Consolidated management report
and consolidated financial statements
as at 31 December 2017 VARTA AG

EMPOWERING

Contents

Consolidated Management Report for fiscal year 2017

VARTA Aktiengesellschaft, Ellwangen (Jagst)

This report combines the management reports of VARTA Aktiengesellschaft and the VARTA AG Group.

GROUP STRUCTURE

VARTA Aktiengesellschaft, Ellwangen, Germany (VARTA AG) is the parent company of the corporate group. Since October 2017 VARTA AG has been listed on the Frankfurt Stock Exchange in the Prime Standard. The description below gives an overview of the corporate group (in simplified form) as of the closing date.

BUSINESS MODEL

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

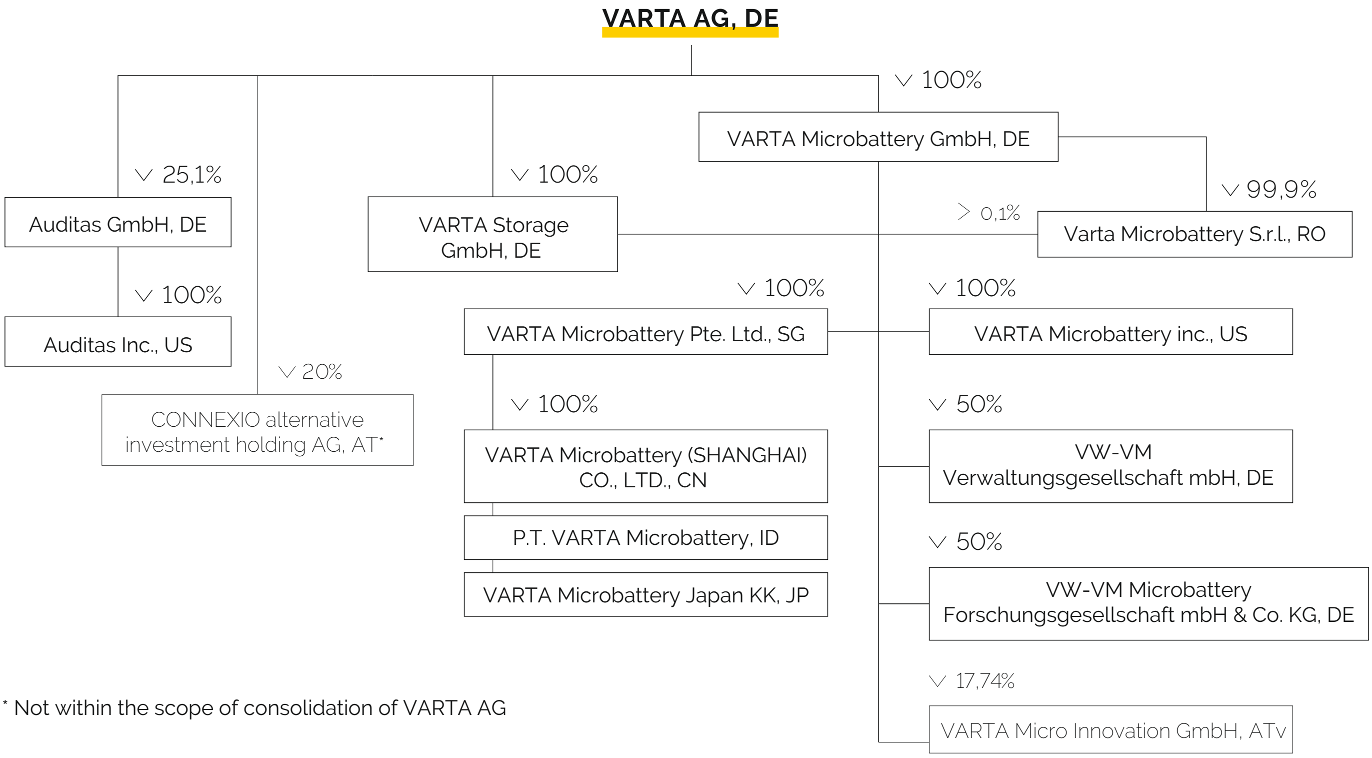
The business of the VARTA AG Group is subdivided into two business segments: **Microbatteries handled by VARTA Microbattery GmbH and Power & Energy handled by VARTA Storage GmbH.**

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

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

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

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



* Not within the scope of consolidation of VARTA AG

Segments and organizational structure

Microbatteries

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

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

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

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

Power & Energy

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

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

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

STRATEGY AND GOALS

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

Demographic change

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

Technological advances

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

Connectivity

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

Renewable energies

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

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

Strengthening and developing the global market position in core products
The Group is focusing primarily on business fields in which it strives for long-term leading positions in the market.

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

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

Leadership in innovation and technology

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

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

Focus on profitable growth based on a strong financial profile

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

CONTROL OF THE COMPANY

The VARTA AG Group is managed on the basis of internally defined financial and non-financial indexes in the sense of a sustainable capital appreciation. The Executive Committee has reviewed and updated its internal control mechanisms in the reporting year and revised them for external reporting in the context of the stock market flotation. The following indexes were used for control purposes in last year's financial statement and projected out: sales, EBIT and net working capital. With the accelerated growth of the VARTA AG Group the Executive Committee now uses the adjusted EBITDA as a control instead of the EBIT so as to be able to evaluate the operating performance in spite of the rising investments into tangible assets and the resulting depreciation.

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

Important financial and non-financial indexes

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

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

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

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

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

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

Separate non-financial Group report

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

MANAGEMENT AND CONTROL

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

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

Declaration regarding the management of the Company

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

ECONOMIC REPORT

MARKETS AND INFLUENCING FACTORS

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

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

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

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

OVERALL ECONOMIC AND INDUSTRY-RELATED CONDITIONS

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

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

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

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

BUSINESS TRENDS

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

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

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

Comparison of the business development with the most recent projections

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

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

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

Changes in the corporate group

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

Sales revenue

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

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

CHANGES IN THE ASSET, FINANCIAL AND EARNINGS SITUATION

EARNINGS SITUATION

Consolidated income statement for the year ended 2017

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

Sales

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

The Microbatteries segment jumped by 14.8% from 177.4 million € to 203.6 million €. The increase in turnover is above all the result of the higher sales of zinc-air microbatteries for hearing aids. The Group has strengthened its position as market leader in the structurally growing market for hearing aid batteries. Besides, in the Microbatteries segment the high demand for wireless entertainment products such as headsets and other wearables showed up in significant increase in the sale of rechargeable lithium-ion batteries.

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

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

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

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

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

Adjusted EBITDA
The adjusted EBITDA in fiscal 2017 jumped from 26.1 million € to 39.1 million €. This corresponds to a growth rate of 49.9% in comparison to the previous year.
The increase in the adjusted EBITDA can be attributed above all to the profitable sales growth in hearing aid batteries and lithium-ion cells and the simultaneous lower than proportional increase in costs due to the scaling of the business model.
The special effects shown in the balance sheet reflect the costs of the initial public offering in the amount of 6.1 million €, a reimbursement claim from the earnings-impacting assumption of a joint debt obligation for pensions in the amount of 3.6 million € and the personnel costs in the amount of 3.6 million € due to the share-based remuneration triggered by the stock exchange flotation.

Operating result (EBIT)
The operating result improved from 14.8 million € to 23.6 million €, equal to an increase of 59.3% in comparison with the previous year. Apart from the increase of the EBITDA, the less than proportional increase in depreciations resulted in a very significant improvement of the operating result. Depreciations increased from 8.9 million € in 2016 to 9.4 million € in 2017, which is due primarily to the demand-driven investments in tangible assets because of the expansion of the production capacities.

Financial result

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

Taxes

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

Consolidated result

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

ASSET AND FINANCIAL SITUATION

Consolidated balance sheet per December 31, 2017

(IN K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
ASSETS		
Non-current assets	105,258	81,640
Current assets	226,222	83,288
Total assets	**331,480**	**164,928**

(IN K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
EQUITY AND LIABILITIES		
Equity	230,452	65,291
Non-current liabilities	29,423	44,585
Current Liabilities	71,605	55,052
Total liabilities	101,028	99,637
Total equity and liabilities	**331,480**	**164,928**

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

Non-current assets

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

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

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

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

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

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

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

Net working capital
The net working capital rose by 5.2 million € from 36.2 million € in 2016 to 41.4 million. € in 2017. This corresponds to an increase of 14.3% in comparison to the previous year. The increase is due to volume-related higher accounts receivable and inventories while liabilities rose less than proportionally. Net working capital grew in tandem with sales.
This gives a net working capital ratio of 17.1% in relation to sales.

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

Cash flow statement

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

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

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

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

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

RESEARCH AND DEVELOPMENT

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

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

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

Power & Energy segment
The strengthening of the position in the market for lithium-ion home storage solutions was characterized by the further development of the product portfolio. The focus in this area was on the market introduction of the product series VARTA Pulse in the DACH region. Parallel to this development, the element series was complemented by a version with 13 KW/H. Also, it is now possible for all product series (VARTA One, VARTA element, VARTA pulse) to link up to five systems to an overall system and to multiply thereby the energy and performance. In order to prepare the product series VARTA Pulse for the markets Italy and Australia, the respective country-specific network connection guidelines and an external network interface were implemented during the reporting period.

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

INVESTMENTS WITHOUT M&A (CAPEX)

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

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

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

THE EARNINGS SITUATION OF THE SEGMENTS

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

Microbatteries

	2017	CHANGES FROM THE PREVIOUS YEAR (%)	2016
Sales revenue (million €)	203.6	14.8	177.4
Adjusted EBITDA (million €)	43.7	29.7	33.7
Adjusted EBITDA margin in %	21.5		19.0

Sales in the Microbatteries segment in the fiscal year 2017 rose from 177.4 million € to 203.6 million €. This corresponds to a sales growth of 14.8% in comparison to the previous year. The sales growth is above all the result of the growth in zinc-air batteries for the hearing aid market. The Group's position as market leader in the structurally growing market for hearing aid batteries was strengthened. Also, the great demand for wireless entertainment products such as headsets and other wearables showed up in a significant sales increase for rechargeable lithium-ion batteries. The EBITDA rose from 33.7 million € to 43.7 million €, equal to an increase of 29.7%. The increased profit is due the profitable sales growth and the less than proportional rise in costs due to the scaling of our business model. This resulted in an EBITDA margin of 21.5% of sales compared to 19.0% in 2016.

Power & Energy

	2017	CHANGES FROM THE PREVIOUS YEAR (%)	2016
Sales revenue (million €)	37.7	9.0	34.6
Adjusted EBITDA (million €)	-4.4	12.8	-3.9
Adjusted EBITDA margin in %	-11.7		-11.3

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

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

INFORMATION ABOUT VARTA AG

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

Description of the Company

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

Earnings situation

Sales in the fiscal year 2017 came to 850K € (2016: 25K €). These are essentially due to pass-through charges to affiliated enterprises and cover mostly services.
Other operating costs in the year 2017 amounted to 10,895K € (2016: 4,003K €) and comprise mainly costs for the initial public offering in the amount of 8,116K €. The costs of the stock exchange flotation are above all expenses incurred in connection with the official listing of the VARTA AG shares in the Prime Standard of the Frankfurt Stock Exchange, including legal and consulting costs, bank charges and costs for investor relations.

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

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

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

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

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

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

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

Asset and financial situation

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

In the spring of 2017 VARTA AG took over the financing function for the VARTA AG Group. In this context any existing financing of the operating subsidiaries was repaid. Subsequently VARTA AG granted loans in the amount of 23,968K € to the various subsidiaries. The capitalized development costs acquired last year from an affiliated enterprise are recognized as intangible assets.

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

Equity capital jumped by a total of 157,441K € from 38,342K € in 2016 to 195,783K € as per December 31, 2017. The capital reserve rose by 141,901K € as a result of the proceeds from the share issue obtained from the stock exchange flotation. In addition, 8,600,000 new shares were admitted to the trade with the stock exchange flotation on October 19, 2017. This increased the subscribed capital by 8,600K €, from 29,600K € in 2016 to 38,200K € per December 31, 2017.

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

Balance sheet of VARTA AG per December 31, 2017

Assets

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

Equity and Liabilities

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

Risks and opportunities

The business development of VARTA AG depends very much on the risks and opportunities of the VARTA AG Group, which were described already in the consolidated management report of the VARTA AG Group.
There is the risk that the equity interests and loans to affiliated enterprises will be impaired. This is examined at least once a year. No need for any impairments in value was identified in the fiscal year 2017.
In addition, mention should be made of the risks from legacy encumbrances existing at VARTA AG. The former properties of VARTA AG and of its former subsidiaries served mainly as manufacturing plants for the production of batteries and are burdened with the legacy encumbrances typical for the industry. A buyer of all foreign and one domestic investment took over these risks as well as any risks arising in the future and will be holding VARTA AG harmless against these risks; however, the legal liability of VARTA AG continues in relation to outsiders. An enterprise affiliated with the buyer has hedged this indemnity additionally with a guarantee in the amount of 20 million € lasting until 2031. VARTA AG has evaluated these risks and believes, taking into consideration the contractual claims for reimbursement, that any third-party action under the legal liability is unlikely. VARTA AG will be exposed to that extent only if the risks described above exceed the hedge potential of the buyer and of the guarantor or if these are not able to fulfill their contractual obligations.

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

EMPLOYEES

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

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

Our employees stand out because of their willingness to work hard and because of their loyalty. The corporate group places great store on a sustainable personnel policy in order to enhance overall efficiency and satisfaction. For this reason, last year a new work-time model was developed in production in response to the increased demand.
The Company wants to make sure that the employees make a long-term commitment to the Company and identify with the Company based on the shared business goals. Because many of our employees have worked at the Company for years, they have highly specialized knowledge in their fields. Also, a well-balanced age structure ensures a healthy transfer of knowledge between the generations.

We strive to have a well-balanced staff overall. Female and male employees should be able to realize their professional goals in a culture of mutual respect.
This means also an appropriate share of female employees. In this sense the Company has established a target number of 30% on the first two leadership levels below the Executive Committee per resolution dated November 14, 2016. This degree is only valid for VARTA AG. Currently, the female ratio of VARTA AG is 66%. The target size for the management board and supervisory board is zero percent.
We are a responsible employer, and work safety and health are important pillars for employment. Also, the organizational culture at the corporate group is characterized by openness and mutual respect.

Attraction as an employer
We attempt to bind our employees to the Company through targeted actions. In future, the public offering gives our executives and high-potential individuals the opportunity to participate in a stock option program.
In addition, the executives of the corporate group meet annually in a managers' conference. We also support selective initiatives for the further education of the trainees within the Company.

The annual number of employees in the entire corporate group increased from 2,047 (in 2016) to 2,171 per December 31, 2017.
On the closing date December 31, 2017 the total number of employees was distributed over the regions as follows:

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

COMPENSATION REPORT

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

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

Executive Committee

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

Fixed compensation

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

Variable compensation

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

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

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

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

Board of Directors

The compensation of the Board of Directors was decided by the general meeting of shareholders and is spelled out in §15 of the Articles of Incorporation of VARTA AG. Per the Articles of Incorporation each member of the Board of Directors of VARTA AG receives a fixed compensation aside from the reimbursement of all reasonable expenses. Thus the compensation of the Board of Directors of VARTA AG meets the recommendations mentioned in Point 5.4.6 of the DCGK regarding the compensation of the Board of Directors as amended on February 7, 2018. In Point 5.4.6 the DCGK also recommends considering the function of chairman and deputy chairman on the Board of Directors as well as the function of chairman and membership in the committees when determining the compensation. Accordingly, the Articles of Incorporation of VARTA AG provide that the Chairman of the Board of Directors and the Deputy Chairman of the Board of Directors receive a fixed annual remuneration aside from the reimbursement of their expenses. This pays also for the assumption of memberships in committees and chairmanships in committees. The members of the Board of Directors who are not part of the Board of Directors for the full fiscal year receive remuneration due to them pro rata temporis in the amount of one twelfth for each initiated month of activity.

