increase is attributable to operating activities, where major projects with customers started during the year.

The following table provides information about receivables, contract assets and contract liabilities from contracts with customers:

(€ k)	December 31, 2019	December 31, 2018
Trade receivables	51,966	26,345
Contract assets	2,032	2,370
Contract liabilities	11,198	8,435

Contract assets of € 1,369k (2018: € 1,741k) are mainly the Group's claims to consideration for products held in consignment warehouses which had therefore not been invoiced at the reporting date. In addition, customer-specific products of € 663k (2018: € 629k), which are also in stock, are reported in contract assets. Contract assets are reclassified into receivables if the Group issues an invoice to the customer.

Contract liabilities relate to the following circumstances:

(€ k)	December 31, 2019	December 31, 2018
Bonuses in kind	5,064	3,661
Provisions for customer bonuses	5,753	3,956
Take-back obligations	74	46
Incoterms	122	0
Customer projects	185	772
Total	11,198	8,435

Experience shows that contract liabilities as of December 31, 2019 will be recognized as income in the next 6 months. The amount of € 8,435k as of December 31, 2018 was recognized as revenue during fiscal year 2019.

14 OTHER ASSETS

(€ k)	December 31, 2019	December 31, 2018
Other assets	35,287	29,831
Of which current	17,378	14,161
Of which non-current	17,909	15,670

The claim to reimbursement from the assumption of a joint debt obligation for pensions in June 2017 (please refer to Chapter 20.2 "Pensions") is reported in the amount of € 17,907k (2018: € 15,633k) under non-current other assets.

Current other assets consisted of the following:

(€ k)	December 31, 2019	December 31, 2018
Receivables from development projects	9,343	7,093
Other tax receivables	3,654	2,295
Other receivables	3,658	3,054
Miscellaneous other assets	723	1,719
Other assets	17,378	14,161

Receivables from development projects of € 9,343k are largely due from the European Commission and relate to government subsidies for a project in which the Group acts as coordinator and receives and manages the subsidies on a fiduciary basis from the funding authority. Advance payments passed on to the cooperation partners involved amounted to € 7,085k as of December 31, 2019 (December 31, 2018: € 5,566k). There is another liability corresponding to this based on the repayment obligation to the funding authority (see Chapter 23 "Other Liabilities"). The increase in receivables from promotional projects of € 2.250k was the result of new additional development projects.

The other tax receivables are largely sales tax receivables. These increased by € 1,359k from € 2,295k in 2018 to € 3,654k in 2019 and are largely attributable to higher sales volumes.

The increase in other receivables was largely caused by claims for reimbursement against a supplier from the provision of material and recourse claims.

15 CASH AND CASH EQUIVALENTS

Cash and cash equivalents can be broken down as follows:

(€ k)	December 31, 2019	December 31, 2018
Cash equivalents	42,117	56,977
Cash	13	12
Credit balances with banks	202,651	92,752
Total	244,781	149,741

The item "Credit balances with banks" contains fixed deposits with a term of up to three months totaling € 19,494k (2018: € 74k). Credit balances with banks increased dramatically following the capital increase. Cash not required at the moment was invested with banks on a short-term basis.

A short-term investment of free liquidity of € 42,117k (2018: € 56,977k) was made in a related company at normal arm's length terms (see Chapter 39 "Related Parties"). These are short-term, highly liquid financial investments that are readily convertible to known amounts of cash and which are subject to only an insignificant risk of changes in value (cash equivalents).

16 DEFERRED TAXES

Deferred taxes can be assigned to the following items:

(€ k)	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	DEC 31, 2019 NET	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	DEC 31, 2018 NET	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	JAN 1, 2018 NET
Intangible assets	1,214	5,980	-4,766	1,214	5,755	-4,541	1,214	4,383	-3,169
Property, plant and equipment	1,083	60	1,023	3	210	-207	-12	555	-567
Financial assets	0	0	0	0	4	-4	0	0	0
Other non-current assets	0	5,205	-5,205	0	4,545	-4,545	0	4,582	-4,582
Inventories	914	587	327	1,554	50	1,504	1,598	187	1,411
Trade receivables	5	533	-528	0	325	-325	42	5	37
Other current assets	3,548	334	3,214	3,241	214	3,027	2,600	0	2,600
Other non-current liabilities	1,154	2,470	-1,316	1,942	2,176	-234	1,826	1,548	278
Non-current liabilities from pensions plans	5,544	0	5,544	4,744	0	4,744	4,779	0	4,779
Current liabilities to banks	7	53	-46	13	0	13	0	47	-47
Current provisions	348	0	348	104	0	104	104	44	60
Trade payables	1,917	0	1,917						
Other current liabilities	1,224	1,468	-244	509	0	509	367	0	367
Tax loss carryforwards	1,003	0	1,003	1,432	0	1,432	1,146	0	1,146
Offsets	-16,690	-16,690	0	-13,279	-13,279	0	-11,351	-11,351	0
Total	1,271	0	1,271	1,477	0	1,477	2,313	0	2,313

17 EQUITY

There were the following changes to the equity of the **VARTA AG** Group in 2019:

(€ k)	SUBSCRIBED CAPITAL	CAPITAL RESERVE	REVENUE RESERVES*	OTHER RESERVES		NON- CONTROLLING INTERESTS	TOTAL EQUITY
				CURRENCY DIFFERENCES	HEDGING RESERVE		
As of January 1, 2019	38,200	149,374	66,887	3,924	-389	1,426	259,422
Effect of share-based payment	0	870	0	0	0	0	870
Change in minority interests	0	0	1,287	0	0	-1,287	0
Capital increase	2,222	101,531	0	0	0	0	103,753
Transaction costs from capital increase	0	-1,156	0	0	0	0	-1,156
Total comprehensive income							
Profit/loss for the year	0	0	50,390	0	0	74	50,464
Other comprehensive income	0	0	526	535	386	2	1,449
Total comprehensive income	0	0	50,916	535	386	76	51,913
As of December 31, 2019	40,422	250,619	119,090	4,459	-3	215	414,802

* Revenue reserves including profit/loss for the year

The Executive Board was authorized by resolution of the Annual General Meeting on October 6, 2017 to increase the share capital on one or more occasions up to October 5, 2022 in return for cash or contributions in kind up to an amount of € 11,840k (authorized capital 2017 I). The Executive Board made use of this resolution on June 13, 2019 by increasing the share capital by € 2,222k.

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

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

On June 13, 2019, **VARTA AG** successfully completed a capital increase to expand production capacity for lithium-ion batteries. In total, 2,221,686 new bearer shares were placed at a price of € 46.70 per share. Trading in the shares started for the first time on June 14, 2019. The Group secured net proceeds in the amount of € 102,120k from this capital increase. The capital was increased in return for cash contributions and making partial use of the existing authorized detailed in Article 4 (3) of the company's articles of association. Each share represents a notional share of the share capital of € 1.00. Additional information is provided in the consolidated management report. Further information on the assets acquired is also provided under Chapter 44 "Events After The Reporting Date". Proven transaction costs incurred in this connection were netted off against the capital reserve through other comprehensive income (taking account of deferred taxes).

As a result of the capital increase on June 13, 2019 subscribed capital has increased by € 2,222k from € 38,200k in 2018 to € 40,422k in 2019. The subscribed capital is divided into 40,421,686 shares. These are par-value shares, which represent a pro rata amount of € 1.00 of the share capital.

Because of the capital increase, the capital reserve, less the transaction costs needed for this purpose, has risen by € 100,375k year on year.

For the current fiscal year, a total of € 870k (2018: € 2,655k) was recognized in equity as share-based payment. These share-based payment components are explained under Chapter 33 "Share-based payment arrangements".

The minority share in Auditas GmbH was under-reported in equity in the previous year. Contractual arrangements mean that 90% of the profits are attributable to the **VARTA Group**, although the de facto share of the capital is only 25.1%.

In fiscal year 2019 **VARTA AG** did not receive any notifications in accordance with the Securities Trading Act (WHPG) about notifiable changes in voting rights.

18 EARNINGS PER SHARE

The calculation of earnings per share* is based on the profit attributable to shareholders and a weighted average of the shares in circulation. Since there were no circumstances either in the reporting period or in the previous year, which resulted in dilution effects, diluted earnings per share correspond to basic earnings per share.

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Earnings, attributable to shareholders in € k	50,390	25,260
Weighted average of ordinary shares in circulation ('000 shares)	39,430	38,200
Basic earnings per share in EUR	1.28	0.66
Diluted earnings per share in EUR	1.28	0.66

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

The number of shares has changed as follows in 2018 and 2019:

	NUMBER OF SHARES
Jan. 1, 2018	38,200,000
Dec. 31, 2018	38,200,000
Dec. 31, 2019	40,421,686

The subscribed capital is divided into 40,421,686 shares. These are par-value shares, which represent a pro rata amount of € 1 of the share capital.

19 OTHER FINANCIAL LIABILITIES

Other financial liabilities consist of the following:

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Other financial liabilities	6,890	8,920
Of which current	4,058	2,720
Of which non-current	2,832	6,200

On the reporting date, there is a liability to VGG GmbH, Vienna, a company in the Montana Tech Components AG Group, of € 2,818k (December 31, 2018: € 6,200k):

In fiscal year 2015, VGG GmbH, Vienna, waived part of its claim of € 6,000k against **VARTA Storage GmbH**, Nördlingen, from a loan issued against a debtor warrant. Furthermore, in fiscal year 2016, VGG GmbH waived a further part of its claim of € 200k against the former **VARTA Micro AG**, Ellwangen, from a loan issued against a debtor warrant. This waiver passes to **VARTA Storage GmbH**

because of the merger of **VARTA Micro AG**. Both debtor warrants envisage the loan liability plus interest being revived if a minimum profit for the year is achieved within ten years of the claim being waived. If the waiver amount is not repaid in full by December 31, 2025 and June 30, 2026 respectively, the remaining difference shall lapse finally and irrevocably.

Following the debt waiver, the original loan liability of € 6,200k was derecognized and, at the same time, an obligation from the anticipated repayments from the debtor warrant was reported as a liability. The obligation from the debtor warrant, which is measured at fair value, amounted to € 2,818k on the reporting date. A discounted cash flow model involving risk-dependent interest rates is used to calculate the fair value. The anticipated future cash flows are based on internal business planning. Since the applicable credit line is based on internal data, the debtor warrant is classified as level 3 of the fair value hierarchy.

Since December 2015, there has been a framework agreement for the sale of receivables, from which paid receivables of € 2,089k (December 31, 2018: € 1,453k) were reported as other financial liabilities due to the bank (factor) as of December 31, 2019 (see Chapter 38.2 "Financial Risk Management").

There are also other financial liabilities to foundations of € 568k (December 31, 2018: € 551k).