Total compensation of the Board of Directors for fiscal 2017 (2016)

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

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

IN ,000 EUR	FIXED COMPENSATION INCLUDING EXPENSES (NET)	OTHER CONSULTING SERVICES (NET)
DDr. Michael Tojner (Chairman)	34 (0)	0 (0)
Dr. Harald Sommerer (Deputy Chairman)	38 (24)	0 (0)
Dipl.-Ing. Frank Dieter Maier	33 (23)	0 (0)
Sven Quandt	0 (16)	0 (0)
Dr. Franz Guggenberger	30 (13)	0 (0)
Dr. Georg Blumauer	30 (12)	122 (0)
Total	**165 (89)**	**122 (0)**

Miscellaneous

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

ENVIRONMENTAL PROTECTION

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

PROJECTIONS, OPPORTUNITIES AND RISKS REPORT

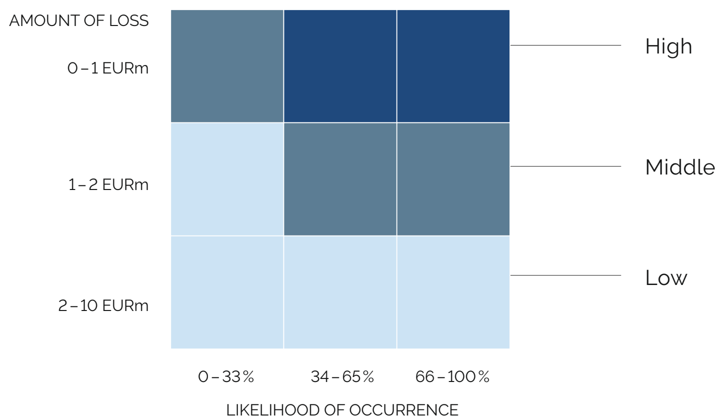
OPPORTUNITIES AND RISKS MANAGEMENT SYSTEM

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

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

As a production company much attention is paid to external factors such as e.g. the prices of raw materials, which could affect the result negatively. Likewise, internal processes must be constantly optimized because of the growing size of the business. Opportunities are seen in technological advances of wireless devices. Overall the risk situation is considered manageable.

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



OVERALL ASSESSMENT OF THE OPPORTUNITIES AND RISKS BY THE EXECUTIVE COMMITTEE

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

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

The opportunities and risks report contains the identification, assessment, control and monitoring of the core risks. These risks include all scenarios that constitute a serious threat to the success of the Company and might have a material effect on the earnings or cash situation of the Company. They can be allocated to individual risk classes according to their loss potential (large, medium, small). The loss potential is measured uniformly within the corporate group in the context of a standard procedure and is made up of a combination of the likelihood of occurrence and the expected effect of any loss on the corporate results.
There are risk officers for each business line controlling the risk situation of their areas independently and reporting to the Group Risk Management. Within the individual business lines there is a responsible person (risk owner) for the various risk areas who reports to the respective risk officer of the business line. In order to ensure a close alignment with the operating and financial issues, the risk management is located in the central division “Corporate Controlling”.
The risk management is audited at regular intervals for its efficacy and improved if necessary.

INTERNAL CONTROL SYSTEM

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

Depending on the respective situation, an appropriate internal control system which is continuously improved is implemented in the individual group companies. The account system observes the principle of the separation of functions.
There are uniform accounting guidelines throughout the corporate group. Furthermore the account system is centralized at the location in Ellwangen to the extent this is possible.
The Director of has the responsibility for the internal control and risk management system with regard to the corporate accounting process.

RISK SITUATION

Among all identified opportunities and risks we explain in what follows those areas which from today’s viewpoint could materially affect the asset, financial and earnings situation negatively or positively during the projected period. The respective classification of the potential loss amount of the risk remaining after the counter-measures kick in is indicated for the risks according to the above-mentioned assessment of the expected amount of loss in relation to the corporate result (e.g. loss potential: medium).

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

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

OPERATING RISKS

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

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

The Company deals with continuous price pressures in particular from Asian competitors by introducing technologically advanced and innovative products manufactured to high standards of quality and at competitive costs. The Company's implementation of new battery technologies in mass production is unique.

The central IT department of the corporate group is competent for all information systems and user authorizations worldwide. The IT landscape is globally very uniform and shows little fragmentation. This guarantees the seamless access to the relevant data, systems and technical possibilities for the employees, irrespective of the size of the enterprise. The IT department monitors continuously all system operations, examines the existing authorizations of individual users on a regular basis and adjusts the access rights to individual systems if necessary. For this reason we consider the risk in the IT area also as manageable.

STRATEGIC RISKS AND MARKET RISKS

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

In particular, technological and innovative leadership is one of our major strengths. With its focus on research and development as well as its large network of research partners the corporate group is in an excellent position to help shape the technological progress of the relevant industries. We keep an eye on any potential replacement technologies. In the medium term, no material effects of potential replacement technologies on the core business of the corporate group are discernible. Rather, this should be seen as an opportunity to help shape the technological advances in the various business segments.

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

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

FINANCIAL RISKS AND COUNTERPARTY RISKS

Our international sales and the worldwide purchases of raw materials and components entail foreign currency risks for the corporate group. These risks were thoroughly analyzed and assessed during the reporting year. Most of the exposures to the “main currencies”, the USD and the SGD, incurred within the Group under the budget for 2017 were hedged by forward foreign exchange transactions, and the risks were thereby adequately mitigated. The forward transactions are matched by planned operating payment streams in at least comparable amounts. The effectiveness of the hedging instruments falling due in the future is measured quarterly. The hedging transactions are examined for their effectiveness both in foresight and in hindsight. In all other respects we refer to the respective explanations in the Notes.

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

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

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

The remaining residual risks can be regarded as immaterial.

OPPORTUNITIES FOR FUTURE GROWTH

The development of the relevant markets for battery applications is of crucial importance for the further growth of the VARTA AG Group, apart from overall favorable economic conditions

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

The high quality of the products, supported by the ability to innovate and by our own research and development activities open up further opportunities. By continually investing in the expansion of the production capacities and the associated greater flexibility in the sourcing of products the corporate group is well positioned to profit from the growing markets for battery applications, driven by an aging world population, greater technological networking and advancing miniaturization. Aside from the quality of our products, our clients also appreciate the reliability of the corporate group. With many clients the Group has had a long-term supply and service relationship.

OVERALL RISK SITUATION OF THE CORPORATE GROUP

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

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

OUTLOOK

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

Overall picture of the VARTA AG Group
It is expected that the sales of the corporate group will show a significant growth over the course of next year (at constant exchange rates) compared to the previous year.
A significant increase over the previous year is also expected next year for the adjusted EBITDA because of economies of scale.
The CAPEX, thus the monies disbursed for the purchase of intangible and tangible assets, should also rise considerably next year as a result of the demand-driven expansion of the production capacities.

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

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

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

ADDENDUM

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

FINAL DECLARATION REGARDING THE DEPENDENCE REPORT

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

TAKEOVER LAW INFORMATION

With the successful stock exchange flotation on October 19, 2017 a total of 8,600,000 new shares were admitted to the trade. The subscribed capital of VARTA AG per December 31, 2017 was 38,200K € (prev. yr. 29,600K €). The subscribed capital is divided into 38,200,000 shares. These are par value shares registered to the bearer representing a prorated amount of the nominal capital of EUR 1.

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

The Company made a commitment to the underwriting banks that it will not, within a period of six months beginning with the day on which the shares of the Company are traded for the first time on the Frankfurt Stock Exchange, and thereafter within a period of six additional months, and without the prior written approval of the lead underwriter (which may not be unreasonably denied or delayed),:

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

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

The shareholders VGG GmbH and ETV Beteiligungs GmbH as well as the Chairman of the Executive Committee have also committed themselves to lock-up agreements within a period of twelve months beginning with the day on which the shares of the Company are traded for the first time on the Frankfurt Stock Exchange, and thereafter within a period of an additional twelve months. The member of the Executive Committee Dr. Michael Pistauer has committed himself to a lock-up agreement within a period of six months beginning with the day on which the shares of the Company are traded for the first time on the Frankfurt Stock Exchange, and thereafter within a period of an additional six months.

Equity interests exceeding 10 percent of the voting rights
DDr. Michael Tojner as Chairmen of the Board of Directors of VARTA AG and principal shareholder of Montana Tech Components AG, Reinach (Switzerland), owns 63.0% of the shares via the subsidiaries VGG GmbH, Vienna (Austria) and 1.6% of the shares via ETV Montana Tech Holding AG, Vienna (Austria), for a total of 64.6% of the shares in VARTA AG.

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

Ellwangen, April 9, 2018
VARTA Aktiengesellschaft

Herbert Schein Steffen Munz Dr. Michael Pistauer

Notes to the Consolidated Accounts

Consolidated Balance Sheet per December 31, 2017
VARTA Aktiengesellschaft, Ellwangen (Jagst)

(IN K €)	NOTES	DECEMBER 31, 2017	DECEMBER 31, 2016
ASSETS			
Tangible assets	7	63,447	51,981
Intangible assets	8	21,556	20,844
Long-term investments and other participations recognized in the balance sheet under the equity method	9	1,718	3,384
Other financial assets	11/38	444	1,610
Deferred tax assets	17	2,313	3,821
Other assets	15	15,780	0
Non-current assets		**105,258**	**81,640**
Inventories	12	53,770	42,611
Other financial assets	11	0	2,815
Trade receivables	13/38	20,103	15,676
Tax refund claims	14	744	482
Other assets	15/38	13,069	9,357
Cash and cash equivalents	16	138,536	12,347
Current assets		**226,222**	**83,288**
Total assets		**331,480**	**164,928**

(IN K €)	NOTES	DECEMBER 31, 2017	DECEMBER 31, 2016
EQUITY AND LIABILITIES			
Subscribed capital		38,200	29,600
Capital reserve		146,719	2,681
Earnings reserves		28,575	18,024
Net income for the year		13,268	9,410
Other reserves		2,710	5,576
Equity of the VARTA AG Group	18	**229,472**	**65,291**
Non-controlling shares	18	980	0
Equity	18	**230,452**	**65,291**
Other financial liabilities	20	6,200	21,758
Provision for employee benefits	21	22,775	22,681
Other liabilities	24	448	132
Other provisions	25	0	14
Non-current liabilities		**29,423**	**44,585**
Tax liabilities	22	4,724	4,164
Other financial liabilities	20	2,201	3,129
Provisions for employee benefits	21	1,087	983
Trade payables and advance payments received	23/38	32,479	22,082
Other liabilities	24	10,285	7,435
Other provisions	25	4,256	2,993
Deferred liabilities	26	16,573	14,266
Current liabilities		**71,605**	**55,052**
Liabilities		**101,028**	**99,637**
Equity and liabilities		**331,480**	**164,928**

Consolidated Income Statement for the year ended December 31, 2017
VARTA Aktiengesellschaft, Ellwangen (Jagst)

(IN K €)	NOTES	SPECIAL EFFECTS	2017	SPECIAL EFFECTS	2016
Revenue	27/6		**242.157**		**213.815**
Decrease / increase in finished and unfinished goods	28		3.145		-11.276
Own expenses capitalized			3.517		3.400
Other operating income	32		14.472		7.970
Cost of materials	29		-99.928		-78.538
Personnel costs	30		-86.047		-76.706
Other operating costs	33		-44.227		-34.898
EBITDA			**33.089**		**23.767**
Costs of the initial public offering	*33*	*6.115*		*2.332*	
Reimbursement claim under pensions	*21*	*-3.629*		*0*	
Costs of share-based payment	*18*	*3.557*		*0*	
Adjusted EBITDA		***39.132***		***26.099***	
Depreciation			-9.446		-8.922
Operating result (EBIT)			**23.643**		**14.845**
Financial income	34		63		132
Financial charges	34		-783		-1.811
Sundry financial income	35		687		955
Sundry financial charges	35		-889		-522
Financial result			**-922**		**-1.246**
Profit and loss shares in enterprises recognized in the balance sheet under the equity method, after taxes	9		-1.696		-1.526
Result before taxes			**21.025**		**12.073**
Income tax expenses	36		-7.481		-2.663
Consolidated result			**13.544**		**9.410**
Appropriation of profit:					
Shareholders of VARTA AG			13,268		9,410
Non-controlling shares			276		0

Consolidated Comprehensive Statement of Income for the year ended December 31, 2017
VARTA Aktiengesellschaft, Ellwangen (Jagst)

(IN K €)	NOTES	2017	2016
Profit/loss for the year		**13,544**	**9,410**
Items not reclassified under profit or loss			
Revaluation of the net debt from performance-related pension plans	21	335	-1,814
Revaluation of Reimbursement claim	21	959	0
Tax effect	36	-381	550
		913	**-1,264**
Items that were reclassified or may be reclassified later under profit or loss			
Currency conversion differences	38	-2,972	672
Result of the fair-value changes of cash flow hedges	38	142	161
Tax effect	36	-42	-46
		-2,872	**787**
Other results after taxes		**-1,959**	**-477**
Total result		**11,585**	**8,933**
Attribution of profit:			
Shareholders of VARTA AG		11,315	8,933
Non-controlling shares		270	0

Profit/loss per share* (EUR)

(EUR)	NOTES	2017	2016
Undiluted profit/loss per share	19	0.36	0.59
Diluted profit/loss per share	19	0.36	0.59

*The profit/loss per share concerns only the shares of VARTA AG.

Consolidated Cash flow Statement for the year ended December 31, 2017
VARTA Aktiengesellschaft, Ellwangen (Jagst)

(IN K €)	NOTES	2017	2016
Cash flow from ongoing business activities			
Result before taxes		21,025	12,073
Net financial result less sundry financial charges/sundry financial income	35	720	1,679
Results from the at-equity valuation	9	1,696	1,526
Depreciation and amortization	37/7/8	9,446	8,922
Profit/loss from the sale of tangible and intangible assets		96	21
Profit/loss from the sale of long-term investments		0	-421
Own expenses capitalized	8	-3,517	-3,400
Sundry income and expenses with no effect on liquidity		-962	-1,437
Changes in working capital			
Inventories	12	-12,329	922
Trade receivables and sundry current assets	13	-9,161	-3,936
Trade payables and sundry current liabilities	23	15,126	8,596
Provisions and liabilities from employee pensions	21	1,929	2,948
Paid income taxes		-5,566	-3,340
Net cash flow from ongoing business activities		**18,503**	**24,153**
Cash flow from investment activities			
Monies disbursed for the purchase of intangible and tangible assets	31/7/8	-17,039	-22,541
Monies received from the sale of intangible and tangible assets		4	102
Changes to the scope of consolidation		620	0
Investments in long-term securities		-30	0
Payments by joint ventures into the capital reserve	9	0	-2,000
Monies received from the amortization of loans	11	141	1,502
Monies received from the amortization of loans to affiliated enterprises	11	2,815	771
Monies received from the sale of long-term investments		0	421
Interest received		63	132
Cash flow from investment activities		**-13,426**	**-21,613**
Cash flow from financing activities			
Monies received/disbursed under capital measures	18	150,500	-1,460
Payments for the costs of the initial public offering		-1,505	0
Monies received from the interest-bearing financial liabilities of the affiliated enterprises	37 /21	0	1,693
Monies disbursed for the amortization of interest-bearing financial liabilities	37 /21	-15,751	0
Payments from the assumption of joint debt obligations		-11,193	0
Interest paid		-474	-1,443
CASH FLOW FROM FINANCING ACTIVITIES		**121,577**	**-1,210**
Net change in cash and cash equivalents		**126,654**	**1,330**
Cash and cash equivalents per January 1st		12,347	10,945
Effects of exchange rate fluctuations		-465	72
Cash and cash equivalents per December 31st	16	**138,536**	**12,347**

Consolidated Statement of Changes in Shareholders' Equity
VARTA Aktiengesellschaft, Ellwangen (Jagst)

(IN K €)	NET ASSETS	SUBSCRIBED CAPITAL	CAPITAL RESERVE	EARNINGS RESERVES*	OTHER RESERVES		TOTAL EQUITY
					CURRENCY DIFFERENCES	*HEDGING RESERVE*	
Status on January 1, 2016	**50,138**	**0**	**0**	**0**	**4,876**	**-87**	**54,927**
Restructuring							
Changes in net assets	-560	0	0	0	0	0	**-560**
Restructuring of the Group under IFRS 10	-49,578	29,600	690	19,288	0	0	**0**
Effect of the spin-off of the pension obligations	0	0	1,991	0	0	0	**1,991**
Comprehensive results							
Profit/loss for the year	0	0	0	9,410	0	0	9,410
Other results	0	0	0	-1,264	672	115	-477
Comprehensive results	**0**	**0**	**0**	**8,146**	**672**	**115**	**8,933**
Status per December 31, 2016	**0**	**29,600**	**2,681**	**27,434**	**5,548**	**28**	**65,291**

*Earnings reserves including profit/loss for the year

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

*Earnings reserves including profit/loss for the year

Consolidated Annual Report 2017 of VARTA AG

per December 31, 2017

1 GENERAL INFORMATION

VARTA Aktiengesellschaft (VARTA AG) is an enterprise that has its principal place of business in Ellwangen (Jagst), Germany, and is registered in the Trade Register of the District Court Ulm, Germany, under HRB 728059. The consolidated annual report of the enterprise covers the enterprise and its subsidiaries (jointly referred to as "VARTA AG Group"). The closing date for VARTA AG, all subsidiaries and for the consolidated annual report is December 31, 2017.

The business activities of VARTA AG as pursued by its operating subsidiaries is the production, distribution, research and development in two business segments: "Microbatteries" and "Power & Energy". The VARTA AG Group is an enterprise with international and global operations and has a proud history and experience of over 130 years.

The Management of the VARTA AG Group has its principal place of business in Ellwangen, Daimlerstraße 1, Germany. The controlling parent company of VARTA AG is Montana Tech Components AG, hereinafter referred to as "MTC", (Reinach, Switzerland).

The Group was restructured in the year 2016. Before the restructuring there was no corporate group in the sense of IFRS10. The enterprises included in the consolidated annual report were transferred to the VARTA AG Group between January 1, 2016 and June 30, 2016 in the context of the legal restructuring. The restructuring is described in the consolidated annual report for the fiscal year 2016.

After the successful initial public offering on October 19, 2017, VARTA AG is now successfully listed on the Frankfurt Stock Exchange. The shares of VARTA AG are traded on the regulated market (Prime Standard) under the securities identification number (WKN) A0TGJ5, the International Securities Identification Number (ISIN) DE000A0TGJ55 and the stock exchange ticker symbol "VAR1". With the issuance of 8,600,000 new shares and the fixed issuing price of 17.50 EUR per share the Company was able to earn a gross revenue in the amount of € 150,500K.

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

2 CHANGES IN THE SCOPE OF CONSOLIDATION

No major acquisition or sale of businesses took place in the fiscal year 2017.

	2017		2016	
	FULL CONSOLIDATION	EQUITY CONSOLIDATION	FULL CONSOLIDATION	EQUITY CONSOLIDATION
Status January 1st	**9**	**2**	**10**	**2**
Acquisitions	2	0	0	0
Status December 31st	**11**	**2**	**9**	**2**

The enterprises included in the scope of consolidation are listed in Chapter 43 (cf. Notes 43 “Affiliated enterprises”)

Changes in 2017
On June 29, 2017 the Company acquired shares in Auditas GmbH, Nördlingen (Germany), including its US subsidiary. In this case there had existed a control pursuant to IFRS 10 already since 2012, but no consolidation took place until now for materiality reasons. Based on the contractual wording of the purchase agreement a full consolidation took place in the current fiscal year, resulting in a goodwill of € 500K. However, a minority interest is shown since only 25.1% of the shares in Auditas GmbH were acquired. The comparability with the previous year is not affected by the first-time inclusion of the two enterprises. The sales revenue of the enterprises since the inclusion is € 5,833K and the operating result is € 532K. The activities of Auditas are allocated to the segment “Microbatteries”.

3 NOTES TO THE CONSOLIDATED ACCOUNTS

3.1 CERTIFICATE OF COMPLIANCE
The consolidated annual report of VARTA AG and its subsidiaries for the fiscal year 2017 was prepared pursuant to Sec. 315e para. 2 HGB following the International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) supplemented by the regulations of the German Commercial Code in Sec. 315a para. 2 HGB. The standards of the IASB applied are those that had been assumed by the European Union by the closing date. The designation IFRS covers also the still effective International Accounting Standards (IAS). By the same token, the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC) binding on December 31, 2017 also apply. The Board of Directors approved the annual report and the consolidated annual report prepared by the Executive Committee on April 9, 2018. Thus the annual report is considered officially adopted pursuant to Sec. 172 AktG.

3.2 GOING-CONCERN PRINCIPLE
According to IAS 1.25, the consolidated annual report was prepared under the assumption of the going-concern principle.

3.3 CONSOLIDATION METHODS

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

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

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

The consolidated enterprises are shown in a table found under Notes 43 "Affiliated enterprises".

3.4 BASIS FOR THE VALUATION

Assets are accounted for according to the acquisition value principle. An exception, if available, are derivative financial instruments, financial assets held for commercial purposes, financial assets made available for sale and real estate held as financial investments which are recognized in the balance sheet at fair value. Non-current assets and groups of assets held for sale are shown at the book value or fair value, whichever is lower, less the expected expenses of the sale.

3.5 FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY

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

Usually the functional currency of the respective affiliates depends on their primary economic environment and corresponds in principle to their respective national currency. The euro (EUR and/or €) is the functional currency for a predominant part of the activities, which is the reason why this consolidated annual report was prepared in euros (EUR and/or €).

3.6 MATURITIES

Current assets are assets which are either realized or consumed within one year in the course of the ordinary business cycle of the corporate group or held for trading purposes. All other assets are non-current assets.

Current liabilities are liabilities which the corporate group will amortize in the course of the ordinary business cycle using operative cash flows or which become due within one year from the closing date. All other liabilities are non-current liabilities.

4 MATERIAL ACCOUNTING AND VALUATION PRINCIPLES

4.1 CURRENCY CONVERSIONS

The individual companies prepare their annual reports in their functional or local currency. In the present consolidated annual report all assets and liabilities held in foreign currency are converted into euros at the price listed on the closing date. Equity is shown at historical prices. Expenses and incomes are converted into euros at the average rate of the respective period. The differences resulting from the conversion are recognized in the statement of comprehensive income. The conversion differences are recognized in the income statement only after the disposal or deconsolidation of a subsidiary.

Transactions in a foreign currency are converted into the functional currency at the respective daily` rate. Pending amounts in foreign currencies are converted in case of monetary items at the rates prevailing on the closing date and in case of non-monetary items at historical rates. Non-monetary foreign currency positions accounted for at their fair value are converted at the exchange rate prevailing at the time of the revaluation. The foreign currency gains and losses resulting from the conversion at the rate prevailing on the closing date are shown in the income statement under sundry financial results, with the exception of the conversions of the financial assets available for sale and the net investments in foreign businesses.

The exchange rates used for the currency conversion materially influencing the consolidated annual report are the following:

	AVERAGE RATE		RATE ON THE CLOSING DATE	
1 EURO EQUALS	2017	2016	DEC. 31, 2017	DEC. 31, 2016
US Dollar (USD)	1.1297	1.1069	1.1993	1.0541

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

4.2 FINANCIAL INSTRUMENTS

4.2.1 Non-derivative financial instruments

In the consolidated annual report of the Group the non-derivative financial instruments are divided into the following categories:

- financial assets held for sale;
- financial assets valued at their fair value and recognized as income;
- loans and claims;
- securities held to bullet maturity.

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

Non-derivative financial instruments are recognized on the date of acquisition at their fair value - with the exception of financial instruments belonging to the category "valued at the fair value and recognized as income" - plus the directly attributable transaction costs. The secondary valuation of non-derivative financial instruments is described below.

Cash and cash equivalents include cash on hand, credit balances at banks as well as time deposits with an original maturity of up to 3 months.

Financial assets valued at the fair value and recognized as income
A financial instrument is classified as "at the fair value recognized as income" if it is held for trading purposes or is designated as such upon being first recognized. Directly attributable transaction costs are reflected in the income statement upon being first recognized.

Loan and claims
Loans and claims are valued at their amortized cost using the effective interest calculation method less impairments in value.

Securities held to bullet maturity
Financial investments held to bullet maturity must be assigned to non-derivative financial assets with fixed or determinable interest payments and fixed maturity. The Company acquired these assets with the intention and ability of holding them to bullet maturity with the exception of financial assets that can be assigned to one of the categories specified above.

The corporate group writes a financial asset down if the contractual rights to the interest payments from the asset end or if the rights for obtaining the contractual payment streams, which contain essentially all risks and opportunities of ownership of the financial asset, are transferred, or if the corporate group assigns the rights and retains neither any material risks or opportunities of ownership nor keeps control of the asset. All profit contributions of such written-down financial assets formed or held by the corporate group are shown as a separate asset or liability.

Financial liabilities are valued at the fair value and recognized as income if they are held for trading purposes or assigned accordingly upon being first recognized. Directly attributable transaction costs are recognized as income recorded as soon as they accrue. Financial liabilities are valued at the fair value and the respective changes, including all interest expenses, are recognized in the consolidated income statement.

Other non-derivative financial liabilities are first valued at their fair value less all directly attributable transaction costs. The secondary valuation must be made at amortized cost using the effective interest calculation method.

The corporate group writes financial liabilities down if the contractual obligation is settled, terminated or extinguished.

4.2.2 Derivative financial instruments

The corporate group hedges foreign currency risks and raw material price risks financially. In most cases the conditions for "hedge accounting" pursuant to IAS 39 are present. Derivative financial instruments are used exclusively for hedging the risks arising from the operating business. For the exchange rate hedge of planned cash flows, a 12-month liquidity plan is used as the basis for the cash flow hedges to be signed.

Forward foreign exchange transactions and commodity swaps are shown at their fair market value on the contract signing date, with any directly attributable transaction costs being reflected in the income statement. The secondary valuation takes place at their fair value. Valuation changes of the effective part of a derivative are at first recorded in the reserve for cash flow hedges without effect on the income statement and upon the realization of the underlying transaction with effect on the income statement; the ineffective part is immediately reflected in the income statement.

The effectiveness of these hedging transactions is reviewed both in foresight and hindsight by means of an effectiveness test using statistical methods. In foresight the "Critical Terms Match Method" is used and in hindsight the "Dollar Offset Method" in combination with the "Hypothetical Derivative Method".

Derivatives are recognized on the trading day.

4.2.3 Equity

Subscribed capital

Shares are a component of equity since they are not repayable and since there is no guaranteed dividend. Costs incurred directly in connection with an increase of the nominal capital are deducted from equity. Income taxes regarding the transactions of an equity transaction are recognized in the balance sheet in agreement with IAS 12. The expenses incurred directly in connection with the initial public offering are offset according to the regulations of IAS 32.37 against the capital reserve without being reflected in the income statement.

4.3 INTANGIBLE ASSETS

4.3.1 Research and development

The research costs incurred in connection with obtaining new basic or technological knowledge and understanding are recognized as expenses. Development costs incurred in connection with new products and processes are capitalized if essentially the following conditions can be demonstrated and are cumulatively fulfilled:

- technical feasibility for the completion of the project in the sense that it is available for productive use through own use or sale;
- intended completion of the project and productive use through a sale or own use;
- amenable for own use or sale of the intangible asset;
- demonstration of the future economic benefit; e.g. the enterprise must come up with proof of the presence of a market for the intangible asset itself or the products to be generated from it. In case of own use it must be demonstrated that the respective asset is profitable;
- availability of the necessary technical, financial and other resources for the completion of the project or for using or selling the asset;
- reliable determination of the costs attributable to the intangible asset during the development phase.

Capitalized development costs are valued at their acquisition or manufacturing value less accumulated depreciation and other value adjustments (cf. Notes 4.8 “Impairment test”). Otherwise the development costs are recognized as expenses. The useful life is determined depending on the project and based on the expected technological progress.

4.3.2 Other intangible assets

Other intangible assets include intellectual property rights such as trademarks, patents and licenses as well as other intangible assets.

Intangible assets with a definable useful life are recognized in the balance sheet at their acquisition costs less accumulated depreciation and impairments in value (cf. Notes 4.8 “Impairment test”). Intangible assets are capitalized if it is likely that they will yield an economic benefit. All other expenses are charged directly to the income statement on the date they are recognized. Intangible assets are depreciated in a straight line over the estimated useful life beginning with the date on which they become available for use. The estimated useful life for intellectual property rights, licenses and other intangible assets is from three to ten years.

Intangible assets with an indefinite useful life are not depreciated but submitted annually to an impairment test (cf. Notes 4.8 “Impairment test”).

4.4 TANGIBLE ASSETS

Tangible assets are valued at their acquisition or manufacturing costs less accumulated depreciations and accumulated impairments in value. Subsequent investments are only capitalized if they increase the future economic benefit of the tangible asset. All other costs for tangible assets are recognized immediately as an expense.

Tangible assets, with the exception of real estate, are depreciated in a straight line and recognized as income over the subsequent expected useful life:

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

The depreciation methods, the useful life and the assumed residual values, if not insignificant, are reviewed annually and if necessary adjusted.

In case of asset disposals the difference between the book values and net sale proceeds is recognized as income/expense in other operating income or other operating costs.

4.5 LEASES

Objects that are a component of lease agreements are recognized in the balance sheet if the corporate group enjoys all material opportunities and bears all material risks from the use of the lease object as lessee and therefore must be considered the economic beneficiary (finance lease). With finance leases the leased asset is capitalized under non-current assets at the fair value or the cash value of the future minimum lease payments, whichever is lower, and recognized as a lease liability in the same amount. Lease objects are depreciated over the estimated use life or the lease period, whichever is shorter. Lease objects are handled after the first-time capitalization in agreement with the valuation principles applicable to the respective assets.

In all other lease agreements entered into by the VARTA AG Group as lessee, the lease objects are not capitalized but instead the lease payments are recognized as income on their due date.

4.6 TRADE RECEIVABLES

Trade receivables are recognized in the balance sheet at amortized cost, which usually corresponds to their nominal value less any adjustments for credit risk (cf. Notes 38.2 “Financial risk management”).

Beside the necessary individual valuation allowances for specifically known claim risks, additional value adjustments are created based on experience.

As soon as there are sufficient indications that a claim will definitely not be paid, the claim is written off immediately or offset against the individual valuation allowance created for it.

4.7 INVENTORIES

Inventories are valued at their acquisition or manufacturing costs or at their lower net sales values. The net sales value is the expected average selling price less any accrued finishing and sales costs.

Products manufactured in-house are valued at their manufacturing costs, purchased products at their acquisition costs. The manufacturing costs comprise the material costs and direct manufacturing costs as well as overheads. The manufacturing overheads are calculated on the basis of the normal production capacities. Inventories are usually valued using the first-in/first-out method (FIFO method). Devaluations are implemented if the net sales value is below the book value.

4.8 IMPAIRMENT TEST

4.8.1 Financial assets

The valuation of financial assets which are not valued with effect on the income statement at their fair value are reviewed on each closing date in order to determine whether the intrinsic value of the financial asset is ensured. An adjustment in value is made if there are objective indications that the book value exceeds the obtainable proceeds.

Examples of an objective indication that a financial asset is impaired in value are:
- payment default or delay of a debtor;
- refinancing of an amount owed to the corporate group at conditions which the corporate group would normally not accept;
- indications that a debtor or issuer will file for bankruptcy;
- unfavorable changes in the payment history of borrowers or issuers;
- disappearance of an active market for a security as a result of financial difficulties; or
- observable data indicating a noticeable reduction in the expected payments of a group of financial assets.

Financial assets at amortized cost
The corporate group considers indications for an impairment of these financial assets both at the level of the individual asset and at the collective level. All assets which, taken by themselves, are important are evaluated with regard to specific impairments. Those that turn out not to be specifically impaired in value are subsequently evaluated collectively for any impairments that have occurred but have not yet been identified. Assets which, taken by themselves, are not important are evaluated collectively for any impairment in value by combining assets with similar risk proclivities in a group.

When evaluating collective impairments in value the corporate group uses historical data regarding the chronological due date of payments and the amount of the losses suffered, adjusted by a discretionary decision of the Management as to whether the current basic economic conditions and the credit conditions are such that the actual losses will likely be larger or smaller than the losses that could be expected based on historical trends.

Any impairment in value is calculated as the difference between the book value and the cash value of the estimated future cash flow, discounted at the original effective interest rate of the asset. Losses are recognized in the profit and loss statement and shown in an account for value adjustments. If the corporate group does not have any realistic prospects for the collectability of the asset, the amount is written off. If an event occurring after the recognition of the value adjustment entails a decrease in the amount of the value adjustment, the decrease of the value adjustment is recognized as profit or loss.

4.8.2 Non-financial assets
The book values of the non-financial assets or cash generating units within the scope of application of IAS 36 are evaluated on the closing date to see whether there are indications for any impairment in value. If such indications are present, the necessary soundness evaluation is carried out.