20 PROVISIONS FOR EMPLOYEE BENEFITS

20.1 COMPOSITION OF PROVISIONS FOR EMPLOYEE BENEFITS

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Total	28,436	24,687
Of which current	1,195	1,048
Of which non-current	27,241	23,639

Composition of provisions for employee benefits

Total	28,436	24,687
Pensions	19,930	17,362
Severance payments	6,591	5,458
Service anniversary bonuses	630	577
Partial retirement	1,285	1,290

20.2 PENSIONS

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

In accordance with IAS 19, the pension provisions for defined benefit commitments are determined in accordance with the internationally accepted projected unit credit method by independent actuaries.

Here, future obligations are measured on the basis of the benefit entitlement acquired pro rata at the reporting date. On measurement, actuarial assumptions for the discount rates, pay and pension trends, staff turnover rates and life expectancy are taken into consideration, which are determined for each Group company depending on the economic framework conditions. Actuarial gains or losses result from deviations between actual developments and the previous year's assumptions.

These are recognized in equity without impacting the income statement in the period in which they accrue, taking account of any deferred taxes.

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

In 2017, **VARTA Microbattery GmbH** concluded an agreement with Colibri Beratungsgesellschaft mbH Fürstenfeldbruck (Germany) in which Colibri Beratungsgesellschaft mbH agreed to assume the pension obligations of **VARTA Microbattery GmbH** within the framework of a joint debt obligation against payment of € 11,500k. The following agreements were reached in this connection:

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

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

For the pension obligations (DBO) assumed in accordance with IAS 19, the amortized value on the reporting date amounted to € 17,907k (2018: € 15,633k); a claim for reimbursement against Colibri Beratungsgesellschaft mbH was recognized in this amount.

In fiscal year 2019, an allocation to the revaluation reserve of € 2,626k was booked in other comprehensive income as a result of this joint debt assumption (2018: € 180k).

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

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

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

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

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Present value of the pension obligation (DBO) at the reporting date	21,850	19,478
Fair value of the plan assets	-1,920	-2,116
Net obligation (+) / Net assets (-) in the balance sheet	19,930	17,362

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

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
VARTA Microbattery GmbH and VARTA Storage GmbH		
Reinsurance	1,920	2,116
Total	1,920	2,116

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

Payments due within the next fiscal year due to pension commitments stand at € 694k (2018: € 550k). The duration of the pension plans comes to a period of 19.9 years as a weighted average.

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

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

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

	DECEMBER 31, 2019	DECEMBER 31, 2018
Current employees	940	872
Claimants (former employees)	134	128
Current pensioners	243	224
Total	1,317	1,224

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

(€ k)	NET OBLIGATION		FAIR VALUE OF PLAN ASSETS		PRESENT VALUE OF PENSION OBLIGATIONS		REIMBURSEMENT CLAIM	
	2019	2018	2019	2018	2019	2018	2019	2018
Fair value or present value as of January 1	17,362	16,872	-2,116	-2,139	19,478	19,011	15,633	15,780
Included in the income statement								
Employer's current service cost	513	476	0	0	513	476	0	0
Interest income/interest expenses	326	315	-38	-39	364	354	0	0
	839	791	-38	-39	877	830	0	0
Included in other comprehensive income								
(i) Re-measurement:								
Actuarial gains/losses	2,103	65	0	0	2,103	65	2,626	180
- of which adjustments to the pensions obligation based on experience	-494	98	0	0	-494	98	478	4
- of which change in demographic assumptions for the pension obligation	0	-199	0	0	0	-199	0	206
- of which change in financial assumptions about the pension obligation	2,597	36	0	0	2,597	36	2,148	-30
Income/expenses from net assets, excluding interest income/expenses	15	-7	15	-7	0	0	0	0
	2,118	58	15	-7	2,103	65	2,626	180
Other								
Other accruals	0	0	0	0	0	0	0	0
Retirement benefits paid directly by the employer	-608	-359	0	0	-608	-359	0	0
Employee contributions	0	0	0	-88	0	88	0	0
Benefits paid	219	0	219	157	0	-157	-352	-327
	-389	-359	219	69	-608	-428	-352	-327
Fair value or present value as of December 31	19,930	17,362	-1,920	-2,116	21,850	19,478	17,907	15,633
Of which pension entitlements covered by provisions					19,305	16,884		
Of which funded pension entitlements					2,545	2,594		

Actuarial assumptions

The actuarial assumptions of the major pension plans were as follows according the Heubeck 2018G mortality tables in fiscal year 2019:

	DECEMBER 31, 2019	DECEMBER 31, 2018
Discount rate (in %)	1.2	1.9
Expected increases in salaries (in %)	2.5	2.5
Expected increases in pensions (in %)	1.5	1.5
Male pensionable age (in years)	63	65
Female pensionable age (in years)	63	65

In fiscal year 2019, the turnover rate of employees of **VARTA** companies to which the pension plan applies broke down as follows:

	DECEMBER 31, 2019	DECEMBER 31, 2018
Staff turnover by age:		
Up to 39	4.5%	4.5%
Up to 49	0.5%	0.5%
50 and above	0%	0%

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

Sensitivity analyses

Any change in the above-mentioned actuarial assumptions used to determine the DBO as of December 31, 2019, would increase or reduce the corresponding DBO of the respective company, assuming all other parameters remain unchanged:

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

(€ k)	INCREASE	DECREASE
Discount rate (+/- 0.25 %)	-1,030	1,113
Pension trend (+/- 0.25 %)	687	-654
Life expectancy (+/-1 year)	751	-746

20.3 PROVISIONS FOR SEVERANCE PAYMENTS

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

Provisions for severance payments in the consolidated balance sheet are composed as follows:

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Present value of the provision for severance payments at the reporting date (DBO)	6,591	5,458
Obligation in the balance sheet (provision for severance payments)	6,591	5,458

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

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Present value of the provisions for severance payments as of January 1	5,458	4,936
Foreign exchange differences	101	251
Employer's current service cost	1,270	555
Actuarial gains (-) / losses (+)	-220	-254
Benefits paid	-18	-30
Present value of the provisions for severance payments as of December 31	6,591	5,458

Expenses related to severance payments are composed as follows:

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Employer's current service cost	1,270	555
Expenses recognized in the income statement	1,270	555
Actuarial gains (-) / losses (+)	-219	-246
Re-measurements recognized in the statement of comprehensive income	-219	-246
Cost of severance payments in the period	1,051	309

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

	DECEMBER 31, 2019	DECEMBER 31, 2018
Discount rate (in %)	8.0	8.0
Expected increases in salaries (in %)	11.5	11.5
Male pensionable age (in years)	55	55
Female pensionable age (in years)	55	55

21 TAX LIABILITIES

Liabilities from income taxes in the amount of € 14,325k exhibit the following age structure:

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Income tax liabilities		
... relating to 2019	12,426	4,352
... relating to 2018	208	270
... relating to 2017	50	982
... relating to 2016	496	100
... dating back further than 2016	1,145	1,557
	14,325	7,261

22 TRADE PAYABLES, CONTRACT LIABILITIES AND ADVANCE PAYMENTS RECEIVED

Trade payables, contract liabilities and advance payments received are composed as follows:

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Advance payments received	34,296	30,247
Non-current liabilities	34,296	30,247
Trade payables to third parties	36,781	20,825
Contract liabilities	11,198	8,435
Liabilities from the acquisition of property, plant and equipment and intangible assets	19,227	2,322
Liabilities to related parties	128	287
Advance payments received	32,671	11,587
Current liabilities	100,005	43,456
Total trade payables and advance payments received	134,301	73,703
<i>of which due immediately</i>	<i>19,195</i>	<i>6,207</i>
<i>of which residual term of up to 1 year</i>	<i>80,810</i>	<i>37,249</i>
<i>of which residual term over to 1 year</i>	<i>34,296</i>	<i>30,247</i>

Trade payables including advance payments received have increased by € 60,598k in total. This is attributable to the increase in business volume, a higher investment volume and advance payments received from customers.

The advance payments received came to € 66,967k in total and were associated with obligations from to some extent pending transactions by the **VARTA AG** Group to deliver batteries. The resultant liabilities of the **VARTA AG** Group are repaid as part of deliveries completed and meet the requirements for recognition as advance payments received in accordance with IFRS 15.16. This presentation is based on the assessment that the advance payments will be covered in full by subsequent call-offs and consequently do not contain a financing component. The cash inflow is included in net cash flow from ongoing operating activities. In fiscal year 2019, € 21,561k of the advance payments received shown in the previous year were netted off against matching receivables from call-offs.

The increase in contract liabilities as of December 31, 2019 to € 11,198k (December 31, 2018: € 8,435k) is attributable to higher revenue and the increase in bonuses and take-back obligations associated therewith. Contract liabilities are primarily liabilities for bonuses in kind, customer bonuses and take-back obligations (see Chapter 13 "Trade Receivables And Contract Assets").

23 OTHER LIABILITIES

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Other non-current liabilities	95	93
Other current liabilities	20,025	11,018
Other liabilities	20,120	11,111

Current other liabilities rose from € 11,018k to € 20,025k. Current liabilities mainly contain liabilities from promotional projects of € 12,394k (December 31, 2018: € 6,418k), customs liabilities of € 1,557k (December 31, 2018:

€ 793k), other tax liabilities totaling € 1,978k (December 31, 2018: € 1,457k) and deferred income, which

essentially relates to government grants, in the amount of € 917k (December 31, 2018: € 900k). Non-current other liabilities refer to deferred income of € 95k (December 31, 2018: € 93k).

24 OTHER PROVISIONS

Other provisions in fiscal years 2019 and 2018 consisted of the following:

(€ k)	WARRANTIES, GUARANTEES	DISPOSAL, RESTORATION & SIMILAR OBLIGATIONS	OTHER PROVISIONS	TOTAL 2019
Maturity				
Current	2,813	0	1,594	4,407
Non-current	1,415	0	2,424	3,839
Total provisions	4,228	0	4,018	8,246
Changes in other provisions in 2019				
As of Jan 1, 2019	2,749	12	1,786	4,547
Allocation	2,526	0	2,499	5,025
Consumption	-692	-12	-286	-990
Reversal	-360	0	0	-360
Foreign exchange differences	5	0	19	24
As of Dec 31, 2019	4,228	0	4,018	8,246

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

Warranties, guarantees

Product guarantees are provided when products are sold. Provisions are created for this purpose each year. Guarantee/warranty provisions are calculated in accordance with the principle of multiplying the relevant quantities delivered with the anticipated probability of loss in the respective periods and the average costs per case. The provisions usually cover an appropriate guarantee and cooling off period. Allocation to provisions occurs when the products are sold. The sharp increase in revenue in the Microbatteries segment year on year together with the launch of new products and projects has had a significant influence on the increase in provisions.