For intangible assets that have an indefinite useful life or are not yet available for use, the obtainable amount is determined for the cash-generating unit (CGU) annually on the same date.

The obtainable amount for a CGU is calculated using the discounted cash flow (DCF) method and is the utility value or fair value, whichever is higher, less the expenses of the sale. The DCF method is particularly sensitive to the selected discount rate and the future payment streams as estimated by the Executive Committee. The discount rate is based on the weighted average cost of capital (WACC) of the respective CGUs. It is calculated on the basis of a risk-free interest rate and a market risk premium. The discount rate also reflects the current assessment and the risks of the CGUs taking into consideration peer-group data. When determining the utility value, the estimated future cash flows are discounted to the cash value. For the performance of impairment tests the assets are divided into the smallest group of assets which generate independent inflows of cash (cash-generating units).

An impairment in value is present if the book value of an asset or a cash-generating unit exceeds the estimated obtainable value. Impairments in value are booked as income/expense. Impairments in value of a cash-generating unit or a group of cash-generating units are allocated first to goodwill and then proportionately to the other assets of the unit and/or the group. An exception are the individual assets of a unit and/or group whose fair values less the expenses of the sale cover their book value.

In case of impaired assets (except goodwill) an evaluation takes place on each closing date as to whether there is any indication that the loss has been mitigated or no longer exists. Write-ups to impairments are added to the increased obtainable amount, however at most up to the updated original book value of the asset.

4.9 PERFORMANCE-RELATED OBLIGATIONS AND CONTRIBUTION-RELATED PROMISES

Apart from the public old-age pension benefits the corporate group also offers performance-related and contribution-related plans to some employees. The pension plans offer age-related benefits and benefits in case of death or disability. Performance-related plans “Employee benefits” under IAS 19 exist in Germany and in Singapore.

Contribution-related plans

In the case of contribution-related plans the costs shown in the income statement correspond to the contributions of the employer.

Performance-related plans

The performance-related obligation (defined obligation benefit obligation – “DBO”) for all important performance-related plans is determined annually by independent actuaries by calculating the cash value of the DBO according to the projected unit credit method. The fair value of the plan assets is then deducted. The discount rate is based on the interest rate for high-quality corporate bonds with almost the same maturities as the performance-related obligations. The costs incurred during the current period in connection with the employee benefits are shown in the consolidated income statement.

Any increase in the plan costs from past employee benefits which are due to new or improved plan benefits (recalculated service period) is shown in a straight line as a cost of the gainful employment or other benefits to employees until the respective benefits accrue.

The corporate group calculates the net interest costs (income) on the net liability (asset) under the performance-related benefit plans for the reporting period by using the discount rate that was used for the valuation of the performance-related obligation at the beginning of the annual reporting period. This discount rate is used for the net liability (asset) under the performance-related benefit plans at that time. This process takes into consideration any changes in the net liability (asset) from the performance-related benefit plans which occur due to contribution and benefit payments in the course of the reporting period. Net interest expenses and other costs for the performance-related plans are recognized in the profit or loss.

Revaluations of the net liability from performance-related benefit plans are recorded directly under other results. The revaluation covers the actuarial profits and losses, the income from plan assets (without interest) and the effect of any upper asset limit (without interest).

If the benefits of a plan are changed or if a plan is curtailed, the resulting change in the benefits for the recalculated service period or the profit or loss is recognized directly under profit or loss when the plan is curtailed. The corporate group records profits and losses from paying out a performance-related plan on the date of the payout.

Surplus amounts are recorded only if they are actually available to the corporate group in the form of future payments of or reductions in contributions.

4.10 PUBLIC GRANTS

Public grants that compensate costs that were incurred are recognized as scheduled under profit or loss in the periods in which the costs accrue.

4.11 TRADE PAYABLES AND OTHER LIABILITIES

Trade payables and other liabilities are valued at their amortized cost.

4.12 DEFERRED LIABILITIES

Deferred liabilities refer to expenses which, while uncertain in terms of amount or time, are less uncertain than provisions. These are liabilities for received or supplied goods or services that were neither paid nor invoiced or formally stipulated. This includes also current liabilities to employees (for the example premiums and vacation claims). Deferred liabilities are recognized in the amount of the expected utilization.

4.13 OTHER FINANCIAL LIABILITIES

These liabilities are recognized in the balance sheet initially at their market value less any directly attributable transaction costs. The secondary valuation takes place at their amortized costs, with the difference between the market value and the amount to be amortized being booked as income using the effective interest calculation method.

Other financial liabilities are shown as long-term only if the repayment date will occur unconditionally more for than 1 year after the closing date. Amounts to be used on a revolving basis are shown as long-term if the total drawdown period for the financing framework exceeds the period of one year.

4.14 PROVISIONS

Provisions are liabilities which are uncertain in terms of amount or timing. They are shown if the corporate group has a current obligation toward third parties based on a past event, if an outflow of funds for the fulfillment of this obligation is likely and if the amount can be determined reliably. Provisions are discounted if they have a material effect.

Provisions in which the expected outflow of funds takes place within the next year are classified as short-term, all other provisions are long-term.

4.15 REVENUE AND INCOME REALIZATION

Sales are recorded after the deduction of the value-added tax as well as any credits for goods returned and rebates at the time in which the benefits and risks from the sold goods are transferred to the customer. The revenue from product sales contains mainly the gross proceeds from the segments “Microbatteries” and “Power & Energy”.

The transfer of the benefits and risks depends on the underlying terms of delivery (Incoterms). Therefore any risk and benefit may also be transferred at the time of the delivery of the merchandise at the site of the customer’s warehouse.

The proceeds from the provision of services are recorded at the end of the reporting period taking into consideration the completion of the service. The completion is evaluated on the basis of surveys of the performed work (for example fees for the use of the IT hardware and accrued IT tickets). This item covers mainly services from the sale of research results to research institutes as well as the provision of IT and product design services.

4.16 FINANCIAL RESULT

The net interest profit/loss contains income from long-term investments and liquid assets as well as costs from other financial liabilities. Interest income and interest expenses are recorded as profit/loss in the period in which they accrue using the effective interest calculation method.

Pursuant to IAS 23.4 the financing expenses that accrue in the context of the acquisition of qualified assets are capitalized in the corporate group. Qualified assets are assets whose operability can be assured only within a considerable period.

The remaining financial result covers profits from the sale of financial assets available for sale, changes in the fair value of financial assets valued at the fair value and recognized as profit/loss, impairments in value of financial assets and the conversion differences from foreign currency transactions.

4.17 INCOME TAXES

The income taxes contain both current and deferred taxes on income. Normally income taxes are reflected in the income statement unless they are connected to a position that is recorded directly in the consolidated statement of comprehensive income.

Current income taxes are calculated based on the taxable result using the tax rates applicable on the closing date, including the expenses for taxes of past periods.

Deferred taxes are calculated according to the "balance sheet-oriented liability method" in principle on all time-related differences between the carrying amounts of assets and liabilities as shown on the balance sheet. The valuation takes place at the tax rates applicable or expected to be applicable to the respective affiliates.

No deferred taxes are recorded for the following time-related differences: First recognition of goodwill, assets or liabilities first recorded in connection with a transaction affecting neither the taxable result nor the profit/loss for the year, and time-related differences on shares in subsidiaries if it is likely that the time-related differences will not materialize in the foreseeable future.

Deferred tax assets from offsettable losses brought forward and time-related differences are considered only to the extent that a setoff against future taxable profits is likely. The evaluation is based on the business plan approved by the Board of Directors.

4.18 SEGMENT REPORTS

The segment information is provided on the basis of the internal report system of the corporate group in order to be able to evaluate the nature and the financial effects of the business activities performed by the corporate group as well as the economic environment in which it is operating. In this process the internal management report system, which was finalized in fiscal 2016 based on the reorientation of the corporate group, is a determining factor.

The corporate group is set up as a matrix organization because the business activities are organized on the one hand in the segments "Microbatteries" and "Power & Energy" and on the other hand also regionally. However, there is no budget allocation based on the regional vantage point and no financial information is made available for a regular control. Therefore the vantage point on the product level is relevant for the segment reports and not the regional vantage point.

The evaluation is carried out by the CODM ("Chief Operation Decision Maker"). The CODM in the sense of IFRS 8 is the Executive Committee of VARTA AG because it reviews the segments for their earnings capacity and resource allocation at regular intervals on the basis of the internal management reports. The earnings capacity of each segment is evaluated on the basis of the EBIT and EBITDA. EBIT ("Earnings Before Interests and Tax") refers to the operating result before interest and taxes. EBITDA ("Earnings Before Interest, Taxes, Depreciation and Amortization") refers to the operating result before interest, taxes, depreciations on tangible assets and amortizations on intangible assets. No interest or financing elements are therefore considered in this index, nor is any consideration given to the share of the results of the enterprises included in the consolidated annual report under the equity method.

The following operating business segments have been identified under IFRS 8 and are reported individually.

Microbatteries

The Microbatteries segment is controlled via VARTA Microbattery GmbH and is focused on the manufacture of microbatteries primarily for applications in the **healthcare** and **entertainment** areas. VARTA uses hereby selectively the most innovative technologies in order to produce the highest power density in the smallest space. Depending on the product and the application, VARTA focuses here on the most modern technologies such as e.g. zinc air, lithium ions, silver oxide and nickel metal hydride for rechargeable and non-rechargeable battery solutions.

Mainly zinc-air batteries for hearing aids are manufactured in the **Healthcare** area. They are marketed under the trademarks powerone and ecopack as well as private brands. Success in the area of hearing aid batteries is based on the innovative strength, the reliability, the long life and the consistency of our quality. The market position is secured by our own factory automation processes and the ability to provide our clients with services from the product to POS material.

For the **Entertainment** area the Company manufactures above all high-end lithium-ion battery solutions for wireless premium headphones **(hearables)** as well as for other so-called wearables applications. This includes for example applications in the increasing end-user markets for electrical appliances such as Bluetooth headsets, medical devices for hypertension, blood sugar and body monitors as well as other wearables applications.

The product group **Industrial** manufactures mainly rechargeable battery solutions for industrial and original equipment manufacturers (OEMs). This includes for example applications such as servers, applications in car keys, alarm systems or smart metering devices.

Power & Energy

In the **Power & Energy** segment the Company develops, produces and sells mobile and stationary energy storage solutions. The segment concentrates hereby on the development, the system integration and the assembly of accumulator batteries (power pack solutions) for OEM customers in various

markets. For this the Company relies mainly on the lithium-ion technology.

The Company manufactures rechargeable standardized but also customized battery packs. These can be integrated seamlessly with the various industrial and wireless applications. Irrespective of the respective technology or the complexity of the tasks, VARTA offers complete services from design to production for OEM customers. The segment concentrates here on applications for portable industrial applications, applications in communications, electric power tool applications, home & garden and medical applications.
On the other hand the segment develops and produces energy storage devices for private households and commercial applications. The energy storage devices are characterized by quality and reliability. The product portfolio is designed in a modular way so that each end user can find the correct energy storage as needed, from the compact, handy complete system for beginner to mass storage solutions for industrial facilities.

4.19 CHANGES OF THE ACCOUNTING PRINCIPLES

No new standard became effective on January 1, 2017.

However, changes were made to many standards, which became effective on January 1, 2017. The following are affected by this:
- Cash flow statement (changes in IAS 7);
- Recognition of deferred tax assets for unrealized losses (changes in IAS 12);
- Annual changes of the IFRS 2014-2016 cycle.

Changes in IAS 7 - Disclosure initiative

The changes have the purpose of improving the information about any change in the indebtedness of an enterprise. According to the changes, an enterprise must provide information about the changes for those financial liabilities whose monies received and monies disbursed are shown in the cash flow statement under cash flows from financing activities. The related financial assets must also be included in the information (e.g. assets from hedging transactions).

All payment-effective changes, changes from the acquisition or sale of enterprises, exchange rate-related changes, changes in the fair values and other changes must be indicated.

Changes in IAS 12 – Recognition of deferred tax assets with unrealized losses
The changes clarify the accounting of deferred tax assets for unrealized losses in debt instruments valued at their fair value.

Annual change of IFRS 2014-2016
Three IFRSs were changed by the annual changes of the IFRSs (2014-2016), of which only the following was to be applied in 2017:
IFRS 12 makes clear that the information under IFRS 12 applies in principle also to those shares in subsidiaries, joint ventures or associated enterprises which are classified as being held for sale within the meaning of IFRS 5; an exception to this rule is the information under IFRS 12.B10-B16 (financial information).

None of these changes had a material effect on the consolidated annual report.

4.20 NEW AND AMENDED IFRS STANDARDS AFTER DECEMBER 31, 2017

The following new and revised standards and interpretations were adopted but will become effective only later and were not used early for the present consolidated annual report. Their effects on the consolidated annual report of the Group have not yet finally analyzed.

NEW OR CHANGED STANDARDS AND INTERPRETATIONS		EFFECTIVE DATE
Implementation in EU law		
Standard:		
IFRS 9	Financial instrument	January 1, 2018
IFRS 15	Sales revenue from contracts with customers	January 1, 2018
IFRS 16	Lease agreements	January 1, 2019
IFRS 22	Transactions in a foreign currency and counter-performance paid in advance	January 1, 2018
Changes:		
IFRS 4	Use of IFRS 9 financial instruments with IFRS 4 insurance contracts	January 1, 2018
IFRS 9	Financial instruments	January 1, 2019
IFRS 15	Sales revenue from contracts with customers	January 1, 2018

The innovations and changes relevant for the VARTA AG Group are described in what follows.

IFRS 9 – Financial instruments
The standard regulates comprehensively the accounting rules for financial instruments. What should be noted compared to the predecessor standard IAS 39 are in particular the new classification directives for financial assets revised in the most recent version of IFRS 9. These are based on the design of the business model and the contractual payment streams of financial assets. Also totally new are the directives for the recognition of impairments in value, which are now based on a model of the expected losses. Also the presentation of hedging relations in the balance sheet is newly regulated under IFRS 9 and is intended to facilitate the description of the operating risk management.

IFRS 9 must be applied for the first time in any fiscal year that begins on or after January 1, 2018. The possibility of an early application was not utilized. The analysis of the effects has not yet been finalized.

IFRS 15 – Sales revenue from contracts with customers
The regulations of IFRS 15 cover, according to IFRS 15.5, in principle all contracts signed with customers the subject matter of which is the provision of goods and services in the context of the usual business activities.

In order to evaluate the effects of IFRS 15 on the VARTA AG Group, an analysis of the sales streams based on the accounts classification of the five-stage basic model (5-step approach) pursuant to IFRS 15 was carried out.

Three important sales streams were identified in the VARTA AG Group:
- Revenue from research projects;
- Revenue from the sale of products;
- Revenue from the provision of other services.

After analyzing the effects it was concluded that the revenue from research projects and customer projects are affected by the changes of IFRS 15. The analysis of the effects has not yet been finalized.

IFRS 16 – Lease agreements
IFRS 16 introduces a single accounting model according to which lease agreements must be shown in the balance sheet of the lessee. The lessee records a right-of-use asset representing the lessee's right to the use of the underlying asset, as well as a debt from the lease agreement representing the lessee's obligation to make the lease payments. There are exceptions for short-term leases and leases regarding low-cost assets. The accounting at the lessor is comparable to the current standard - i.e. lessors continue to classify leases as financing or operating leases.

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

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

IFRIC 22 Transactions in a foreign currency and counter-performance paid in advance
IFRIC 22 addresses an application question regarding IAS 21, Effects of exchange rate fluctuations. The regulation clarifies on which date the exchange rate for the conversion of transactions in foreign currencies containing incoming or outgoing prepayments must be determined. What is relevant for the determination of the exchange rate for the underlying asset, income or expense is thus the date on which the asset and/or liability resulting from the prepayment is recorded for the first time.

The interpretation must be applied - subject to the implementation in EU law - for the first time in the first reporting period of the fiscal year beginning on or after January 1, 2018. An earlier application is permitted.

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

		EFFECTIVE DATE
Not yet implemented in EU law:		
Standards:		
IFRS 17	Insurance	January 1, 2021
IFRS 23	Accounting of income taxes	January 1, 2019
Changes:		
IFRS 40	Transfer of real estate held as a financial investment	January 1, 2018
IFRS 28	Long-term interests in associated enterprises	January 1, 2019
IFRS 2	Classification and valuation of share-based payment	January 1, 2018
IFRS IFRS 10/IAS 28	Sale or contribution of assets between an investor and its associate or joint venture	indefinite

The innovations and changes relevant for the VARTA AG Group are described in what follows.