Miscellaneous provisions

Miscellaneous provisions largely consist of provisions for the long-term remuneration arrangements with the Executive Board of **VARTA AG** in the amount of € 2,424k (December 31, 2018: € 243k). They also include a possible residual liability resulting from the transfer of pensions in previous years, which stands at € 497k. There was no change here year on year. There were also restoration liabilities of € 439k (December 31, 2018: € 431k) and costs related to the annual financial statements of € 60k (December 31, 2018: € 60k).

25 DEFERRED LIABILITIES

Deferred liabilities comprise the following material items:

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Holiday entitlements, overtime and time off in lieu	6,262	3,870
Employee bonuses	4,768	4,056
Outstanding invoices	2,106	1,074
Audit, tax advice and legal advice	1,391	876
Other deferred liabilities for personnel	1,300	1,158
Miscellaneous deferred liabilities	804	1,011
Deferred liabilities	16,631	12,045

26 REVENUE

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

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Revenue	362,692	271,650
Of which from product sales	358,590	266,139
Of which from the sale of services	4,102	5,511

Revenue from product sales largely contained sales revenues from the “Microbatteries” and “Power & Energy” segments (see Chapter 6 “Segment Reporting”). Sales from the “Microbatteries” segment contained sales revenue from the areas of “Healthcare” totaling € 150,950k (2018: € 139,301k) and “Entertainment & Industrial” in the amount of € 150,510k (2018: € 79,561k).

Revenue from sales of services mainly contained sales revenue from product design of € 1,040k (2018: € 1,922k) and the provision of IT services totaling € 594k (2018: € 1,031k). Both services have shrunk significantly year on

year. In the current year, revenue of € 2,390k (2018: € 2,536k) from the sale of services to research institutes was also included.

27 DECREASE / INCREASE IN FINISHED AND UNFINISHED GOODS

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Change in unfinished goods	3,745	712
Change in finished goods	-3,102	3,187
Increase in finished and unfinished goods	643	3,899

Changes in finished and unfinished goods cannot be reconciled directly with the changes apparent from the consolidated balance sheet. This was due to existing currency differences that affect these items.

28 COST OF MATERIAL

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Expense for raw materials, supplies and goods purchased	107,135	94,103
Other material expenses	7,763	7,379
Material processing and refining by third parties	3,966	4,458
Other	4,663	927
Cost of materials	123,527	106,867

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

29 PERSONNEL EXPENSES

Personnel expenses contain the following items:

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Wages and salaries	94,200	77,504
Expenses for severance payments	3,161	988
Expenses for statutory social security contributions	8,653	7,060
Pension expenses	6,363	5,149
Other personnel expenses	2,029	1,739
Total	114,406	92,440

Pension expenses are composed as follows:

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Defined contribution plans	5,850	4,673
Defined benefit plans	513	476
Total	6,363	5,149

* Employer contributions for the statutory pension insurance scheme are included in the expenses for defined contribution plans.

In January 2018, a share option program for employees (ESOP) was launched by the parent company VGG (Vienna), under which participating employees of the **VARTA AG** Group, including the Executive Board, are entitled to purchase ordinary shares in **VARTA AG**. The vesting period taken as a basis amounts to four years and the precondition for exercise is that the beneficiaries are in an ongoing employment relationship with **VARTA AG** or with one of its affiliated companies as at the date the option is exercised. Non-cash expenses from the ESOP amounting to € 1,577k (2018: € 2,348) was recognized under "Wages and salaries".

Expenses for defined contribution plans include the employer's contributions to the German statutory pension insurance scheme. Total expenses for these contributions amounted to € 5,577k in fiscal year 2019 (2018: € 4,454k). These are employer contributions to the statutory pension insurance scheme. As of the reporting date, contributions not yet calculated or not yet paid are deferred and reported under other liabilities or provisions.

The Group employed 2,857 staff as of year-end 2019 (2018: 2,284). On average, a total of 2,528 employees were employed in 2019 (2018: 2,242). Of these, 1,954 were wage earners, 563 were salaried employees and 11 were senior managers.

30 DEPRECIATION

Depreciation comprised the following:

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Scheduled depreciation of property, plant and equipment (excluding right-of-use assets)	14,397	8,170
Scheduled depreciation of right-of-use assets	4,050	0
Scheduled amortization of intangible assets	2,408	2,348
Total depreciation and amortization	20,855	10,518

The increased production volume also requires a high intensity of use at the plants, which is why more wear and tear and shorter useful lives were specified for CoinPower plants at the beginning of the fiscal year. The reduction in useful lives from 12 to 10 years resulted in higher depreciation of € 3,535k compared with the previous useful lives, of which € 556k was attributable to plants capitalized in 2019 and € 2,979k was due to the adjustment of useful lives for plants that were used in previous years. Depreciation also increased by € 4,050k as a result of the first-time application of the new standard IFRS 16 Leases.

31 OTHER OPERATING INCOME

Other operating income contains the following items:

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Grants and public donations	3,818	3,781
Income from offsetting rental and services towards joint ventures	0	108
Reversal of provisions and deferred liabilities	644	697
Income from the sale of property, plant and equipment	62	21
Other	3,236	2,502
Other operating income	7,760	7,109

In fiscal year 2019, public donations amounted to € 3,818k in total (2018: € 3,781k) and were essentially provided for **VARTA Microbattery GmbH** and **VARTA Storage GmbH**. The donations mentioned were provided for

projects sponsored by the Federal Ministry of Education and Research and by the European Commission. Donations are recognized as other operating income when the receivable accrues.

The decline registered under the item "Income from offsetting rental and services towards joint ventures" resulted from the termination of operations by a joint venture.

The increase in the item "Other" was essentially the result of compensation payments from business partners because of non-compliance with contractually agreed payments.

32 OTHER OPERATING EXPENSES

Other operating expenses contain the following items:

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Legal, auditing and consultancy fees	8,659	2,260
Maintenance	5,594	4,983
Cost of energy	4,601	3,440
Miscellaneous other operating expenses	3,967	3,706
Outward freight and customs duties	3,522	2,937
Commission	3,263	3,009
Marketing, advertising and representation	2,615	2,966
Warranties	2,431	1,638
Telephone, postage & IT	2,102	1,947
Travel expenses	1,687	1,932
Rent and leases	1,613	4,998
Licenses & patent fees	1,346	1,248
Expenses with related companies	781	865
Other sales and distribution costs	583	550
Cleaning	541	440
Insurance contracts	505	454
Bank charges / fund transfer fees	502	270
Engineering and professional fees	409	1,187
Apprenticeship and training costs	408	365
Contributions and fees	376	299
Customer credit insurance	176	182
Impairment losses from trade receivables	172	438
Other operating expenses	45,853	40,114

Other operating expenses have increased by € 5,739k in total from € 40,114k to € 45,853k. This was largely the result of the increase in legal and consultancy fees associated with the acquisition of **VARTA Consumer** companies of € 3,006k. The remaining increase in legal and consultancy fees is due to the Group's operating growth. Because of the expansion in production capacity, maintenance costs have risen by € 611k and the cost of energy by € 1,161k year on year. The increase in outward freight and customs duties was attributable to the significant growth in sales. In contrast, rental and lease expenses have decreased as a result of the first-time application of IFRS 16.

33 SHARE BASED PAYMENT ARRANGEMENTS

Management Stock Option Program (MSOP)

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

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

(€ k)	2019		2018	
	NUMBER OF OPTIONS	Weighted average exercise price	NUMBER OF OPTIONS	Weighted average exercise price
Outstanding as of January 1	535,118			
Lapsed during the year	-16,163			
Exercised during the year	-147,358	56.48	-142,739	27.20
Promised during the year	10,357		677,857	
Outstanding as of December 31	381,954		535,118	
Exercisable as of December 31	51,329			

The options outstanding as of December 31, 2019 had an exercise price between € 37.30 and € 108.80 (2018: € 21.30 and € 28.16) and a weighted average contract term of approximately four years (2018: approximately four years).

The weighted average share price at the exercise date of the share options exercised in 2019 was € 56.48 (2018: € 27.20).

Long-Term Incentive Program (LTIP)

On November 26, 2019, one of the Executive Board contracts was adjusted ahead of the upcoming changes caused by the Act on the Implementation of the second Shareholders' Rights Directive (ARUG II).

In so doing, the long-term share-based component, which was originally designed for five years, was converted to profit-sharing, which is linked to the Group's profit over three years. Detailed notes on the compensation model are provided in the management report.

Until the LTIP contract was amended, the Executive Board had the option of payment in shares or in cash, meaning that the LTIP was therefore a combination of a share-based component and a component paid in cash. The personnel expenses were recognized over the vesting period and the counter entry was posted in the capital reserve (for payment in shares) or in other deferred liabilities for personnel (for payment in cash) until the contract was amended. The key condition for exercising rights is an existing employment relationship of at least three years. From November 26, 2019, the claims from the profit sharing will be recognized in a provision for Executive Board remuneration (shown under other non-current provisions). Following the changes to the LTIP contract, the right to receive share options in return for the granting of a claim to payment of profit sharing linked to the success of the company lapsed.

Determination of fair values

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

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

(€ k)	MANAGEMENT STOCK OPTION PROGRAM (MSOP)	LONGTERM INCENTIVE PLAN (LTIP)
Fair value (average in EUR)	8.07	7.51
Share price on the date the option was granted (in EUR)	21.6	20.6
Exercise price (in EUR)	14.0	14.0
Expected volatility (in %)	30.9%	28.9%
Expected term (in years)	4.0	5.0
Expected dividends (average, in %)	0.55%	0.55%
Risk-free interest rate (in %)	-0.691%	0.043%

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

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

The expense recognized in the income statement for share-based payment came to € 2,853k in fiscal year 2019 (2018: € 2,830k). The effects in equity amounted to € 870k (see Chapter 17 "Equity") and consisted of allocations from the forward projection of the ESOP and the forward projection of the LTIP until November 26, 2019 with subsequent reclassification into deferred liabilities (see Chapter 25 "Deferred Liabilities") and the deferred tax attributable to this. Following reclassification from the LTIP contract into equity, an amount of € -560k remained.

34 NET INTEREST INCOME

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Financial income	601	160
Financial expense	-1,127	-416
Net interest income	-526	-256

Interest income increased in 2019 by € 441k to € 601k. The increase in interest income is essentially due to the fact that cash and cash equivalents that were not required could be invested with banks and affiliated companies. Interest expenses increased significantly in the current fiscal year. This is mainly attributable to the first-time application of IFRS 16.

35 NET FINANCIAL INCOME

Sundry financial income and sundry financial expenses is composed as follows:

(€ k)	2019	2018
Foreign exchange gains	106	368
Other financial income	3,382	0
Sundry financial income	3,488	368
Foreign exchange losses	-1,984	-631
Other financial expense with third parties	-660	0
Sundry financial expense	-2,644	-631

The increase in other financial income resulted from accounting for the debtor warrant at fair value.