IFRIC 23 – Accounting of income taxes
The tax treatment of certain facts and transactions can depend on the future recognition by the tax authorities or the fiscal jurisdiction. IAS 12 Income taxes regulates how actual and deferred taxes must be accounted for. IFRIC 23 completes the regulations in IAS 12 regarding the consideration of uncertainties concerning the income tax treatment of facts and transactions.

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

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

Changes in IAS 40 - Transfer of real estate held as a financial investment
The change of IAS 40 serves to clarify in which cases the classification of real estate as "real estate held as a financial investment" begins and ends if the property is still under construction or in development. With the so far conclusively formulated enumeration in IAS 40.57 the classification of unfinished real estate was so far not yet clearly established. The enumeration is now considered explicitly as not conclusive, so that now unfinished real estate can also be subsumed under the regulation.

The change must be applied – subject to the implementation in EU law – for the first time in the first reporting period of the fiscal year beginning on or after January 1, 2018. An earlier application is permitted.

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

Changes of IAS 28 – Long-term shares in associated enterprises
The changes contain the clarification that IFRS 9 is to be applied to those long-term shares in associated enterprises or joint ventures which are accounted for under the equity method.

The changes must be applied - subject to the implementation in EU law - for the first time on January 1, 2019.

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

Changes of IFRS 2 – Classification and valuation of a share-based payment
The changes concern the consideration of the exercise conditions in the context of the valuation of a share-based payment with a cash compensation, the classification of a share-based payment providing for a net compensation for the taxes to be withheld as well as the accounting rules in case of a change of the classification from "cash-settled payment" to " equity-settled payment transactions".

The changes must be applied - subject to the implementation in EU law - to payments that are granted or changed in fiscal years beginning on or after January 1, 2018. An earlier application is permitted. A retroactive application is only possible without using later, better findings.

The corporate group has not yet started to evaluate the potential effects of the applications of IFRS 2 on its consolidated annual report.

Changes in IFRS 10, and IAS 28 – Sale or contribution of assets between an investor and its associate or joint venture
The changes address a known inconsistency between the regulations of IFRS 10 and IAS 28 (2011) in case of a sale of assets to an associated enterprise or a joint venture and/or the contribution of assets to an associated enterprise or joint venture.

According to IFRS 10 a parent company must recognize the profit or loss from the sale of a subsidiary in case of a potential loss of control in the full amount in the income statement. By contrast, the currently applicable IAS 28.28 requires that the proceeds from sale transactions between an investor and a participation valued at equity – be it an associated enterprise or a joint venture – must be recognized only in the amount of the share of the others in this enterprise.

In the future the total profit or loss from a transaction is to be recognized only if the sold or contributed assets constitute a business activity within the meaning of IFRS 3. This is true irrespective of whether the transaction is designed as a share or asset deal. If on the other hand the assets do not constitute a business activity, only a prorated recognition of the proceeds is permitted.

The first application date of the changes was postponed by IASB indefinitely.

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

5 IMPORTANT ASSUMPTIONS AND ESTIMATES

The consolidated annual report contains the following important positions whose carrying amounts depend greatly on the underlying assumptions and estimates:

Useful life of non-current assets
Tangible assets and acquired intangible assets are recognized at their acquisition and/or manufacturing costs and depreciated in a straight line as scheduled over the respective useful life. When determining the useful life, factors such as wear and tear, age, technical standards, contract terms and changes in the demand are taken into consideration. Any changes in these factors may shorten or extend the useful life of an asset. In this case the amortized cost would be depreciated over the remaining shorter or longer useful life, leading to higher or lower annual amortization amounts. The adjustments of the amortization period necessary as a result of a change in the expected useful life are treated if necessary as changes to estimates.

Certain intangible assets are classified as indefinite in terms of their useful life if an analysis of all relevant factors does not suggest an end of the period for which the asset contributes to the generation of cash flows. This analysis is reviewed annually to ensure that the estimate of an indefinite useful life continues to be justified.

Value adjustments for non-current assets
The impairment test for estimating the obtainable amount of a CGU is based on the numbers of the business plan, the discount rate, the growth rate, the expected inflation and the exchange rates.

Further information about the impairment tests can be found under Notes 4.8 “Impairment test”. The assumptions made in this respect may however change, leading to value adjustments in future periods.

Performance-related obligations
The corporate group has various pension plans for some of the employees. In order to be able to calculate the resulting credits or debits, it is necessary to first determine whether performance-related or contribution-related plans are concerned. In order to be able to estimate future developments, statistical assumptions are made with regard to the performance-related plans.

The actuarial valuation of the provisions for benefits granted to employees is based on assumptions regarding discount rates, salary increases, fluctuation and pensionable age (demographic and financial variables). If these assumptions change as a result of a changed economic situation or new market conditions, the actual data may deviate significantly from the actuarial appraisals and calculations. These deviations may have a major impact on the expenses and earnings of employee pension plans in the medium term. Further information about employee pension plans can be found in Notes 21.2 “Pensions”.

Other provisions
Provisions are created for various situations in the context of ordinary business activities. The amount of the expected outflow of funds is determined in each concrete case on the basis of assumptions and estimates. These assumptions may be subject to changes entailing a deviation in future periods.

Product warranties are granted when selling products. Provisions are formed annually for this purpose. The calculation is based on estimates that rely on the historical data of the last few years.

Only short-term provisions are created on product warranties. The provision for the “Power & Energy” segment is based on past experience.

The book values of such provisions can be found in Notes 25 “Other provisions”.

Deferred taxes
Deferred taxes are based on the time-related differences between the carrying amounts in the consolidated balance sheet and the values shown in the balance sheet for tax purposes as well as on the expected utilizable fiscal losses carried forward. Deferred taxes are calculated on the basis of the tax rates which according to the present legal situation will apply on the date on which the merely temporary differences will again be reconciled, as well as on basis of an estimate of the future fiscal earnings capacity derived from the business plan approved by the Board of Directors. Possible changes in the tax rates or any future fiscal income deviating from the assumptions might mean that the realization of deferred tax assets becomes unlikely and that a value adjustment of the relevant assets is necessary. Also, changes in the tax rates may entail a revision of the deferred tax liabilities. The book values of the deferred taxes can be inferred from the consolidated balance sheet and are allocated to the various balance sheet items in Notes 17 “Deferred taxes”.

6 SEGMENT REPORTS

The segment information is published on the basis of the management reports for the "Microbatteries" and "Power & Energy" segments (cf. Notes 4.18 "Segment reports").

The accounting and valuation methods for the segment reports are based on the IFRS used in the present consolidated annual report. In order to be able to assess the operation performance despite the increasing investments in property, plant and equipment and the resulting depreciation the executive committee revised the key figures and now controls the group with the adjusted EBITDA (prev. yr. EBIT), as part of the initial public offering. The portions of the results of the enterprises included in the consolidated annual report according to the equity method are not contained in the segment reports since they are not part of the reported EBIT and adjusted EBITDA and are also otherwise not reported normally to the CODM.
The eliminations of intracompany cross shareholdings between the segments are summarized in the reconciliation column. In addition, the reconciliation column contains facts that cannot be attributed to a segment directly, e.g. the effects from the assumption of a joint debt obligation (cf. Notes 105 "Other assets") or the initial public offering (cf. Notes 18 "General information").

The control variables used for the evaluation of the performance of the operating segments are described in what follows:

Information by reportable segments:

	MICROBATTERIES		POWER & ENERGY		Σ SUM		RECONCILIATION		CONS. REPORT	
(IN K €)	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenue to third parties*	203,578	177,351	37,663	34,622	241,242	211,973	915	1,842	242,157	213,815
Depreciations and amortizations	-8,097	-7,484	-1,341	-1,008	-9,439	-8,492	-7	-430	-9,446	-8,922
Material effects on income and expenses	0	0	0	0	0	0	-6,043	0	-6,043	0
EBIT	**35,606**	**26,219**	**-5,708**	**-4,871**	**29,898**	**21,348**	**-6,254**	**-6,503**	**23,643**	**14,845**
Adjusted EBITDA	**43,703**	**33,703**	**-4,367**	**-3,863**	**39,3363**	**29,840**	**-6,247**	**-6,073**	**33,089**	**23,767**

*There are no significant sales relationships between the segments

The following facts are included in the reconciliation:

	2017			2016		
(IN K €)	NOT ATTRIBUTABLE TO THE CORE BUSINESS	SPECIAL EFFECTS	TOTAL	NOT ATTRIBUTABLE TO THE CORE BUSINESS	SPECIAL EFFECTS	TOTAL
Revenue	***915***	***0***	***915***	***1,842***	***0***	***1,842***
Effects on income and expenses	*-1,126*	*-6,043*	*-7,169*	*-6,013*	*-2,332*	***-8,345***
EBIT	***-211***	***-6,043***	***-6,254***	***-4,171***	***-2,332***	***-6,503***

The positions "Not attributable to the core business" show positions that cannot be attributed to the core business. The sales revenue refers essentially to the sales revenue from IT services in the amount of € 862K (2016: € 828K) and waste disposal in the amount of € 53K (2016: € 441K). The effects on income and expenses essentially consist of consolidation effects that cannot be attributed to any segment directly.

The column "Special effects" describes facts that are considered in the adjustment of the EBITDA. In the fiscal year 2017 this refers above all to the costs from the successful initial public offering in the amount of € 6,115K (cf. Notes 33 "Other operating costs") which must be attributed to VARTA AG as the parent company, as well as the income in the amount of € 3,629K in connection with the income-impacting reimbursement claim from the assumption of a joint debt obligation concerning the pension obligations of the Microbatteries segment (cf. Notes 31 "Other operating incomn"). The effect from the share-based payment charged against the capital reserve in the amount of € 3,557K must also be attributed to VARTA AG as the parent company. In the previous year the column "Special effects" included the costs of the capital market preparation in the amount of € 2,332K. In deviation from the previous year, the column "Not attributable to the core business" shows essentially the costs incurred in connection with the restructuring of the VARTA AG Group and included in the previous year in the reconciliation column "Holding".

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

(IN K €)	2017	2016
EBIT	23,643	14,845
Financial result	-922	-1,246
Result from joint ventures	-1,696	-1,526
Result before taxes	**21,025**	**12,073**

Geographical segment information

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

	2017		2016	
(IN K €)	REVENUE *	NON-CURRENT ASSETS **	REVENUE *	NON-CURRENT ASSETS **
Europe	118,686	83,266	103,002	70,571
USA	55,811	60	52,462	86
Asia	63,394	1,677	54,266	2,168
Other	4,266	0	4,085	0
Total corporate group	**242,157**	**85,003**	**213,815**	**72,825**

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

The sales revenue of the "Power & Energy" segment is essentially comprised in the position Europe. The remaining sales of the region Europe include therefore the sales of the "Microbatteries" segment. The sales of the regions Asia and USA can also be attributed essentially to the "Microbatteries" segment.

Products and services

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

	2017		2016	
(IN K €)	REVENUES	TRADE RECEIVABLES	REVENUES	TRADE RECEIVABLES
of which from the sale of products	238,706	19,677	206,897	14,598
of which from the provision of services	3,451	426	6,918	1,078
Total corporate group	**242,157**	**20,103**	**213,815**	**15,676**

Important clients

In 2017 the sales revenue in the "Microbatteries" and "Power&Energy" segments with a certain client amounted to € 28,027K, equal to a share of sales of more than 10%. In the previous year there were no transactions with a single external client whose sales amounted to 10% or more of the corporate turnover.

7 TANGIBLE ASSETS

(IN K €)	LANDED PROPERTY	BUILDINGS	TECHNICAL EQUIPMENT AND MACHINERY	OTHER EQUIPMENT	CONSTRUCTION IN PROGRESS AND PREPAYMENTS	TANGIBLE ASSETS
Acquisition costs						
Status January 1, 2016	**0**	**252**	**47,969**	**17,586**	**15,916**	**81,723**
Currency differences	0	-9	67	47	0	**105**
Additions	0	0	3,796	2,100	6,595	**12,491**
Disposals	0	-9	-208	-156	0	**-373**
Transfer postings	0	0	7,864	1,806	-9,819	**-149**
Status December 31, 2016	**0**	**234**	**59,488**	**21,383**	**12,692**	**93,797**
Currency differences	0	-16	-386	-243	-1	**-646**
Change in the scope of consolidation	0	0	0	34	0	**34**
Additions	0	42	2,151	1,555	15,429	**19,177**
Disposals	0	0	-2,500	-214	0	**-2,714**
Transfer postings	0	0	8,955	2,319	-11,274	**0**
Status December 31, 2017	**0**	**260**	**67,708**	**24,834**	**16,846**	**109,648**

Accumulated depreciations and costs of impairments in value

(IN K €)	LAND	BUILDINGS	TECHNICAL EQUIPMENT AND MACHINERY	OTHER EQUIPMENT	CONSTRUCTION IN PROGRESS AND PREPAYMENTS	TANGIBLE ASSETS
Status January 1, 2016	**0**	**83**	**24,364**	**10,408**	**0**	**34,855**
Currency differences	0	-3	63	39	0	**99**
Additions	0	18	4,900	2,194	0	**7,112**
Disposals	0	-9	-91	-150	0	**-250**
Status December 31, 2016	**0**	**89**	**29,236**	**12,491**	**0**	**41,816**
Currency differences	0	-6	-233	-204	0	**-443**
Additions	0	20	5,069	2,353	0	**7,442**
Disposals	0	0	-2,467	-147	0	**-2,614**
Transfer postings	0	0	-23	23	0	**0**
Status December 31, 2017	**0**	**103**	**31,582**	**14,516**	**0**	**46,201**
Book values						
Book values on January 1, 2016	0	169	23,605	7,178	15,916	**46,868**
Book values on December 31, 2016	0	145	30,252	8,892	12,692	**51,981**
Book values on December 31, 2017	0	157	36,126	10,318	16,846	**63,447**

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

There were no restrictions on ownership of the power of disposition with regard to the tangible assets in the fiscal years 2017 and 2016. The order obligations from the purchase of tangible assets amounted to € 25,019K (2016: € 1,521K).

8 INTANGIBLE ASSETS

(IN K €)	GOODWILL	TRADEMARK RIGHT AND SIMILAR INTANGIBLE ASSETS	GEWERBLICHE SCHUTZRECHTE	INTELLECTUAL PROPERTY RIGHTS	LICENSES	TOTAL
Acquisition values						
Status January 1, 2016	**0**	**11,223**	**958**	**11,156**	**0**	**23,337**
Currency differences	0	-2	0	0	0	**-2**
Additions	0	216	0	2,192	0	**2,408**
Disposals	0	-1	0	0	0	**-1**
Transfer postings	0	149	0	0	0	**149**
Status December 31, 2016	**0**	**11,585**	**958**	**13,348**	**0**	**25,891**
Currency differences	0	-4	0	0	0	**-4**
Change in the scope of consolidation	500	29	0	0	0	**529**
Additions	0	124	0	2,064	0	**2,188**
Status December 31, 2017	**500**	**11,734**	**958**	**15,412**	**0**	**28,604**
Accumulated depreciations						
Status January 1, 2016	**0**	**1,590**	**35**	**1,613**	**0**	**3,238**
Additions	0	737	132	941	0	**1,810**
Disposals	0	-1	0	0	0	**-1**
Status December 31, 2016	**0**	**2,326**	**167**	**2,554**	**0**	**5,047**
Currency differences	0	-3	0	0	0	**-3**
Additions	0	218	132	1,654	0	**2,004**
Disposals	0	0	0	0	0	**0**
Transfer postings	0	-354	0	354	0	**0**
Status December 31, 2017	**0**	**2,187**	**299**	**4,562**	**0**	**7,048**
Book values						
Book values on January 1, 2016	0	9,633	923	9,543	**0**	**20,099**
Book values on December 31, 2016	0	9,259	791	10,794	**0**	**20,844**
Book values on December 31, 2017	500	9,547	659	10,850	**0**	**21,164**

The income from own expenses capitalized (cf. Notes 32 "Other operating income") contained in the consolidated income statement in the amount of € 3,517K (2016: € 3,400K) covers intangible assets in the amount of € 2,064K (2016: € 2,192K) produced in-house in 2017 which are not yet ready for use.

Research and development costs in the amount of € 12,298K (2016: € 10,807K) were recognized with effect on the income statement.