Higher revenue and advance payments from customers in foreign currency, especially USD, meant that losses from exchange rate fluctuations in the current year increased significantly. Other financial expenses resulted from the conclusion of the syndicated loan agreement.

36 INCOME TAX EXPENSES

The effective tax rate of the **VARTA** Group amounted to 29.00% in the reporting year (2018: 29.55%). The corporate income tax rate amounted to 15.00 %, the solidarity surcharge on top of this was 5.50 % and the combined trade tax was 13.24% (2018: 13.24%) for **VARTA AG**. The reconciliation of the expected tax expense with actual tax expense is shown below:

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Earnings before tax (EBT)	71,079	36,482
Companies income tax rate	29.1%	29.1%
Expected (theoretical) tax expense	-20,663	-10,605
Effects of different tax rates in the Group	1,107	1,127
Tax-free income	640	96
Non capitalized loss carryforwards – actual period	-722	0
Expenses and interest not recognized under tax law	-809	-1,368
Tax expense/tax income for previous years	224	630
Change in the measurement of deferred tax receivables	145	0
Other	-537	-659
Income tax expense	-20,615	-10,779

Income tax expense included current taxes of € 20,179k (2018: € 9,498k) and deferred taxes of € -436k (2018: € -1,281k), which resulted solely from temporary differences.

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

The consolidated statement of comprehensive income contained income tax effects from cash flow hedged of € -159k (2018: € 212k). Income tax on the remeasurement of defined benefit plans in accordance with IAS 19 amounted to € -201k (2018: € -102k). Both items were recorded in other comprehensive income.

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

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Expiry date:		
In the coming financial year – within 5 years	2,736	
No expiry	3,514	3,284
Available tax loss carryforwards as of December 31	6,250	3,284

No deferred taxes were capitalized for loss carryforwards of € 6,250k (2018: € 3,284k). In the relevant companies, the likelihood that future profits could be netted off against accrued loss carryforwards was rated low at the reporting date.

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

On December 31, 2019, there was a deferred tax liability of € 936k (2018: € 805k) for temporary differences of € 3,219k (2018: € 2,769k) in connection with shares in subsidiaries and joint ventures. These deferred tax liabilities were not recognized since the Group is in a position to manage the chronological sequence of the reversal and the temporary differences will not reverse in the foreseeable future.

37 CONSOLIDATED STATEMENT OF CASH FLOWS

Miscellaneous non-cash expenses and income resulted mainly from non-cash changes in the claim for reimbursement from the assumption of debt of € 2,626k (2018: € 180k) and the non-cash effects of share-based remuneration of € 870k (2018: € 2,830k; see Chapter 29 "Personnel Expenses"). Non-cash changes also include currency effects of € -146k (2018: € -633k) and from changes in the consolidated statement of comprehensive income of € 1,272k (2018: € -361k), which were recognized directly in equity.

The item "Acquisition of property, plant and equipment and intangible assets" cannot be reconciled with the additions of "intangible assets and property, plant and equipment" because of outstanding items where there was no payment obligation. The difference mainly resulted from liabilities of € -16,905k (December 31, 2018: € 901k). These liabilities from investments in property, plant and equipment have risen by € 16,905k year on year. In fiscal year 2018, these liabilities decreased by € 901k. The outstanding items from the previous year's investment were paid in full in the following year and allocated to the item "Acquisition of property, plant and equipment and intangible assets".

The development of financial liabilities consisted of the following:	12/31/2018	CASH CHANGES		NON-CASH CHANGE	12/31/2019
(€ k)		REPAYMENT	UPTAKE		
Non-current financial liabilities	6,200	0	0	-3,382	2,818
Current financial liabilities	2,004	-1,453	2,243	0	2,794
Derivatives	716	-716	0	1,278	1,278
Liabilities from financing activities	8,920				6,890

Of the cash and cash equivalents reported, € 0k (December 31, 2018: € 0k) are subject to a restriction on rights of disposal.

38 RISK MANAGEMENT

38.1 INTERNAL CONTROL SYSTEM

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

The Audit Committee monitors both compliance with the policies and processes of Group risk management by the Executive Board and the efficacy of the risk management system with regard to the risks to which the Group is exposed. An Internal Audit mechanism has been set up in order to ensure that audits can be carried out on a regular basis, the results of which are reported directly to the Audit Committee.

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

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

38.2 FINANCIAL RISK MANAGEMENT

The primary aim of financial risk management is to identify the financial risks to which the Group is exposed, to monitor them and to establish efficient security measures. Financial risks emerge from operating activities and the financing structure. These include, in particular, credit, liquidity, foreign exchange and interest rate risks as well as the market price risk of commodities.

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

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

Credit risk

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

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

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

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Cash and cash equivalents	244,781	149,741
Contract assets	2,032	2,370
Trade receivables	51,966	26,345
Other financial assets	548	359
Other assets*	30,922	25,863
Total financial assets	330,249	204,678

* excluding other tax receivables € 3,654k (2018: € 2,295k) and prepaid expenses of € 712k (2018: € 1,674k).

In fiscal year 2019, there was a framework agreement with a bank for the sale of receivables due to expire in September 2020. This was extended for a further year in mid-2019. Under the agreement, trade receivables due as part of ordinary operating activities are sold on receipt of the relevant invoice by the respective debtor with details of the agreed payment term. Receivables are sold at the end of the month. At this date, the bank decides the amount of receivables it is prepared to buy up to a total figure of € 10,000k. The receivables measured at fair value at this date are 90% sold to the bank. The receivables paid in the course of a month are reported under other financial liabilities due to the bank (see Chapter 19 "Other financial liabilities"). As of December 31, 2019, the Group sold receivables amounting to € 7,911k (December 31, 2018: € 8,541k). The Group is exposed to no further risks from the receivables sold.

On the reporting date, loans including deferred interest of € 548k (December 31, 2018: € 359k) were granted to third parties.

On the reporting date of December 31, 2019, other assets mainly related to the claim for reimbursement from the assumption of debt totaling € 17,907k (2018: € 15,633k) (see Chapter 1 "General information"), receivables from promotional projects in the amount of € 9,343k in addition to advance payments of € 2,662k.

Within the framework of the impairment model, the simplified approach is applied to the recognition of a loss allowance for trade receivables under which the anticipated credit losses for these receivables are recognized over the entire term when recognized for the first time.

The maximum credit risk must be rated low, since the default risk inherent in basic business with business partners was partly covered by credit insurance of € 14,500k (December 31, 2018: € 13,302k). The criteria to be applied for assessing creditworthiness are laid down in contracts with credit insurers and in internal guidelines. In addition, the credit risk is not concentrated, as the Group's customer base consists of a large number of customers. Receivables outstanding at the reporting date must stand up to the Group's risk assessment criteria regardless of when they are due. In principle, a risk is considered for all financial assets based on internal and external experience. There are no financial assets where terms were renegotiated.

Trade receivables and contract assets after loss allowances are composed as per the following:

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Contract assets	2,032	2,370
Trade receivables	52,138	26,783
Loss allowances	-172	-438
Trade receivables and contract assets – net	53,998	28,715

Loss allowances have developed as follows:

(€ k)	2019	2018
As of the beginning of the fiscal year	438	303
Allocation	12	655
Consumption	-31	-215
Reversal	-257	-320
Foreign exchange differences	10	15
Total loss allowances	172	438

Trade receivables or the financial asset are/is written down by 100% as soon as the company becomes aware that it is not recoverable, or the receivable is more than 90 days past due. Deviations from this principle are possible, for example, for disputed items or if there are credit balances available. For receivables past due by between 31 and 90 days, the anticipated default is recognized as follows taking into account the respective country risk and average default rate:

- > 31 days: 0.00-0.17% loss allowance

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

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

(€ k)	DECEMBER 31, 2019			DECEMBER 31, 2018		
	CARRYING AMOUNT BEFORE LOSS ALLOWANCES	LOSS ALLOWANCES	NET	CARRYING AMOUNT BEFORE LOSS ALLOWANCES	LOSS ALLOWANCES	NET
0 to 10 days past due	4,314	-1	4,313	2,528	0	2,528
11 to 30 days past due	1,704	0	1,704	1,212	0	1,212
31 to 60 days past due	801	-13	788	520	-75	445
61 to 180 days past due	0	0	0	137	-14	123
181 to 360 days past due	243	-7	236	408	-250	158
More than 360 days past due	156	-151	5	98	-99	-1
Total Group	7,218	-172	7,046	4,903	-438	4,465

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

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

Liquidity risk

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

The undiscounted contractual maturities of non-derivative and derivative financial liabilities are shown below. The default risk of financial liabilities does not change over time

December 31, 2019

(€ k)	CARRYING AMOUNTS	CONTRACTUAL CASH FLOWS	IMMEDIATE	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	MORE THAN 5 YEARS
Non-derivative financial liabilities							
Other financial liabilities*	5,612	5,612	0	2,794	0	0	2,818
Trade payables**	56,136	56,136	19,195	32,546	4,395	0	0
Deferred liabilities***	4,301	4,301	0	0	4,301	0	0
Other liabilities****	4,090	4,090	906	3,173	11	0	0
Total non-derivative financial liabilities	70,139	70,139	20,101	38,513	8,707	0	2,818

* Excluding derivative financial instruments of € 1,278k; including a debt waiver of € 2,818k with an anticipated term of more than 5 years which can be repaid earlier because of specific circumstances. (see Chapter 19 "Other financial liabilities")

** Excluding advance payments received of € 32,268k and contract liabilities of € 11,198k

*** Excluding deferred liabilities for employee benefits of € 12,330k

**** Excluding deferred income of € 95k, liabilities from promotional projects of € 12,394k, customs liabilities of € 1,557k, other liabilities from taxes of € 1,978 and social security of € 6k

(€ k)	CARRYING AMOUNTS	CONTRACTUAL CASH FLOWS	IMMEDIATE	UP TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	MORE THAN 5 YEARS
Derivative financial liabilities							
Forward exchange transactions (cash flow hedge)	1,278	61,342	0	61,342	0	0	0
Total derivative financial liabilities	1,278	61,342	0	61,342	0	0	0
Total Group	71,417	131,481	20,101	99,855	8,707	0	2,818

December 31, 2018

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

* Excluding derivative financial instruments of € 716k; including a debt waiver of € 6,200k with an anticipated term of more than 5 years which can be repaid earlier because of specific circumstances. (see Chapter 19 "Other financial liabilities")

** Excluding advance payments received of € 11,587k and contract liabilities of € 8,435k

*** Excluding deferred liabilities for employee benefits of € 9,084k

**** Excluding deferred income of € 93k, liabilities from promotional projects of € 6,418k, customs liabilities of € 793k, other liabilities from taxes of € 1,457k and social security of € 348k

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

Market risk

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

Commodity risk

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

Currency risk

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

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

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

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Cash and cash equivalents	27,983	7,117
Trade receivables	26,446	3,370
Receivables due from related companies	8,790	6,783
Trade payables	8,482	0
Advance payments received from customers	66,564	0
Loans from related companies	24,880	11,048
Liabilities to related companies	3,806	3,294
Total currency exposure gross	-40,513	4,614
Forward exchange transactions	49,373	11,048
Total currency exposure net	8,860	15,662

Other currency pairs of relevance for the Group are less significant.

Sensitivity analysis

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

(€ k)	PROFIT (+) / LOSS (-)		
December 31, 2019			
EUR/USD	+/- 4.9%	1,810	-1,726

(€ k)	PROFIT (+) / LOSS (-)		
December 31, 2018			
EUR/USD	+/- 7.3%	-775	860

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

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

Interest rate risk

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

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

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

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Fixed interest financial instruments		
Financial assets*	61,624	57,063
Financial liabilities**	5,626	8,204
Variable interest financial instruments		
Financial assets*	183,157	92,678
Financial liabilities**	0	0

* includes credit balances with banks and fixed deposits as well as short-term investments

** includes other financial liabilities, excluding derivative financial instruments of € 1,278k

Sensitivity analysis for fixed interest financial instruments

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

Sensitivity analysis for variable interest financial instruments

An increase in interest rates of one percentage point would have – taking account of hedging variable interest financial instruments through fixed interest – increased the consolidated result by € 1,299k (2018: by € 658k). A reduction in the interest rate of one percentage point would have resulted in a reduction in the Group result of € -1,299k (2018: reduction of € -658k). A possible reduction in interest rates below 0% was also taken into account here. It is assumed, in the context of this analysis, that all other variables, especially foreign currency effects, remain constant.

Derivative financial instruments

The Group essentially uses derivative financial instruments to reduce the risks of changes in exchange rates and commodity prices. It uses forward exchange transactions and commodities swaps to reduce the short-term effects of fluctuations in exchange rates and commodity prices. All the counterparties it uses for this purpose are well-known international banks, with which the Group maintains ongoing business relationships. Accordingly, the Group views the risk of non-performance by counterparty and consequently the risk of losses here as low. As of December 31, 2019, the gain on the derivative financial instruments shown amounted to € 2,067k (December 31, 2018: € 1,028k).

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

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

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

December 31, 2019

	CURRENCY	AVERAGE HEDGING RATE 1-12 MONTHS	NOMINAL AMOUNT (IN THOUSAND ORIGINAL CURRENCY)	FAIR VALUE (IN €)	OF WHICH NO EFFECT ON OTHER COMPREHENSIVE INCOME	MATURITY
Commodity swap	USD	16.34	392	-42	-42	up to 1 year
Forward exchange transaction	USD	1.12	27,950	-196	0	up to 1 year
Forward exchange transaction	USD	1.1	11,761	-188	0	up to 1 year
Forward exchange transaction	USD	1.12	29,200	-81	0	up to 1 year
Forward exchange transaction	USD	1.23	9,600	-621	0	up to 1 year
Forward exchange transaction	USD	1.23	1,600	-103	0	over 1 year
Forward exchange transaction	SGD	1.34	464	-3	0	up to 1 year
Forward exchange transaction	SGD	1.34	465	-3	0	up to 1 year
Forward exchange transaction	SGD	1.34	465	-3	0	up to 1 year
Forward exchange transaction	SGD	1.33	465	-3	0	up to 1 year
Forward exchange transaction	SGD	1.33	466	-3	0	up to 1 year
Forward exchange transaction	SGD	1.33	466	-3	0	up to 1 year
Forward exchange transaction	SGD	1.33	466	-3	0	up to 1 year
Forward exchange transaction	SGD	1.33	466	-3	0	up to 1 year
Forward exchange transaction	SGD	1.33	467	-3	0	up to 1 year
Forward exchange transaction	SGD	1.33	467	-2	0	up to 1 year
Forward exchange transaction	SGD	1.33	467	-2	0	up to 1 year
Forward exchange transaction	SGD	1.33	468	-2	0	up to 1 year
Forward exchange transaction	SGD	1.33	464	-4	0	up to 1 year
Forward exchange transaction	SGD	1.33	464	-3	0	up to 1 year
Forward exchange transaction	SGD	1.33	464	-3	0	up to 1 year
Forward exchange transaction	SGD	1.32	464	-4	0	up to 1 year
Total Group				-1,278	-42	

The neutral fiscal year result of € 545k comprises the effect from the current year of € -42k in addition to the settlement effect from 2018 of € -587k.

December 31, 2018

	CURRENCY	NOMINAL AMOUNT (IN THOUSAND ORIGI- NAL CURRENCY)	FAIR VALUE (IN € k)	OF WHICH NO EFFECT ON OTHER COMPREHENSIVE INCOME	MATURITY
Commodity swap	USD	432	-38	-38	up to 1 year
Forward exchange transaction	USD	21,900	-106	0	up to 1 year
Forward exchange transaction	USD	10,000	-23	0	up to 1 year
Forward exchange transaction	USD	8,000	-229	-229	up to 1 year
Forward exchange transaction	USD	11,200	-320	-320	up to 1 year
Forward exchange transaction	USD	12,650	31	0	up to 1 year
Total Group			-685	-587	

Hedging transactions are concluded over the maturity at average hedging rates.

Forward exchange transactions at a value of € -1,236k (2018: € 678k) and commodity hedging in the amount of € -42k (2018: € -38k) are reported under the balance sheet item other liabilities.

The liquidity analysis of derivative instruments was presented in the upper part of this chapter under "liquidity risk".

Categories of financial instruments

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

(€ k)	2019	LEVEL 1	LEVEL 2	LEVEL 3
Financial instruments measured at fair value through profit and loss				
Factoring	-2,089	0	-2,089	0
Debtor warrant	-2,818	0	0	-2,818
Derivative financial instruments – assets	0	0	0	0
Derivative financial instruments – liabilities	-1,278	0	-1,278	0
Total	-6,185	0	-3,367	-2,818

(€ k)	2018	LEVEL 1	LEVEL 2	LEVEL 3
Financial instruments measured at fair value through profit and loss				
Factoring	-1,453	0	-1,453	0
Debtor warrant	-6,200	0	0	-6,200
Derivative financial instruments – assets	31	0	31	0
Derivative financial instruments – liabilities	-129	0	-129	0
Total	-7,751	0	-1,551	-6,200

(€ k)	DECEMBER 31, 2019	DECEMBER 31, 2018
Derivative financial instruments	0	31
Derivative financial instruments measured at fair value through comprehensive income	0	31
Cash and cash equivalents	244,781	149,741
Loans	548	359
Trade receivables	51,966	28,715
Other assets*	30,921	25,863
Loans and receivables	83,435	54,937
Total financial assets	328,217	204,709
Derivative financial instruments	1,278	129
Derivative financial liabilities measured at fair value through comprehensive income	1,278	129
Other financial liabilities**	5,626	8,204
Trade payables***	56,136	31,869
Deferred liabilities****	4,301	2,961
Other liabilities*****	4,090	2,002
Measured at amortized cost	70,153	45,036
Total financial liabilities	71,431	45,165

* Excluding other tax receivables of € 3,654k (2018: € 2,295k) and prepaid expenses of € 712k (2018: € 1,674k)

** Excluding derivative financial instruments of € 1,278k (2018: € 716k); including a debt waiver of € 2,818k with an anticipated term of more than 5 years which can be repaid earlier because of specific circumstances.

(see Chapter 19 "Other financial liabilities")

*** Excluding advance payments received of € 32,268k (2018: € 11,587k), excluding contract liabilities of € 11,198k (2018: € 8,435k)

**** Excluding deferred liabilities for employee benefits of € 12,330k (2018: € 9,084k)

***** Excluding deferred income of € 95k (2018: € 93k), liabilities from promotional projects of € 12,394k (2018: € 6,418k), customs liabilities € 1,557k (2018: € 793k), other liabilities from taxes of € 1,978k (2018: € 1,457k) and social security of € 6k (2018: € 348k)

Calculation of fair value:

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

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

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

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

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

Capital management

The **VARTA AG** Group has had a comparatively very high equity base or equity ratio since the IPO. This capitalization allows the Group to finance the investment still needed to expand production capacity from its own resources. The Group also has the option of resorting to a syndicated loan for the acquisition of **VARTA Consumer Batteries**. In the medium-term, the Group aspires to a cost and risk-optimized balance between equity and debt, while at the same time complying with the requirements of the syndicated loan.

39 RELATED PARTIES

The following persons and companies were identified as related parties for the reporting periods 2019 and 2018:

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

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

Related companies:

- Companies that are controlled by MTC, controlled jointly or subject to significant influence from MTC, as well as MTC itself (hereinafter "MTC companies");
- Companies that are controlled by Prof. DDr. Michael Tojner or subject to significant influence by him (hereinafter "Prof. DDr. Tojner companies");

- The Group's joint ventures;
- Companies in which participations are held;

Related persons:

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

39.1 RELATED COMPANIES

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

	2019		2018	
(€ k)	TRANSACTION VOLUME		TRANSACTION VOLUME	
TRANSACTIONS	REVENUE FROM THE SALE OF PRODUCTS AND SERVICES	PURCHASE OF GOODS AND SERVICES	REVENUE FROM THE SALE OF PRODUCTS AND SERVICES	PURCHASE OF GOODS AND SERVICES
Transactions with MTC companies	448	781	1,148	578
Transactions with Prof. DDr. Tojner companies	128	1,810	176	1,795
Transactions with joint ventures	-	-	112	1,522
Transactions with companies in which participations are held	16	205	149	1
Total	592	2,796	1,585	3,896

The following receivables and liabilities are outstanding as of December 31, 2019:

	DECEMBER 31, 2019		DECEMBER 31, 2018	
(€ k)	OUTSTANDING ITEMS		OUTSTANDING ITEMS	
TRANSACTIONS	RECEIVABLES	LIABILITIES	RECEIVABLES	LIABILITIES
Transactions with MTC companies	42,244	323	57,165	216
Transactions with Prof. DDr. Tojner companies	0	602	0	551
Transactions with joint ventures	0	0	0	0
Transactions with companies in which participations are held	0	103	0	0
Total	42,244	1,028	57,165	767

There is still a financial liability to MTC companies from the debtor warrant (please refer to Chapter 19 “Other financial liabilities” of these notes to the consolidated accounts) totaling € 2,818k (2018: € 6,200k).