There were no restrictions on ownership or the power of disposition with regard to intangible assets in the fiscal years 2017 and 2016.

In June 2017 the Company acquired 25.1% of the shares in Auditas GmbH, Nördlingen, including its US subsidiary.
The acquisition took place in June 2017 on the basis of a purchase option granted to VARTA Microbattery GmbH in October 2012 in connection with the grant of a loan. At the time of the granted purchase option in the year 2012 VARTA Microbattery GmbH had also extensive partner rights, which is the reason why one must assume a control pursuant to IFRS 10 already at that time. The first-time consolidation took place therefore on said date.
The acquisition costs in the amount of € 11K are made up of the purchase price of EUR 1 plus € 11K for the waiver of the prorated loan interests.
The allocation of the purchase price resulted in a goodwill in the amount of € 500K.

Impairment test
Annually per December 31 an impairment test will be carried out for goodwill, intangible assets that have an indefinite useful life is determined and development costs that are not yet ready for use.

The book value of the goodwill "Auditas" in the amount of € 500K was compared with the amount obtainable pursuant to IAS 36.
The book value of the trademark in the amount of € 9,094K was allocated to the individual CGUs as follows:
"Microbatteries" € 6,894K and "Power & Energy" € 2,200K.

The capitalized own services which were not finished by the closing date and thus have not yet been used affects the CGUs "Microbatteries" in the amount of € 235K and "Power & Energy" in the amount of € 1,437K.

The important assumptions made when estimating the utility values were as follows:

(IN PERCENT)	CGU MICROBATTERIES	CGU POWER & ENERGY
Discount rate (WACC)	9.49	9.49
Growth rate	2.00	2.00
Tax rate	29.79	29.79

The data of the current long-term plan for the years from 2018 to 2020 were used for the calculation, whereby the year 2018 corresponds to a detailed budget plan while the years 2019 and 2020 are projected out. The most important plan variable in this process is the EBIT adjusted for taxes. The data are based on empirical values and market observations.

The most important assumptions for the CGU "Microbatteries" are that the market-leading position in zinc-air hearing aid batteries will be further expanded in a structurally growing market and that the high demand for wireless lifestyle products such as headsets will lead to a significant increase in sales in the lithium-ion batteries.

The CGU "Power & Energy" was based on the fact that the sales volumes of stationary energy storage systems are increasing significantly due to their entry into attractive foreign markets and the new products introduced, such as "VARTA pulse". Furthermore, revenues from the projects won with major customers for battery packs are realized. The high volumes also lead to further automation of the assembly of battery packs.

The last available period (for both segments in each case 2020) from the long-term plan was used as basis for the perpetual annuity. This discount rate is adjusted by a risk premium that reflects the increased total risk of the investment and the specific risk of CGUs.

A uniform growth rate was specified for the calculation of the free payment streams in the perpetual annuity, which equates depreciation and capital expenditures (CAPEX) and sets the net working capital change to 0.

No impairment losses could be discerned under the aforesaid assumptions.

9 LONG-TERM INVESTMENTS AND OTHER PARTICIPATIONS ACCOUNTED FOR UNDER THE EQUITY METHOD

The book values of the joint ventures and enterprises in which the Company has a participation:

(IN K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
VW-VM Forschungsgesellschaft mbH & Co. KG, Ellwangen, Germany	1,662	3,355
VW-VM Verwaltungsgesellschaft mbH, Ellwangen, Germany	12	16
Total book value of the long-term investments accounted for under the equity method	**1,674**	**3,371**
VARTA Micro Innovation GmbH, Graz, Austria	13	13
CONNEXIO alternative investment & holding AG, Wien, Österreich	30	0
Total book value of other participations	**43**	**13**
Total book value of the long-term investments accounted for under the equity method and other participations	**1,717**	**3,384**

The joint venture with a strategic component, VW-VM Forschungsgesellschaft mbH & Co. KG, is used by the corporate group for research purposes aimed primarily at the development of heavy-duty battery cells for electrical or plug-in hybrid vehicles. According to the joint venture agreement and the shareholder resolution, the business activities of the enterprise were discontinued per December 31, 2017. All research work was stopped by that date. The remaining administrative activities will be discontinued in 2018.

The balance sheet and income statement of VW-VM Forschungsgesellschaft mbH & Co. KG as the most important long-term investment accounted for under the equity method is shown below:

Balance sheet

(IN K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Assets		
Intangible assets	123	518
Tangible assets	979	2,852
Fixed assets	**1,102**	**3,370**
Inventories	0	239
Accounts receivable and other assets	1,445	890
Liquid resources	1,412	2,868
Current assets	**2,857**	**3,996**
Total assets	**3,959**	**7,367**
Equity and liabilities		
Capital accounts I and II	400	400
Capital contributions / contribution obligations	29,143	29,143
Special loss account	-26,096	-22,336
Equity	**3,447**	**7,207**
Provisions	**61**	**38**
Trade payables	354	122
Other liabilities	97	0
Liabilities	451	122
Total liabilities	**3,959**	**7,367**

Income statement

	2017	2016
Sales revenue / aggregate operating performance	1,500	1,036
Other operating income	2,229	2,477
Cost of materials	-472	-435
Depreciations	-1,591	-1,544
Other operating costs	-5,426	-4,952
Net loss for the year	**-3,760**	**-3,418**
Charges to the capital accounts of the limited partners	3,760	3,418
Profit/loss after appropriation statement	**0**	**0**

The following shows a comparison of the valuation of the equity participation in VW-VM Forschungsgesellschaft mbH & Co. KG.:

(IN K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Equity of VW-VM Forschungsgesellschaft mbH & Co.KG	3,447	7,207
Of which attributable to the corporate group (50%)	1,723	3,603
Elimination	-61	-248
Book value of the participation	1,662	3,355

Reconciliation with the book value of the participation:

(IN K €)	
January 1, 2017	3,355
Profit/loss for the year	-1,880
Change in the elimination of the interim profit	187
December 31, 2017	1,662

Because of the expected negative result for the year based on the business plan, an interim adjustment of the value of the participation in the amount of € 1,330K was made on June 30, 2017. The total result was projected at approximately € 2,100K. As the results changed, the need for an interim value adjustment per the closing date was not confirmed and part of the value adjustment was therefore reversed in the amount of € 318K.

The 20% equity interest in Connexio alternative investment & holding AG with registered office in Vienna (Austria) acquired on June 29, 2017 and the equity interest in VARTA Micro Innovation GmbH (17.74%) are shown under other participations.

10 LEASES

In the current fiscal year there were no assets that must be capitalized on the basis of a financing lease agreement.

The costs for operating lease agreements in the reporting year in the amount of € 4,813K (2016: € 4,298K) were recognized in the income statement (cf. Notes 33 “Other operating costs”).

The total amount of the future minimum lease payments based on non-terminable lease agreements is:

(IN K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Lease obligation up to 1 year	4,409	4,416
Lease obligation from 1 to 5 years	11,133	10,806
Lease obligation over 5 years	7,769	9,781
Total minimum lease payments	**23,311**	**25,003**

In the year 2015 the real estate of VARTA Microbattery GmbH was sold to WertInvest Ellwangen Immobilien GmbH, which from the viewpoint of the consolidated group is a related enterprise, in the context of a real estate sale (cf. Notes 40 “Related persons and companies”). Eventually VARTA Microbattery GmbH leased the property back from WertInvest Ellwangen Immobilien GmbH (sale & lease back). The future lease obligations concern mainly the costs from this lease agreement. An unlimited contract term was stipulated in the lease agreement, and there is also an option for the repurchase of the property at market prices.

11 OTHER FINANCIAL ASSETS

(IN K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Loans	**444**	**4.425**
of which short-term	0	2,815
of which long-ter	444	1.610

In the previous year short-term claims against related companies in the amount of € 2,815K were shown under loans. These were paid back in fiscal 2017. In addition, last year loans were made to a third party in the amount of € 1,085K. These loans were eliminated by the acquisition of said company in the context of the consolidation.

12 INVENTORIES

The inventories can be broken down as follows:

(IN K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Raw materials and supplies	22,393	16,064
Unfinished products	11,137	9,767
Finished products and merchandise	18,815	16,767
Prepayments	1,425	13
Inventories	**53,770**	**42,611**
Impairment income (+) / loss (-) recognized in the income statement	1,217	-363

The impairment income in 2017 concerns a reduction of € 1,217K in the impairment in value recorded in the P&L statement compared with the previous year. Last year the impairment in value recognized in the P&L statement increased by € 363K.
No inventories were used as collateral for liabilities either per December 31, 2017 or per December 31, 2016.

13 TRADE RECEIVABLES

(IN K €)	DEZEMBER 31, 2017	DEZEMBER 31, 2016
Claims against third parties (gross)	20,228	16,214
Claims against related persons and companies	101	99
Claims against joint ventures and enterprises in which the Company has an equity interest	269	34
Gross trade receivables	**20,598**	**16,347**
Less value adjustments	-495	-671
Net trade receivables	**20,103**	**15,676**

The existing net claims are reduced by the master agreement regarding the sale of receivables dated December 31, 2017 by € 8,541K (December 31, 2016: € 7,836K) (cf. 38.2 "Financial risk management").

14 TAX REFUND CLAIMS

The income tax claims were increased by € 262K from € 482K to € 744K.

15 OTHER ASSETS

(IN K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Other assets	**28,849**	**9,357**
of which current	13,069	9,357
of which non-current	15,780	0

The reimbursement claim from the joint debt obligation undertaken in June 2017 (cf. Notes 21.2 “Pensions”) in the amount of € 15,780K is shown under non-current other assets.

The current other assets have the following composition:

(IN K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Claims from development projects	5,304	4,884
Other tax claims	4,992	2,248
Other accounts receivable and assets	1,865	1,860
Remaining other assets	908	365
Other assets	**13,069**	**9,357**

The claims from development projects exist against the European Commission and concern primarily state subsidies for a project in which the corporate group acts as coordinator and receives and administers the subsidies in trust for the subsidy provider. The advance payments existing per December 31, 2017 and passed to the cooperating partners amounted to € 3,058K (2016: € 3,192K). There is a corresponding other obligation to the subsidy provider based on the repayment obligation (cf. Notes 24 “Other liabilities”). The increase in the claims from development projects of € 420K is the result of additional new development projects.

The remaining other assets increased by € 572K. This amount includes claims under derivative financial instruments in the amount of € 143K, prepaid expenses in the amount of € 684K (2016: € 365K) and other loans in the amount of € 81K.

The current other assets increased by a total of € 3,712K.

16 CASH AND CASH EQUIVALENTS

Cash and cash equivalents can be subdivided as follows:

(IN K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Cash	12	10
Credit balances with financial institutions	138,524	12, 337
Total	**138,536**	**12,347**

The position “Credit balances with financial institutions” includes time deposits with a maturity of up to 3 months in the amount of € 74K (2016: € 71K).

17 DEFERRED TAXES

Deferred taxes can be imputed to the following positions:

(IN K €)	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	DEC. 31, 2017 NET	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	DEC. 31, 2016 NET	DEFERRED TAX ASSETS	DEFERRED TAX LIABILITIES	JAN. 1, 2016 NET
Intangible assets	1,214	4,383	-3,169	1,243	4,830	-3,587	1,214	5,875	-4,661
Tangible assets	-12	555	-567	-27	563	-590	0	1,768	-1,768
Other non-current assets	0	4,582	-4,582	0	0	0	0	0	0
Inventories	1,598	187	1,411	1,092	89	1,003	731	59	672
Trade receivables	42	5	37	142	2	140	146	4	142
Other current assets	2,600	0	2,600	2,641	0	2,641	2,688	5	2,683
Other non-current liabilities	1,826	1,548	278	1,847	1,547	300	170	20	150
Non-current liabilities for employee pensions	4,779	0	4,779	3,081	0	3,081	2,519	0	2,519
Current liabilities to financial institutions	0	47	-47	0	56	-56	0	0	0
Short-term provisions	104	44	60	0	0	0	28	8	20
Other current liabilities	367	0	367	448	0	448	284	0	284
Tax losses brought forward from previous account	1,146	0	1,146	441	0	441	1,832	0	1,832
Offset amounts	-11,351	-11,351	0	-7,087	-7,087	0	-7,739	-7,739	0
Total	**2,313**	**0**	**2,313**	**3,821**	**0**	**3,821**	**1,873**	**0**	**1,873**

18 EQUITY

The asset, financial and earnings situation of VARTA AG in the second half of 2017 was characterized primarily by initial public offering successfully completed on 10/19/2017.

In this connection the Company incurred one-time costs.

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

The subscribed capital of VARTA AG before the initial public offering was 29,600,000 shares and after the initial public offering it was 38,200,000 shares. The proportion of new shares is thus 22.5%. The costs of the initial public offering are not shown in the income statement because they are associated only with the new shares.

According to the regulations of IAS 32.37, the costs incurred in direct connection with the initial public offering in the amount of € 1,419K are not recognized in the income statement but offset against the capital reserve with no effect on the results. The capital increase was registered with the Trade Register on October 18, 2017 and the shares were first listed on the Stock Exchange on October 19, 2017.

A total of € 3,557K was recorded in equity as share-based payment for the current fiscal year. These share-based payment components were issued by the parent company VGG GmbH (Vienna). Cash compensation payments or options for the acquisition of VARTA common stock were granted via VGG (Vienna) (cf. 1 “General information”).

On June 29, 2017 VARTA AG acquired shares in Auditas GmbH, including its US subsidiary. A full consolidation took place based on the contract design of the purchase agreement. Since only 25.1% of the shares were acquired, it is shown as a minority interest.
The minority interest concerns 74.9% in Auditas GmbH and Auditas Inc., Ridgefield (USA). The part of the result attributable to the minority interests is € 276K. The net assets of the two companies are € 1,308K, of which € 980K is to be shown as minority interests (74.9%).

19 RESULT PER SHARE

The calculation of the result per share* is based on the profit attributable to the shareholders and a weighted average of the shares in circulation at the time. There were no dilution effects in the reporting period, e.g. triggered by the issuance of new shares, which would have to be shown separately.

	2017	2016
Result attributable to the shareholders in K €	11,315	8,933
Weighted average of the common stock in circulation (thousand shares)	31,320	15,092
Undiluted result per share in EUR	0.36	0.59
Diluted result per share in EUR	0.36	0.59

*The result per share refers to the shares of VARTA AG

The number of shares increased as follows in 2016 and 2017:

	NUMBER OF SHARES
January 1, 2016	100,000
Dec. 31, 2016	29,600,000
Dec. 31, 2017	38,200,000

The shares are no-par shares.

20 OTHER FINANCIAL LIABILITIES

Other financial liabilities consist of the following:

(IN K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Other financial liabilities	**8,401**	**24,887**
of which short-term	2,201	3,129
of which long-term	6,200	21,758
Composition of other financial liabilities		
Loans	0	15,758
Other financial liabilities	8,401	9,129

On the closing date there existed a liability in the amount of € 6,200K (December 31, 2016: € 21,958K) toward companies of the Montana Tech Components Group.

In the fiscal year 2015 VGG GmbH, Vienna, waived part of its claim against VARTA Storage GmbH, Nördlingen, in the amount of € 6,000K under a loan granted against a debtor warrant. Furthermore, in fiscal 2016 VGG GmbH waived another part of its claim against VARTA Micro AG, Ellwangen, in the amount of K € 200 under a loan granted against a debtor warrant. This waiver devolved to VARTA Storage GmbH due to the merger of VARTA Micro AG with VARTA Storage GmbH. Both debtor warrants provide for a resurrection of the loan liability with interest if a minimum net income for the year is reached within ten years after the debt forgiveness. If the waived amount is not repaid in full by December 31, 2025 resp. June 30, 2026, any difference remaining is forfeited forever and irrevocably.

Based on the granted debt forgiveness the original loan liability in the amount of € 6,200K was written off and at the same time an obligation for the expected repayments under the debtor warrant was recognized as a liability. The fair value obligation under the debtor warrant amounted to € 6,200K on the closing date. This situation is netted out in the income statement and has thus no effect on the results. The calculation of the fair value takes place using a discounted cash flow model at risk-dependent interest rates. The expected future payment streams are based on an internal business plan. Since the applicable line of credit is based on in-house data, the debtor warrant is classified as level 3 of the fair-value hierarchy.

The loan liability is written off in the same position in which the repayment obligation from the debtor warrant is shown. Thus the asset situation of the group is not impaired.

In the spring of 2017 VARTA AG assumed the financing function for the VARTA AG Group. In this context existing financing debts of the operating subsidiaries were repaid. Subsequently, VARTA AG granted loans to various subsidiaries. In the course of the initial public offering the financing debts associated with the loans were repaid by the Montana Tech Components Group.

A master agreement regarding the sale of accounts receivable has existed since December 2015 under which the accounts receivable in the amount of € 1,459K (December 31, 2016: € 2,164K) already paid as of December 31, 2017 are shown as other financial liabilities toward the bank (factor) (cf. Notes 38.2 "Financial risk management").

In addition there are other financial liabilities in the amount of € 564K (December 31, 2016: € 548K) toward foundations.

There exist no contracts within the corporate group which could be qualified as finance leases.

21 PROVISIONS FOR EMPLOYEE BENEFITS

21.1 COMPOSITION OF THE PROVISIONS FOR EMPLOYEE BENEFITS

(IN K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Total	**23,862**	**23,664**
of which short-term	1,087	983
of which long-term	22,775	22,681
Composition of the provisions for employee benefits		
Pensions	16,872	16,926
Severance payments	4,936	4,617
Anniversary bonus	553	542
Pre-retirement part-time employment	1,501	1,578

21.2 PENSIONS

Within the scope of consolidation there exist both performance-related and contribution-related pension plans for some of the employees. In case of the contribution-related promises the enterprises pay premiums to a state or private old-age pension insurance based on legal or contractual provisions and/or on a voluntary basis. With the payment of the premiums the enterprises have no further benefit obligations. The ongoing payments of the premiums are shown as costs for the respective year. Old-age pensions are based primarily on benefits promises (Defined Benefit Plans), whereby a differentiation is made between provision-based and externally financed pension systems.

According to IAS 19, the pension accruals for performance-related promises are determined by independent actuaries following the internationally used projected unit credit method. In this process the future obligations are valued on the basis of the pro-rated benefit claims vested on the closing date. When determining the value, various actuarial assumptions are made regarding discount rates, salary and pension trends, fluctuation rates and life expectancies, which are determined for each group company based on basic economic conditions. Actuarial profits or losses are the result of differences between the actual developments and the assumptions made the year before. These are recorded in the equity account at the time they arise with no effect on the results.

These pension plans provide benefits in case of old age, death and disability. Performance-related pension promises exist in Germany and Singapore, with the most important plan being in existence in Germany. Plan assets exist for only a small part of the obligations.

In the fiscal year 2017 VARTA Microbattery GmbH signed an agreement with Colibri Beratungsgesellschaft mbH, Fürstenfeldbruck (Germany) on 6/30/2017 in which Colibri Beratungsgesellschaft mbH undertook to assume the pension obligations of VARTA Microbattery GmbH against payment of € 11,500K in the context of the assumption of a joint debt obligation with performance subrogation. The following was agreed upon:

- Colibri Beratungsgesellschaft mbH will be responsible for all pension claims of VARTA Microbattery GmbH which were already vested as of December 31, 2016 and become due after January 1, 2017; and
- will fulfill these payment obligations vis-à-vis VARTA Microbattery GmbH.

With regard to the financial assets (€ 11,500K) that were transferred to Colibri Beratungsgesellschaft mbH in connection with the debt, hedging measures were implemented.

VARTA Microbattery GmbH had no plan assets for the assumed pension obligations on the contract signing date. Pursuant to IAS 19, the amount of the pension obligations (DBO) on the contract signing date was € 15,129K. A reimbursement claim against Colibri Beratungsgesellschaft mbH in the amount of the difference of € 3,629K between the payment obligation and the value of the pension obligations was recognized with effect on the result.

The payment of € 11,500K was effected in several tranches in the 3rd quarter, leaving as of December 31, 2017 only a reimbursement claim against Colibri Beratungsgesellschaft mbH in the amount of € 15,129K plus € 651K due to the assumed valuation changes. The following collateral with an indefinite maturity exists for the reimbursement claim:

- a private irrevocable guarantee by the partner of Colibri Beratungsgesellschaft mbH for the fulfillment of the payment obligation of Colibri Beratungsgesellschaft mbH, limited to a maximum amount of 4,900K;
- a subordinated surety of VGG GmbH, Vienna (Austria) in connection with the above-mentioned guarantee for the partner of Colibri Beratungsgesellschaft mbH, limited to a maximum amount of € 8,000K, which is reduced by the payments of Colibri Beratungsgesellschaft mbH;
- an additional bank guarantee in the amount of € 4,000K for the private guarantee of the partner.

The performance-related plans of the corporate group show a net obligation consisting of the following:

(IN K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Cash value of the defined-benefits obligation (DBO) on the closing date	19,011	18,989
Fair value of the plan assets	-2,139	-2,063
Net obligation (+) / Net assets (-) in the balance sheet	**16,872**	**16,926**

The plan assets of the important pension obligations consist of the following:

(IN K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
VARTA Microbattery GmbH and VARTA Storage GmbH		
Reinsurance	2,139	2,063
Total	**2,139**	**2,063**

For other companies domiciled in Germany, the plan assets consist exclusively of reinsurance coverage, the companies domiciled abroad have no plan assets. The general risk is minimized due to the different characteristic in the composition of the plan assets.

The payments falling due within the next fiscal year based on pension promises amount to € 537K (2016: € 983K). The weighted average duration of the important pension plans is a period of approximately 20 years.

The performance-related domestic pension insures the employees of VARTA Microbattery GmbH and VARTA Storage GmbH essentially against the risks of old age, death and disability.

The old-age benefits are paid out in the form of a lifelong pension which is calculated by multiplying the pension capital existing at the pensionable age (created by wage-dependent employee and employer contributions) using the regulatory conversion rate. The death benefits amount to 60% of the (expected) old-age pension, the disability benefits amount to 40% of the insured wages.

In what follows we list the persons of VARTA Microbattery GmbH and VARTA Storage GmbH covered by the pension plan on the closing date:

	DECEMBER 31, 2017	DECEMBER 31, 2016
Active employees	822	758
Eligible persons (former employees)	117	115
Current pensioners	216	197
Total	**1,155**	**1,070**

The pension obligations and the changes in the plan assets for the performance-related pension plans show the following picture:

(IN K €)	NET OBLIGATION		FAIR VALUE OF THE PLAN ASSETS		CASH VALUE OF THE PENSION OBLIGATIONS	
	2017	2016	2017	2016	2017	2016
Fair value and/or cash value per January 1st	**16,926**	**16,995**	**-2,063**	**-28,783**	**18,989**	**45,778**
Included in the income statement						
Current service time costs of the employer	**467**	**387**	0	0	**467**	**387**
Service time costs to be added later	**0**	**0**	0	0	**0**	**0**
Interest income/interest expenses	**293**	**348**	**-36**	**-45**	**329**	**393**
Plan payouts	**0**	**0**	0	0	0	**0**
	760	**735**	**-36**	**-45**	**796**	**780**
Included under other results						
(i) Revaluations:						
Actuarial profits/losses	**-476**	**1,610**	**0**	**0**	**-476**	**1,610**
- of which adjustments of the pension obligations based on experience	-476	1,610	**0**	**0**	-476	1,610
- of which changes in the demographic assumptions for the pension obligations	*0*	*0*	*0*	*0*	*0*	*0*
- of which changes in the financial assumptions about the pension obligations	*0*	*0*	*0*	*0*	*0*	*0*
Income/expenses from the assets without interest income/expenses	**-8**	**7**	**-8**	**7**	**0**	**0**
(ii) Currency differences:	**0**	**4**	**0**	**0**	**0**	**4**
	-484	**1,621**	**-8**	**7**	**-476**	**1,614**
Other						
Change in the scope of consolidation	**0**	**0**	**0**	**0**	**0**	**0**
Spin-off of the pensions to VRT Pensionen GmbH	**0**	**-1,789**	0	26,946		**-28,735**
Benefits directly paid by the employer	**-330**	**-636**	**0**	**0**	**-330**	**-636**
Employer contributions	**0**	**0**	**0**	**0**	**0**	**0**
Employee contributions	**0**	**0**	**-57**	**-188**	**57**	**188**
Paid out benefits	**0**	**0**	**25**	**0**	**-25**	**0**
	-330	**-2,425**	**-32**	**26,758**	**-298**	**-29,183**
Fair value and/or cash value by 31 December	**16,872**	**16,926**	**-2,139**	**-2,063**	**19,011**	**18,989**
Of which plan benefits covered by provisions	16,448	16,470	0	0	16,448	16,470
Of which fund-financed plan benefits	2,563	2,519	0	0	2,563	2,519

Actuarial assumptions

The actuarial assumptions of the important pension plans in fiscal 2017 for VARTA Microbattery GmbH (VMB), Germany, and in fiscal 2016 for VMB and VARTA AG (VAG), Germany, can be described as follows:

	DECEMBER 31, 2017	DECEMBER 31, 2016
Discount rate (in %)	1.89	1.75
Expected salary increases(in %)	2.50	2.50
Expected pension increases (in %)	1.50	1.50
Pension age for males (in years)	65	65
Pension age for females (in years)	65	65

The fluctuation rate of the wage earners and salaried employees of VARTA Microbattery GmbH shows the following picture for the fiscal year 2017:

FLUCTUATION BY AGE:	DECEMBER 31, 2017	DECEMBER 31, 2016
Up to age 39	4.5%	4.5%
Up to age 49	0.5%	0.5%
Starting from age 50	0%	0%

The actuarial assumptions are recalibrated at the end of each fiscal year. The actuarial assumptions specified in the process are used for determining the liabilities at the end of the year and the employee benefits for the following year.

Sensitivity analyses

A change in the actuarial assumptions used determining the DBO per December 31, 2017 would increase or decrease the respective DBO of the respective company as follows, assuming that all other parameters remain unchanged:

Change in the DBO of VMB by an increase/decrease of the parameters:

(IN K €)	INCREASE	DECREASE
Discount rate (+/-0.25%)	-841	904
Pension trend (+/-0.25%)	567	-540
Life expectancy (+/-1)	626	-629

21.3 PROVISIONS FOR SEVERANCE PAYMENTS

Provisions for severance payments are created for the legal and contractual claims of the employees in Indonesia. Severance payments are essentially benefits on the occasion of the termination of the employment contract (termination benefits). The provisions are calculated in the same way as the pensions, namely using the projected unit credit method.

The provisions for severance in the consolidated balance sheet consist of the following:

(IN K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Cash value of the provisions for severance payments on the closing date (DBO)	4,936	4,617
Obligation in the balance sheet (severance provisions)	**4,936**	**4,617**

The changes in the provisions for severance payments can be described as follows:

(IN K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Cash value of the severance provisions per January 1st	**4,617**	**3,446**
Currency differences	-605	153
Current service time costs of the employer	795	836
Actuarial profits (-)/losses (+)	141	197
Disbursed benefits	-12	-15
Cash value of the severance provisions per December 31st	**4,936**	**4,617**

The severance expenses consist of the following items:

(IN K €)	2017	2016
Current service time costs of the employer	795	836
Costs recognized in the P&L	**795**	**836**
Actuarial profits (-)/losses (+)	141	197
Revaluations recognized in the statement of comprehensive income	**141**	**197**
Severance expenses for the period	**936**	**1,033**

The actuarial assumptions used for the calculation in Indonesia are the following:

	DECEMBER 31, 2017	DECEMBER 31, 2016
Discount rate (in %)	7.8 %	8.1 %
Expected salary increases (in %)	11.5 %	11.5 %
Fluctuation in wage earners/salaried employees (in %)	0.0 %	0.0 %
Pensionable age males (in years)	55	55
Pensionable age females (in years)	55	55

22 TAX LIABILITIES

The liabilities from income taxes in the amount of € 4,724K have the following age structure:

(IN K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Income tax liabilities		
... concerning 2017	2,449	0
... concerning 2016	874	1,581
... concerning 2015	0	587
... concerning 2014	6	240
... older than 2014	1,395	1,756
	4,724	**4,164**

23 TRADE PAYABLES AND PREPAYMENTS RECEIVED

The trade payables have the following composition:

(K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Trade payables vis-à-vis third parties	29,068	18,878
Liabilities from the acquisition of tangible and intangible assets	3,222	2,416
Liabilities toward related persons and companies	127	118
Prepayments	62	670
Trade payables	**32,479**	**22,082**
of which due immediately	9,664	3,656
of which with a remaining term of up to 3 months	22,815	18,426

The trade payables increased by a total of € 10,397K. This is due exclusively to the increased volume of business.

24 OTHER LIABILITIES

(K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Non-current other liabilities	448	132
Current other liabilities	10,285	7,435
Other liabilities	**10,733**	**7,567**

Current other liabilities increased from € 7,435K to € 10,285K.

The current liabilities are essentially customs duty liabilities in the amount of € 905K (December 31, 2016: € 1,168K) and other tax liabilities in the amount of € 4,869K (December 31, 2016: € 792K).

The non-current other liabilities, including deferred income in the amount of € 104K (December 31, 2016: € 132K), which are the result of an existing rental agreement.

25 OTHER PROVISIONS

Other provisions of the fiscal years 2017 and 2016 consist of the following:

(K €)	BURDENSOME CONTRACTS AND CONTINGENT LOSSES	WARRANTIES, GUARANTEES, ETC.	DISPOSAL, RESTORATION & SIMILAR OBLIGATIONS	OTHER PROVISIONS	TOTAL 2017
Maturity					
Short-term	0	2,777	11	1,468	4,256
Long-term	0	0	0	0	0
Total provisions	**0**	**2,777**	**11**	**1,468**	**4,256**
Changes in other provisions in 2017					
Status January 1, 2017	**3**	**2,060**	**13**	**931**	**3,007**
Allocation	0	2,068	0	1,009	3,077
Use	-3	-749	0	-225	-977
Reversal	0	-557	0	-133	-690
Currency differences	0	-45	-2	-114	-161
Status December 31, 2017	**0**	**2,777**	**11**	**1,468**	**4,256**

(K €)	BURDENSOME CONTRACTS AND CONTINGENT LOSSES	WARRANTIES, GUARANTEES, ETC.	DISPOSAL, RESTORATION & SIMILAR OBLIGATIONS	OTHER PROVISIONS	TOTAL 2016
Maturity					
Short-term	3	2,060	13	917	2,993
Long-term	0	0	0	14	14
Total provisions	**3**	**2,060**	**13**	**931**	**3,007**
Changes in other provisions in 2016					
Status January 1, 2016	**33**	**1,719**	**28**	**913**	**2,693**
Allocation	0	1,149	0	294	1,443
Use	0	-817	-15	-291	-1,123
Reversal	-30	0	0	-11	-41
Currency differences	0	9	0	26	35
Status December 31, 2016	**3**	**2,060**	**13**	**931**	**3,007**

Burdensome contracts and contingent losses
The position "Burdensome contracts and contingent losses" in the fiscal years 2016 and 2017 includes exclusively provisions for contingent losses from pending transactions at VARTA Microbattery GmbH. With the end of this situation it was possible to reverse a total of € 3K (2016: € 30K) in fiscal 2017.

Warranties, guarantees, etc.
Product warranties are granted when products are sold. For this purpose provisions are formed annually. The provisions for warranties are calculated as a percentage of sales, with the percentage being calculated on the basis of the merchandise actually returned in the past and on the basis of the loss events. The provisions usually cover a reasonable warranty and courtesy service period. The allocation takes place at the time of sale, with the percentage derived from the past.

Disposal, restoration and similar obligations
At the end of the fiscal year 2017 there existed disposal and restoration obligations in the amount of € 11K created at VARTA Microbattery Inc. (New York, USA).

Other provisions
Other provisions consist essentially of a contingent residual liability in the amount of € 497 K incurred with the spin-off of the pensions. There are also rehabilitation obligations in the amount of € 412K (December 31, 2016: € 468K), provisions for outstanding invoices for travel and entertainment expenses of € 93K (December 31, 2016: € 93K), provisions for commissions in the amount of € 45K (December 31, 2016: € 53K) and annual report costs in the amount of € 60K (December 31, 2016: € 70K).