The outstanding securities and liabilities are not collateralized

Transactions with MTC companies

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

	2019		2018	
(€ k)	TRANSACTION VOLUME		TRANSACTION VOLUME	
	REVENUE FROM THE SALE OF PRODUCTS AND SERVICES	PURCHASE OF GOODS AND SERVICES	REVENUE FROM THE SALE OF PRODUCTS AND SERVICES	PURCHASE OF GOODS AND SERVICES
TRANSACTIONS				
Services	448	781	1,148	578
Total	448	781	1,148	578

The outstanding receivables and liabilities with associated MTC companies included the following items as of December 31, 2019:

	DECEMBER 31, 2019		DECEMBER 31, 2018	
(€ k)	OUTSTANDING ITEMS		OUTSTANDING ITEMS	
	RECEIVABLES	LIABILITIES	RECEIVABLES	LIABILITIES
TRANSACTIONS				
Services	127	323	188	216
Loan including interest	42,117	0	56,977	0
Total	42,244	323	57,165	216

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

There is a subordinate guarantee from VGG GmbH of € 8m. In this context, we would refer you to Chapter 20.2 “Pensions”.

Transactions with Prof. DDr. Tojner companies

As part of the sale and leaseback transaction in 2015 with a company controlled by Prof. DDr. Michael Tojner (see Chapter 10 “Leases”), rental expenses of € 1,500k were incurred from the leaseback of land and buildings in fiscal year 2019 (previous year: € 1,500k) and € 57k from other costs charged on:

	2019		2018	
(€ k)	TRANSACTION VOLUME		TRANSACTION VOLUME	
	SALES OF GOODS AND SERVICES	PURCHASE OF GOODS AND SERVICES	SALES OF GOODS AND SERVICES	PURCHASE OF GOODS AND SERVICES
TRANSACTION TYPE				
Services	128	1,810	176	1,795
Total	128	1,810	176	1,795

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

	DECEMBER 31, 2019		DECEMBER 31, 2018	
(€ k)	OUTSTANDING ITEMS		OUTSTANDING ITEMS	
TRANSACTIONS	RECEIVABLES	LIABILITIES	RECEIVABLES	LIABILITIES
Loan including interest	0	568	0	551
Services	0	34	0	0
Total	0	602	0	551

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

Transactions with joint ventures

Following the termination of operating activity at the joint venture VW-VM Forschungsgesellschaft mbH & Co.KG in 2018, the joint venture was liquidated in 2019. For this reason, there were no transactions in the reporting year.

	2019		2018	
(€ k)	TRANSACTION VOLUME		TRANSACTION VOLUME	
TRANSACTIONS	SALES OF GOODS AND SERVICES	PURCHASE OF GOODS AND SERVICES	SALES OF GOODS AND SERVICES	PURCHASE OF GOODS AND SERVICES
Provision of personnel	-	-	96	-
Services	-	-	-	-
Rental income	-	-	4	-
Other	-	-	12	1,522
Total	-	-	112	1,522

Transactions with companies in which participations are held

In the fiscal years for which an annual report has been compiled, a participation was held in **VARTA** Micro Innovation GmbH.

In fiscal year 2019, a transaction volume from the sale of services of € 16k and purchase of services of € 205k was generated.

As of December 31, 2018, liabilities amounted to € 103.

39.2 RELATED PARTIES

Executives, consisting of the Executive Board and personnel with key management responsibilities below Executive Board level, received the following remuneration:

(€ k)	2019	2018
Short-term employee benefits	5,414	4,470
Other long-term employee benefits	2,363	1,900
Management remuneration in total	7,777	6,370

“Other long-term employee benefits” contained expenditure of € 981 from share-based payment. A total of € 3,336k was attributable to the Executive Board (2018: € 2,544k) in the form of short-term benefits and € 1,399k (2018: € 537k) in long-term benefits.

40 MANAGEMENT OF VARTA AG

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

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

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

- Prof. DDr. Michael Tojner (Chairman)
CEO Montana Tech Components GmbH
Additional board memberships:
- Chairman of the Supervisory Board of ASTA Energy Transmission Components GmbH
- Member of the Supervisory Board of Universal Alloy Corporation USA
- Chairman of the Board of Directors of Montana Tech Components AG
- Chairman of the Board of Directors of Montana AS Beteiligungs Holding AG
- Dr. Harald Sommerer (Deputy Chairman of the Supervisory Board, Chairman of the Audit Committee)
CEO H.F.R.C. Private Trust
Additional board memberships:
- Member of the Supervisory Board of Kapsch Traffic Com AG
- Chairman of the Executive Board H.F.R.C. Private Foundation
- Frank Dieter Maier
Pensioner
Additional board memberships:
- Member of the Supervisory Board of ASTA Elektrodraht GmbH & Co. KG
- Member of the Supervisory Board of Vishay Europe GmbH
- Dr. Franz Guggenberger (until May 21, 2019)
Attorney and partner in Sozietät Hasch & Partner
- Dr. Michael Pistauer (since May 21, 2019)
Entrepreneur and Managing Director of PI Beteiligungs- und Unternehmensberatungsgesellschaft mbH
Additional board memberships:
- Member of the Supervisory Board of **VARTA Microbattery GmbH**
- Member of the Supervisory Board of CONNEXIO alternative investment & holding AG
- Member of the Supervisory Board of the abatec Group AG, Austria
- Sven Quandt
- Managing Director of S. Qu.- Vermögensberatung GmbH & Co. KG
Additional board memberships:
- Member of the Advisory Board of Montana Tech Components AG

- Dr. Georg Blumauer
Attorney and owner of B-legal
Additional board memberships:
- Member of the Supervisory Board of WertInvest Entertainment und Veranstaltungs AG

41 CONTINGENT LIABILITIES

(€ k)	2019	2018
Service obligations		
Due up to 2020 / 2019	715	864
Due up to 2021 – 2025 / 2020 – 2024	2,178	1,590
Due after 2025 / 2024	1,415	27
Purchase commitments from approved investment		
Due up to 2020 / 2019	153,516	14,800
Other purchase obligations		
Due up to 2020 / 2019	66,216	58,380
Total	224,040	75,661

The other purchase obligations mainly relate to orders and supply contracts, which were prepared with various suppliers to cover requirements for commodities, primary products and semi-finished goods at short notice.

Attention must also be drawn to the risks of contaminated sites at **VARTA AG**. Land formerly owned by **VARTA AG** or its former subsidiaries was largely used as production sites for the production of batteries and are contains virtually all the sector-specific contaminants. A purchaser of all former participations abroad and a participation in Germany has assumed these risks and possible risks arising in future and has indemnified **VARTA AG** against these risks; however, **VARTA AG** remains liable in relation to third parties. The purchaser has been liquidated in the meantime. Global Equity Partners Beteiligungs-Management GmbH, Vienna, a company affiliated with the purchaser and a related company of **VARTA AG**, has provided additional protection for this indemnification with a guarantee of € 20,000k, which will expire in 2031. **VARTA AG** will be exposed to that extent only if the risks of contaminated site exceed the hedge potential of the guarantor or if it is unable to fulfill its contractual obligations. **VARTA AG** has assessed these remaining risks and has not identified any need to create a provision.

Pursuant to Section 133 (3) sentence 2 UmwG (German Conversion Law), **VARTA AG** is liable in connection with the pension obligations spun off by **VARTA AG** into VRT Pensionen GmbH in 2016 as a joint and several debtor for a period of ten years and therefore until 2026. Since the spin-off of the pension obligations of € 25,476k also comprised matching plan assets for the pension obligations of € 26,946k, **VARTA AG** assumes that it will not be called on under the extended liability because of the surplus of plan assets of € 1,470k.

On January 30, 2014, the Annual General Meeting of **VARTA AG** resolved to transfer the shares of the minority shareholders at the time to the majority shareholder, Gopla Beteiligungsgesellschaft mbH (Gopla) in return for cash compensation of € 4.51 per share. The amount of compensation was based on an external valuation report. The squeeze-out became effective upon registration in the Commercial Register on March 12, 2014. As a result, a further 210,379 shares were transferred to Gopla. The total compensation amount amounted to € 948,809.29. Following the squeeze-out, the former minority shareholders initiated proceedings against Gopla – following the merger with **VARTA AG** against this – before the Stuttgart District Court. The Stuttgart District Court rejected all applications in its ruling on May 15, 2017. Some applications and their joint representatives lodged an appeal against this ruling. The Stuttgart District Court refused the appeal in its ruling of December 21, 2017. In the second instance at the Stuttgart Higher Regional Court, the claimants' appeal was rejected in its ruling on August 6, 2019.

and an appeal to the Federal Supreme Court was not permitted. The contingent liability reported in the previous year must therefore be considered closed.

42 INVESTMENT COMPANIES

The following companies were included for the periods presented in the consolidated financial statements in accordance with Section 315e (1) in conjunction with Section 313 (2) No. 1 – 6 HGB):

SINCE/UP TO	COMPANY NAME	REGISTERED OFFICE	COUNTRY	CURRENCY	PARTICIPATION STAKE
Since 2012/09	VARTA Aktiengesellschaft	Ellwangen	Germany	€	100.00%
Since 2007/12	VARTA Microbattery GmbH	Ellwangen	Germany	€	100.00%
Since 2012/04	VARTA Storage GmbH	Nördlingen	Germany	€	100.00%
Since 2018/04	VARTA Micro Production GmbH	Nördlingen	Germany	€	100.00%
Since 2007/12	VARTA Microbattery Pte Ltd	Singapore	Singapore	USD	100.00%
Since 2007/12	VARTA Microbattery Ltd Shanghai**	Shanghai	China	CNY	100.00%
Since 2007/12	PT VARTA Microbattery Indonesia	Batam	Indonesia	USD	100.00%
Since 2014/10	VARTA Microbattery Japan K.K.	Tokyo	Japan	USD	100.00%
Since 2014/01	VARTA Microbattery S.R.L.	Brasov	Romania	RON	100.00%
Since 2007/12	VARTA Microbattery Inc.	Rye, NY	United States of America	USD	100.00%
Since 2009/09	VW-VM Verwaltungsgesellschaft mbH*	Ellwangen	Germany	€	50.00%
Since 2017/06	Auditas GmbH	Nördlingen	Germany	€	25.10%
Since 2017/06	Auditas Inc.	Ridgefield	United States of America	USD	25.10%
Since 2017/09	Connexio alternative investment & holding AG	Vienna	Austria	€	20.00%
Since 2009/08	VARTA Micro Innovation GmbH	Graz	Austria	€	17.74%

* Accounted for at-equity

** In liquidation since 01/01/2020

43 ADDITIONAL DISCLOSURES IN ACCORDANCE WITH THE GERMAN COMMERCIAL CODE (HGB)

Exemptions in accordance with Section 264 (3) HGB

The companies included in the consolidated financial statements in accordance with IFRS, namely **VARTA Microbattery GmbH**, Ellwangen, (Germany), and **VARTA Storage GmbH**, Nördlingen, (Germany) make use of the exemptions provided in Section 264 (3) HGB for disclosure and non-preparation of notes to the financial statements and management report. The consolidated financial statements of **VARTA AG** are the exempting consolidated financial statements for these companies.

The subscribed capital of **VARTA AG** is held by ETV Montana Tech Holding GmbH (1.55%) and by VGG GmbH, Vienna (56.86%). The remaining 41.59% is held in free float. The ultimate parent company of the two main shareholders is Montana Tech Components AG in Reinach, Switzerland. The consolidated financial statements of Montana Tech Components AG can be accessed at www.montanatechcomponents.com.

Liabilities

The debt waiver by an affiliated company in the amount of € 6,200k described in Chapter 19 "Other Financial Liabilities" has a residual term of more than five years. There are no other significant liabilities with a residual term of more than five years. There are no collateralized Group liabilities.

Number of employees

Please refer to the Chapter 29 "Personnel Expenses".

Executive Board remuneration

The total remuneration of the Executive Board in fiscal year 2019 amounted to € 3,336k (2018: € 4,153k). Details of Executive Board remuneration in 2019 are provided in the remuneration report (see management report). According to the resolution of the extraordinary General Meeting of October 6, 2017, individualized disclosure of the emoluments of Executive Board members required by Section 285 (1) No. 9 letter a) sentence 5 et seq. HGB and Section 314 (1) No. 6 letter a) sentence 5 et seq. HGB was waived.

Supervisory Board remuneration

Details of Supervisory Board remuneration in 2019 are provided in the remuneration report (see management report).

Total fee for the auditor of the consolidated financial statements

According to Section 314 (1) No. 9 HGB, the fees for the auditor of the consolidated financial statements, KPMG AG Auditors, recognized as an expenses for the current fiscal year are to be broken down as follows:

(€ k)	2019	2018
Audit services*	469	425
Tax consultancy services	5	115
Other certification services	230	0
Total	704	540

* thereof € 105k relates to previous years (2018: € 70k)

Tax consultancy services relate to the preparation of business tax returns, consultancy services in connection with legal documentation requirements for transfer prices and tax assessments for individual items related to the company's business activities.

German Corporate Governance Code

The Executive Board and Supervisory Board of **VARTA AG** submitted a statement pursuant to Section 161 AktG on March 18, 2019 and made it permanently accessible to the shareholders on the website at www.varta-ag.com.

44 EVENTS AFTER THE REPORTING DATE

Business combinations

VARTA Consumer Batteries

On January 2, 2020, the Group acquired 100% of the shares and voting rights in the following companies:

- VARTA Consumer Batteries Benelux B.V. (Netherlands), with the (direct and indirect) subsidiaries (100% in each case)
 - Spectrum Brands Europe GmbH (Germany)
 - ROV German Limited GmbH (Germany)
 - ROV German General Partner GmbH (Germany)
 - VARTA Consumer Batteries GmbH & Co. KGaA (Germany)
 - Anabasis Handelsgesellschaft GmbH (Germany)
 - VARTA Consumer Batteries Italia S.r.l. (Italy)
 - VARTA Pilleri Ticaret Ltd. Sirketi (Turkey)
 - Spectrum Brands Czech spol. s.r.o. (Czech Republic)
 - Spectrum Brands Denmark NS (Denmark)
 - Spectrum Brands France S.A.S. (France)
 - Spectrum Brands Finland Oy (Finland)
 - Spectrum Brands Norway AS (Norway)
 - Spectrum Brands Austria GmbH (Austria)
 - Spectrum Brands Hrvatska d.o.o. (Croatia)
 - Spectrum Brands Bulgaria EOOD (Bulgaria)
 - Spectrum Brands Trgovina d.o.o. (Slovenia)
 - Spectrum Brands Slovakia spol. S.r.o. (Slovakia)
 - Spectrum Brands Schweiz GmbH (Switzerland)
 - SPB Sweden AB (Sweden)
 - EMEA Consumer Batteries (Shenzhen) Co. Ltd. (China)
- VARTA Consumer Batteries Poland Sp. z o.o. (Poland)
- Limited Liability Company Consumer Batteries Company (Eastern Europe) (Russia)
- VARTA Consumer Batteries Iberia. S.L.U. (Spain)
- Varta Consumer Batteries UK Ltd (UK)
- Energizer Real Estate Holdings, LLC (USA), with its subsidiary (100%)
 - Paula GmbH & Co. KG (Germany)

Following approval, subject to conditions regarding the hearing aid battery business, from the European Commission on December 3, 2019, the purchase agreement covering the shares in the companies listed above dated May 29, 2019 came into effect on January 2, 2020 when all conditions were met. The conditions have no material effects on the existing hearing aid battery business of **VARTA AG**.

Together, the companies acquired form the “**VARTA Consumer Batteries**” business segment. **VARTA Consumer Batteries** is one of Europe’s leading manufacturers of consumer device batteries and has established itself as the market leader in many European countries. The basis for the successful business development of **VARTA Consumer Batteries** is provided by the strong European distribution network featuring a large number of local companies as well as longstanding customer relationships with virtually all European key retailers. Its product

portfolio includes batteries, rechargeable batteries, charging units, power banks and lights. **VARTA Consumer Batteries** has sales companies in over 20 countries.

The acquisition of **VARTA Consumer Batteries** has allowed **VARTA AG** to include device batteries for end consumers in its product portfolio. Through the acquisition, the Group will obtain even better access to the attractive retail sales channels that it is currently yet to penetrate to the necessary extent. Following the merger, the global **VARTA** trademark rights for devices and microbatteries as well as energy storage systems will once again be combined under the umbrella of **VARTA AG**. This will reinforce the brand image of **VARTA** products across all segments.

Had the acquisition of the **VARTA Consumer Batteries** segment taken place on January 1, 2019, the Executive Board estimates that consolidated revenues would have totaled approximately € 663m with Group profit for the year of around € 39m. In determining these amounts, the Executive Board assumed that depreciation and amortization matched the depreciation and amortization allocated to the **VARTA Consumer Batteries** segment. Here, consideration must be given to the fact that the **VARTA Consumer Batteries** segment did not constitute an independent reporting unit (carve out) and accordingly various operating expenses, financial expenses and income taxes were allocated to the segment by code in the past. In determining the profit of the segment purchased, the Executive Board assumed an expected average tax ratio for the segment. It was also assumed that the expected restructuring expenditure of € 25.0m would have occurred in 2019 and would have been deducted against tax in its entirety in the same year.

a) Consideration transferred

The fair value of the consideration applicable on the date of the acquisition is shown below:

(€ m)	DECEMBER 31, 2019
Cash and cash equivalents (given at closing)	131.1
Reimbursement of cash and cash equivalents (expected adjustment to the purchase price from the SPA adjustment mechanism)	-19.4
Total consideration transferred	111.7

The consideration stated is provisional. It was defined according to the purchase agreement on the basis of the balance sheet data of the **VARTA Consumer Batteries** segment as of October 2019 and will be adjusted on the basis of the final acquisition balance sheet. The adjustment is still pending at the time the financial statements were approved for publication.

b) Costs associated with the business combination

Costs of € 3,666k for due diligence, legal, bank and notary's fees were incurred in the Group in connection with the business combination. Of this figure, € 3,006k was recorded in other operating expenses and € 660k in financial expenses.

c) Identifiable assets acquired and liabilities assumed

The amounts recognized for the main groups of assets acquired and liabilities assumed at the acquisition date are summarized below:

(€ m)	JANUARY 2, 2020
Intangible assets	60.5
Property, plant and equipment	66.6
Long-term investments	0.1
Other non-current assets	0.0
Deferred tax assets	10.1
Inventories	60.3
Trade receivables	90.3
Contract assets (IFRS 15)	1.6
Tax refund claims	1.0
Other current assets	20.2
Cash and cash equivalents	29.4
Deferred tax liabilities	-23.8
Financial liabilities	-34.3
Provisions for employee benefits	-40.2
Other provisions	-29.8
Trade payables	-30.5
Contract liabilities (IFRS 15)	-30.7
Tax liabilities	-22.7
Other liabilities	-18.3
Total identifiable net assets acquired	109.8

Trade receivables comprised gross amounts of contractual receivables of € 93,374k, of which a total of € 3,052k was estimated to be probably unrecoverable at the acquisition date.

As part of the due diligence investigations for the acquisition, it emerged that existing agreements covering the provision of services by the **VARTA Consumer Batteries** segment for the seller in the areas of sales, marketing and administration would no longer be continued after the transaction, having been terminated by the seller, and in this respect, material overheads of the **VARTA Consumer Batteries** segment could no longer be covered. As part of detailed investigations, the impact associated therewith on operating earnings was established. At the same time, corresponding analyses regarding the restructuring of the functions affected were prepared to minimize the impact on operating earnings and ensure this would be as brief as possible. Both the impact on operating earnings and the expected restructuring expenses were taken into account to reduce the purchase price.

In connection with this, **VARTA AG** adopted a restructuring plan immediately after the acquisition date, which will be implemented in 2020. The expenses for implementing the restructuring plan are estimated at around € 25.0m. Since the requirements for a restructuring provision were only met after the acquisition date, the identifiable net assets do not include a restructuring provision.

Provisionally measured assets:

The amounts for the identifiable intangible assets of **VARTA Consumer Batteries** (brands, patented and patent-less technology, contractual and non-contractual customer relationships) are still provisional since the work for the independently executed allocation of the purchase price was not yet complete at the time the financial statements were approved for publication.

The amounts for property, plant and equipment are still provisional since the independently executed remeasurement of leases in accordance with IFRS 16 is not yet completed. The independently executed measurement of property, plant and equipment owned by the Group is not yet final either.

The amounts for inventories are still provisional because the mark-downs for the costs still required for completion or sale and the appropriate profit surcharges on the still outstanding costs have not been finally determined.

The amounts for provisions for employees are still not final, as the work for measuring the provisions in accordance with IAS 19 has not yet been completed.

The present acquisition balance sheet is based on unaudited consolidated data of the **VARTA Consumer Batteries** segment, which the seller extracted from their Group accounting as an interim financial statement on the acquisition date. This Group accounting is based on US-GAAP. It is therefore possible that there will be adjustments or reclassifications in accordance with IFRS or audit adjustments as part of the analysis of individual balance sheet items.

d) Goodwill

The provisional goodwill resulting from the acquisition was recognized as follows:

(€ m)	DECEMBER 31, 2019
Consideration transferred	111.7
Fair value of the identifiable net assets	-109.8
Goodwill	1.9

Goodwill results primarily from sales synergies created by access for **VARTA AG** products to retail sales channels and the skills of the workforce. Goodwill is not expected to be tax deductible.

Coronavirus (COVID-19)

In view of the global spread of the coronavirus (COVID-19), negative impacts on the **VARTA AG** Group cannot be ruled out. This could impact production activities at our locations, transportation to customers and our suppliers. It can also not be ruled out that our customers are temporarily unable to accept deliveries of our products due to disrupted production processes at their own sites. It was not possible to assess these risks at the time that the annual financial statements were prepared. These risks could not therefore be taken into consideration for Group planning.

Ellwangen, March 27, 2020

VARTA Aktiengesellschaft

CEO
- Herbert Schein -

CFO
- Steffen Munz -

Note: This is a translation of the German original. Solely the original text in German language is authoritative.

Independent Auditor's Report

To VARTA Aktiengesellschaft, Ellwangen (Jagst)

Report on the Audit of the Consolidated Financial Statements and of the combined Management Report

Opinions

We have audited the consolidated financial statements of VARTA Aktiengesellschaft (hereinafter VARTA AG) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, the consolidated profit and loss statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from January 1 to December 31, 2019, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report (hereinafter the Management report) of VARTA AG for the financial year from January 1 to December 31, 2019. In accordance with German legal requirements, we have not audited the content of those components of the management report specified in the "Other Information" section of our auditor's report.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2019, and of its financial performance for the financial year from January 1 to January 1 to December 31, 2019, and
- the accompanying management report as a whole provides an appropriate view of the Group's position. In all material respects, this management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the management report does not cover the content of those components of the management report specified in the "Other Information" section of the auditor's report.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the management report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the management report in accordance with Section 317 HGB and the EU Audit Regulation No 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits

promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2)(f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters.

Exempting assumption of debt on pension obligations of the subsidiary VARTA Microbattery GmbH

Concerning the applied accounting and valuation methods we refer to the notes to the consolidated financial statements under Section 4.11 and 5. Pension obligation disclosure information is available under Section 20.2 of the notes to the consolidated financial statements.

THE FINANCIAL STATEMENT RISK

On 30 June 2017, an agreement concerning assumption of debt and obligations for the pension obligations of VARTA Microbattery GmbH, a 100% subsidiary of VARTA AG, was concluded between VARTA Microbattery GmbH and a third party to the Group, Colibri Beratungsgesellschaft mbH. In return, VARTA Microbattery GmbH paid EUR 11,500K to the debt assuming company. The debt-assuming company contributed the assets acquired as security for the assumed obligations to VARTA Microbattery Pensions-Treuhand e. V. in a trusteeship. A reimbursement right against Colibri Beratungsgesellschaft mbH was recognized in the profit and loss statement for the difference between the value of the transferred pension obligation and the transfer fee. The reimbursement right amounted to a total of EUR 17,907k as of 31 December 2019 and corresponds to the pension obligations recognized in the consolidated financial statements. The reimbursement right is subject to an annual impairment test.

The assessment of the value of the contractually agreed reimbursement right is discretionary and requires an assessment of the assets of VARTA Microbattery Pensions-Treuhand e. V. as well as the existence and value of any additionally granted securities.

There is a financial statement risk that the reimbursement right is impaired.

OUR AUDIT APPROACH

We have gained an understanding of the transaction based on inspection of the contractual agreements underlying the transaction. We have evaluated the assessment of the legal representatives in regard to the recoverability of the reimbursement right. To test the recoverability of the reimbursement right against Colibri

Beratungsgesellschaft mbH, VARTA Microbattery GmbH has provided us with an adequacy assessment issued by an auditing company on the value of the assets of VARTA Microbattery Pensions-Treuhand e.V.. According to this, based on the assets of VARTA Microbattery Pensions-Treuhand e.V. and on the granted securities the reimbursement right amounted to a total of EUR 17,907k is recoverable. We have evaluated the credentials of the auditing company and the adequacy assessment. In addition, the existence of a contractual performance bond from UniCredit Bank AG in the amount of up to T€ 4,000 was proven to us via a bank confirmation and we also satisfied ourselves of the existence of a subordinate guarantee from VGG GmbH, Vienna, for a maximum amount of EUR 8,000k.

OUR OBSERVATIONS

The approach taken by the VARTA AG Group to assess the recoverability of the reimbursement right is appropriate.

The valuation of the trademark right and capitalized development costs

Concerning the applied accounting and valuation methods we refer to the notes to the consolidated financial statements under Section 4.4.2 or 4.10. Disclosure information about intangible assets is available under Section 8 of the notes to the consolidated financial statements.

THE FINANCIAL STATEMENT RISK

The capitalized trademark right amounts to EUR 9,094K as at 31 December 2019, and the capitalized development costs amount to EUR 10,081K. Their share of the balance sheet total assets amounts to 1.36% or 1.50% respectively.

An annual impairment test is carried out for the trademark right and the capitalized development costs at the level of the cash-generating units (CGU) "Microbattery" and "Power & Energy". For this purpose, the carrying amount is compared to the recoverable amount of the respective CGU. If the carrying amount is higher than the recoverable amount, an impairment loss needs to be recorded. The recoverable amount is the higher of fair value less costs of disposal and the value in use of the CGU.

The impairment test of the trademark right and the capitalized development costs is complex and based on a number of discretionary assumptions. These include, in particular, the expected future cash flows, the expected long-term growth and the applied discounting rate.

As a result of the impairment tests the company has not identified any need for impairment.

There is a financial statement risk that the trademark right and the capitalized development costs of the respective cash-generating units are impaired.

OUR AUDIT APPROACH

We have, among other procedures, assessed the appropriateness of the main assumptions and the valuation method of the company. We have evaluated the planning process and the significant assumptions concerning business and profit development as well as the assumed long-term growth rates. With regard to the cash-generating units "Microbattery" and "Power & Energy", we have reconciled the expected future cash flows with the plans approved by the Supervisory Board for the first planning year and the extrapolation of the plans over the planning horizon. Furthermore, we have performed a plausibility check of the derived company value based on the

calculated value in use according to the stock market capitalization value of VARTA AG (number of shares multiplied by the stock market price).

Moreover, we have satisfied ourselves of the company's projection accuracy to date by comparing plans from previous financial years with the financial results achieved in reality for sales revenue and pre-tax result as well as analyzing differences. With the assistance of our valuation experts, we have assessed the appropriateness of the assumptions and parameters underlying the discounting rate.

To ensure the mathematical accuracy of the applied valuation model, we have re-performed the company's calculations based on selected risk-oriented elements.

OUR OBSERVATIONS

The calculation method underlying the impairment test of the trademark right and the capitalized development costs is appropriate and complies with the applicable valuation principles. The assumptions and parameters underlying the valuation are appropriate.

Cut-off for revenue recognition

Concerning the applied accounting and valuation methods, we refer to the notes under Sections 4.17. Disclosure information with regard to revenue is available under Section 6 and 26 of the notes.

THE FINANCIAL STATEMENT RISK

Group revenue totaled EUR 363.3m in financial year 2019.

The VARTA AG Group recognizes revenue when it fulfils a performance obligation through the transfer of a promised asset to a customer. An asset is considered transferred at the time when the customer obtains control of that asset. In line with the transfer of control, revenue is to be recognized either at a point in time or over time in the amount to which the VARTA AG Group expects to be entitled.

The majority of the revenue of the VARTA AG Group results from the sale of products. This amounts to EUR 358.6m. The revenue from these sales was recognized at a point in time based on the following indicators:

- The VARTA AG Group has a current entitlement to receive payment for the asset,
- The customer has a right of ownership of the asset,
- The VARTA AG Group has transferred the physical ownership of the asset,
- The significant risks and rewards associated with ownership of the asset have been transferred to the customer
- The customer has accepted delivery of the asset.

The Group's key markets are in Europe, North America and Asia. For global product deliveries, Group companies reach varying agreements with their customers, occasionally containing complex contractual arrangements. On account of the application of differing contractual arrangements in the various markets and the degree of discretion applied when assessing the indicators to determine the time at which control was transferred, there is a financial statement risk that revenue may be improperly recognized as of the cut-off date.

OUR AUDIT APPROACH

To assess revenue recognition cut-off, we reviewed the structure, implementation and effectiveness of internal controls, in particular relating to the determination and verification of the correct or actual transfer of control.

Furthermore, we assessed the appropriate cut-off point for revenue recognition by obtaining confirmations from third parties or, alternatively, by reconciling invoices with the respective orders, external proof of delivery and payment receipts. This was based on a sample of revenue items recorded in a specific period prior to the balance sheet date, chosen by a mathematical/statistical model. We have also examined all revenue items posted by risk-oriented, selected IT system users in a specified period prior to the balance sheet date. We looked into a sample of credit notes issued after the balance sheet date and were satisfied by the actual existence of revenue.

OUR OBSERVATIONS

The VARTA AG approach to a cut-off point for revenue recognition from product sales is appropriate.

Other Information

Management and the Supervisory Board are responsible for the other information. The other information comprises:

- the separated non-financial group report, which is referred to in the management report, and
- the corporate governance statement, which is referred to in the management report.

The other information also includes the remaining parts of the annual report.

The other information does not include the consolidated financial statements, the management report information audited for content and our auditor's report thereon.

Our opinions on the consolidated financial statements and on the management report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the management report information audited for content or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to

going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our opinions on the consolidated financial statements and on the management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the

consolidated financial statements and in the management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- Evaluate the consistency of the management report with the consolidated financial statements, its conformity with [German] law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by management in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor at the annual general meeting on May 21, 2019. We were engaged by the supervisory board on November 26, 2019. We have been the group auditor of VARTA AG without interruption since financial year 2017.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Petra Mayran.

Stuttgart, March 27, 2020

KPMG AG

Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

Mayran

Wirtschaftsprüferin

(German Public Auditor]

Hundshagen

Wirtschaftsprüfer

[German Public Auditor]

Financial calendar

Preliminary figures FY 2019	18.02.2020
Final figures FY 2019	31.03.2020
Interim statement Q1 2020	15.05.2020
Annual General Meeting	18.06.2020
Half-year report 2020	14.08.2020
Interim statement Q3 2020	12.11.2020

Imprint

Investor Relations

VARTA AG

Bernhard Wolf
VARTA-Platz 1
73479 Ellwangen
Deutschland

T: +49 79 61 921 969

Mobil: +49 173 485 85 57

E-Mail: bernhard.wolf@varta-ag.com

Corporate Communications

VARTA AG

Nicole Selle
VARTA-Platz 1
73479 Ellwangen
Deutschland

T: +49 172 605 58 37

Mobil: +49 172 60 55 837

E-mail: nicole.selle@varta-ag.com

Copyright Information

Image p. 16 and p. 17

Matthew Chattle/Shutterstock

The rights of all the other images and renderings are owned by VARTA AG

Concept & Design „Made in Germany“

Büro X Wien

www.buerox.at