26 DEFERRED LIABILITIES

Deferred liabilities cover the following important positions:

(K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Bonuses for employees	3,234	3,097
Vacation claims, overtime and compensatory time-off	4,135	3,058
Other deferred liabilities for the personnel	958	1,254
Audit, tax consultancy and legal advice	888	690
Pending invoices	828	539
Client bonuses, rebates and discounts	5,428	4,365
Other deferred liabilities	1,102	1,263
Deferred liabilities	**16,573**	**14,266**

27 REVENUE

The following sales revenue was earned with the sale of products and the provision of services:

(K €)	2017	2016
Sales revenue	**242,157**	**213,815**
Of which from the sale of products	238,706	206,897
Of which from the provision of services	3,451	6,918

The revenue from the sale of products contains mainly the revenue of “Microbatteries” and “Power & Energy” (cf. Notes 6 “Segment reports”). Sales from the “Microbatteries” segment include the sales revenue from the product groups “Healthcare” in the amount of € 134,371K (2016: € 113,733K) and “Entertainment and Industrial” in the amount of € 69,332K (2016: € 63,618K).

The revenue from the provision of services contains mainly revenue generated by the provision of IT services in the amount of € 862K (2016: € 828K) and product design in the amount of € 306K (2016: € 513K). Last year’s revenue included revenue in the amount of € 1,682K from the provision of services to research institutes.

28 DECREASE/INCREASE IN FINISHED AND UNFINISHED GOODS

(K €)	2017	2016
Change in unfinished goods	1,554	1,124
Change in finished goods	1,591	-12,400
Increase/decrease in finished and unfinished goods	**3,145**	**-11,276**

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

29 COST OF MATERIALS

(K €)	2017	2016
Cost of raw materials and supplies and purchased merchandise	87,878	68,499
Other costs of materials	4,480	4,239
Materials processing and refining by third parties	6,475	4,358
Other	1,095	1,442
Cost of materials	**99,928**	**78,538**

The position “Other” includes consumable materials that are purchased directly for manufacturing/customer orders and used up without storage. “Other” includes also the cost of packing, temporary workers, refuse disposal and packaging material.

30 PERSONNEL COSTS

The personnel costs contain the following positions:

(K €)	2017	2016
Wages and salaries	71,497	63,583
Severance expenses	662	172
Costs for mandatory social security contributions	6,758	6,142
Pension costs	4,847	4,461
Other personnel costs	2,283	2,348
Total	**86,047**	**76,706**

The pension costs consist of the following:

(K €)	2017	2016
Contribution-related plans	4,380	4,074
Performance-related plans	467	387
Total	**4,847**	**4,461**

The position "Wages and salaries" includes personnel costs from the share-based payment against the capital reserve in the amount of € 3,557K, which must be understood as a special effect.

The costs for contribution-related plans contain the contributions of the employer to the mandatory German old-age pension insurance. The entire costs for these contributions in fiscal 2017 amounted to € 4,107K (2016: € 3,905K). These are employer contributions to the mandatory old-age pension insurance. Contributions not yet charged or net yet paid by the closing date are recognized in the period in which they accrue and are shown under other liabilities and/or provisions.

The corporate group had 2,171 employees at the end of 2017 (2016: 2,036). On average 2,091 persons were employed in 2017 (2016: 1,993). Of this number 1,577 persons were wage earners, 496 persons were salaried employees and 18 persons were employed in leading positions.

31 DEPRECIATIONS

Depreciations show the following composition:

(K €)	2017	2016
Scheduled depreciations on tangible assets	7,442	7,112
Scheduled depreciations on intangible assets	2,004	1,810
Total depreciations	**9,446**	**8,922**

32 OTHER OPERATING INCOME

Other operating income contains the following positions:

(K €)	2017	2016
Subsidies and public grants	4,004	3,594
Income from rent and services billed to joint ventures	3,151	3,037
Reversal of provisions & deferred liabilities	1,071	354
Income from the sale of tangible assets	0	7
Other	6,246	978
Other operating income	**14,472**	**7,970**

The public grants concern VARTA Microbattery GmbH and VARTA Storage GmbH and did not come with any conditions. These grants were provided for projects of the Federal Ministry for Education and Research and the European Commission. The public grants in fiscal 2017 amounted to € 4,004K (2016: € 3,594K) and were applied mainly to research projects in the microbatteries and energy storage areas. The grants are recognized as other operating income when the claims are created. In the fiscal year 2017 new research projects resulted in a further increase in income from public grants.

The increase in the position "Other" is essentially the result of the capitalization of the reimbursement claim in the amount of € 3,629K in connection with the agreement on the assumption of a joint debt obligation (cf. Notes 1 "General information").

33 OTHER OPERATING COSTS

Other operating costs contain the following positions:

(K €)	2017	2016
Costs for the initial public offering	6,115	2,332
Rents, leasing and leases	4,813	4,325
Maintenance	4,006	3,568
Energy costs	3,329	3,128
Marketing, advertising and representation	3,149	2,935
Outgoing freight and customs duties	2,766	1,694
Legal, testing and consulting costs	2,530	2,525
Commissions	2,087	1,115
Warranties	2,082	816
Travel expenses	1,984	2,102
Telephone, postage and EDP	1,627	1,856
Engineering services and fees	1,458	1,226
Licenses and patent fees	1,202	999
Other distribution costs	528	512
Insurance	461	439
Cleaning costs	358	318
Training and continuing education costs	333	345
Contributions and fees	238	285
Costs with related companies	230	941
Bank charges / monetary transaction fees	216	220
Customer credit insurance	181	183
Remaining other operating costs	4,534	3,034
Other operating costs	**44,227**	**34,898**

In the context of the initial public offering costs in the amount of € 6,115K were recognized as "Costs for the initial public offering", which must be understood as a special effect. These costs are mainly legal and consulting costs, bank charges and outlays for investor relations.

Other operating costs rose in total by € 9,329K from € 34,898K to € 44,227K. As shown above this is essentially the result of the costs for the initial public offering. Furthermore, the warranty costs increased by € 1,266K because of the formation of individual provisions for warranties. In addition, outgoing freight costs and customs duties rose by € 1,072K, commissions by € 972K and remaining other operating costs by € 1,500K.

34 INTEREST INCOME/LOSS

(K €)	2017	2016
Financial income	63	132
Financial expenses	-783	-1,811
Interest income/loss	**-720**	**-1,679**

The interest income in the year 2017 was earned primarily by granting loans to related companies. Besides, interest expenses were reduced significantly in the current fiscal year. With the initial public offering it was possible to totally refinance the VARTA AG Group, substantially improving thereby the interest result.

35 NET FINANCIAL RESULT

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

(K €)	2017	2016
Exchange rate gains	687	534
Income from the disposal of securities	0	421
Sundry financial income	**687**	**955**
Exchange rate losses	-889	-522
Sundry financial expenses	**-889**	**-522**

36 INCOME TAX EXPENSES

The effective tax rate in the reporting year was 35.58% (2016: 22.06%). The corporate income tax rate is 15%, the solidarity tax on it is 5.5% and the consolidated trade tax rate stands at 13.21% (2016: 13.21%). Below we show the reconciliation of expected with actual tax expenses:

(K €)	2017	2016
Result before taxes (EBIT)	21,025	12,073
Income tax rate of the Company	29.04%	29.04%
Expected (theoretical) tax expenses	-6,106	-3,506
Effects from different tax rates within the corporate group	686	1,027
Adjustment due to local change in the tax rate in the previous year	0	-122
Tax-free income	140	108
Utilization of non-capitalized tax losses brought forward	22	844
Costs and interest not recognized fiscally	-1,514	-859
Tax expenses/tax receipts because of tax audits	-580	-1,226
Other	-129	1,071
Income tax expenses	**-7,481**	**-2,663**

The income tax expenses include current taxes in the amount of € 5,428K (2016: € 4,062K) and deferred tax expenses in the amount of € -1,473K (2016: € 1,399K), resulting exclusively from time-related differences.

Based on the profit pooling agreements signed within the corporate group on July 1, 2016, on the closing date there existed a registered income tax group with VARTA Microbattery GmbH, Ellwangen, Germany and VARTA Storage GmbH, Nördlingen, Germany, as controlled companies and VARTA AG, Ellwangen, Germany, as the controlling company.

The comprehensive statement of income of the Group includes income tax effects in the amount of € -42K (2016: € -46K) from cash flow hedges. The income tax on the revaluation of performance-related plans under IAS 19 is € -381K (2016: € 550K). Both items are recorded under other results.

The corporate group has the following non-capitalized and unused tax losses brought forward from the corporate income tax:

(K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Expiration date:		
In the coming financial year - within 1 year	0	1.553
No forfeiture	3,284	3,284
Imputable tax losses brought forward per December 31st	**3,284**	**4,837**

No deferred taxes were capitalized for losses brought forward in the amount of € 3,284K (2016: € 4,837K). The likelihood that future profits can be offset against the accumulated losses brought forward at the time of the closing of the balance sheet must be considered small.

The capitalization of losses that are brought forward and can be used fiscally is reviewed annually and is based on current assumptions and estimates by the Management. In this process those losses brought forward are capitalized which can be used within the next five years because of the earnings situation of individual companies or because of registered tax groups. Capitalization is thus dispensed with in countries and/or companies in which any utilization of losses brought forward is not foreseeable.

In the previous year deferred taxes in the amount of € 441K were capitalized on losses brought forward based on the mentioned estimates. The country-specific fiscal regulations and possibilities were taken into account in this context.

37 CONSOLIDATED CASH FLOW STATEMENT

Other non-cash expenses and income result essentially from the non-cash changes in the reimbursement claim from the debt contribution in amount of € -4,587K and the non-cash effects of the costs of share-based payment in amount of € 3,557K (cf. Notes 30 “Personnel costs”). Additionally the non-cash expenses include currency effects in the amount of € -305K (2016: € 216K) and changes in the comprehensive statement of income of the Group in the amount of € 1,436K (2016: € -1,653K), which are recognized directly in equity.

The item “Acquisition of tangible and intangible assets” cannot be reconciled with the additions of “intangible and tangible assets” because of outstanding items that did not require payment. The difference is mainly the result of liabilities in the amount of € 806K (December 31, 2016: € 11,030K) and own work capitalized in the amount of € 3,517K (December 31, 2016: € 3,400K). The outstanding items from the investments of the previous year were paid in full in the following year and attributed to the item “Acquisition of tangible and intangible assets” in the cash flow statement.

A total of € 74K (December 31, 2016: € 74K) of the shown cash and cash equivalents are subject to a restriction on the right of disposition.

In the spring of 2017, VARTA AG took over the financing function for the VARTA Group. In this context, existing financing from the operating subsidiaries was repaid. Subsequently, VARTA AG extended loans to various subsidiaries. As part of the initial public offering, the associated financing was repaid by the Montana Tech Components Group.

The cash flow from financing activities includes paid costs of the initial public offering in amount of € 1,505K, which are recognized directly in equity (cf. Notes 18 “Equity”).

38 RISK MANAGEMENT

38.1 INTERNAL CONTROL SYSTEM

In order to ensure the agreement of the consolidated annual report of VARTA AG with the applicable accounting principles and to guarantee that the consolidated reports are in good order, the Management of VARTA AG has set up internal control and management systems for the financial reports. Thus a reasonable certainty regarding the trustworthiness of the financial reports is ensured to facilitate as reliable an evaluation of the asset, financial and earnings situation of the Company as possible.

The risk management system in the corporate group is currently expanded in order to introduce additional suitable risk limits and controls and monitor the changes in the risks and compliance with the limits. The idea is to ensure a goal-oriented control environment in which all employees understand their respective tasks and responsibilities.

The Audit Committee monitors on the one hand the compliance of the Executive Committee with the guidelines and procedures of corporate risk management and on the other hand the effectiveness of the risk management system in view of the risks to which the corporate group is exposed. The intent is to develop an internal audit to allow regular reviews, the results of which are reported directly to the Audit Committee.

Any internal control system, however well conceived, has its limits. Therefore even those internal control and management systems that are found to be effective cannot provide complete certainty regarding the preparation and representation of the annual reports.

Estimates and assumptions regarding the future are made during the accounting and valuation process. The estimates and assumptions constituting a significant risk in the sense of a material revision of the book value of the assets and liabilities within the next fiscal year are described under the individual positions in the Notes. However, no risks have been identified overall during the past fiscal year which might entail a material correction of the asset, financial and earnings situation of the Company presented in the consolidated annual report.

38.2 FINANCIAL RISK MANAGEMENT

The financial risk management of the corporate group was controlled during the indicated periods by the Management of Montana Tech Components GmbH ("MTC GmbH"), the Management of VARTA Microbattery GmbH and the Executive Committee of VARTA AG (cf. Notes 40 "Related persons and companies"). The principal goal of the financial risk management is to identify and monitor the financial risks to which the corporate group is exposed and to establish efficient precautionary measures. The financial risks result from the operating business as well as from the financing structure. This includes in particular the credit, liquidity, currency and interest-rate risk as well as the market-price risk of commodities.

Beside the identification, analysis and evaluation of the financial risks, the decisions regarding the use of financial instruments for controlling these risks are in principle made by the Management of MTC GmbH and VARTA Microbattery GmbH as well as the Executive Committee of VARTA AG, which generally pursue a low-risk strategy.

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

Credit risk

The credit risk in the corporate group arises from loans, trade receivables, other claims and cash and cash equivalents, whereby the emphasis of the credit risk is on trade receivables. The risk of default in the accounts receivable area due to liquidity risks is mitigated by selective measures such as constant reviews of the creditworthiness, insurance coverage for some accounts receivable against insolvency, prepayment agreements and a system of constant reminders.

Because of the corporate policy of investing cash and cash equivalents worldwide only in deposits with financial institution with perfect creditworthiness, the credit risk arising from credit balances at banks is correspondingly very limited.

The book value of the financial assets corresponds to the maximum credit risk, which was essentially composed of the following items on the closing date:

	BOOK VALUES	
(IN K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Cash and cash equivalents	138,536	12,347
Trade receivables	20,103	15,676
Loans	444	4,425
Other assets*	23,173	6,744
Total financial assets	**182,256**	**39,192**

* without other tax claims € 4,992K (2016: € 2,248K) and prepaid expenses € 684K (2016: € 365K).

In the fiscal year 2017 a master agreement existed with a bank regarding the sale of accounts receivable with a maturity of up to December 2017. At the end of 2017 it was extended by another year. In this process trade receivables in the context of the ordinary business activities are sold upon receipt of the respective invoice by the respective debtor with an indication of the payment due date. The accounts receivable are sold at the end of each month. At that time the bank makes a decision regarding the amount of the accounts receivable to be purchased in the context of a total amount of € 10,000K. The accounts receivable valued at that time at the fair market price are sold to the bank at 90% of the fair market price. The accounts receivable paid in the course of the month are shown under other financial liabilities toward the bank (cf. Notes 20 “Other financial liabilities”). Per December 31, 2017 the corporate group had sold accounts receivable in the amount of € 8,541K (December 31, 2016: € 7,836K). The corporate group has no further risks from the sold accounts receivable.

By the closing date loans including deferred interest in the amount of € 0K (December 31, 2016: € 2,815) had been granted to related companies (cf. Notes 40 “Related persons and companies”) and € 444K (December 31, 2016: € 1,610K) to third parties.

On the closing date December 31, 2017 other assets concerned essentially the reimbursement claim from the assumption of a joint debt obligation in the amount of € 15,780K (cf.1 “General information”) implemented on June 30, 2017 as well as claims under development projects in the amount of € 5,304K and claims from security deposits against related companies in the amount of € 750K.

The calculation of the credit risk is based on the gross book values less any value adjustments recorded under IAS 39. Collateral received or other credit improvements are not considered in this process.

The maximum credit risk can be classified as being small because the risk of default by business associates inherent in the underlying transaction is hedged in part by credit insurance policies in the amount of € 10,867K (December 31, 2016: € 11,156K). The criteria for evaluating creditworthiness are spelled out in the contracts with loan insurers as well as in internal guidelines. Besides, the credit risk is not concentrated as the customer basis of the corporate group consists of a great variety of clients.

Accounts receivable outstanding on the closing date must stand the test of the risk assessment by the corporate group irrespective of their due dates. In principle financial assets do not have a risk of default if they can be classified on the closing date as "collectible in full" based on past experience and on the verification of the creditworthiness. Such accounts receivable are not subjected to a value adjustment. There are no financial assets for which conditions were renegotiated.

Trade receivables after value adjustments show the following picture:

(' 000 €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Trade receivables	20,598	16,347
Value adjustments	-495	-671
Trade receivables - net	**20,103**	**15,676**

The likelihood of future defaults can be classified as small.

The total value adjustments for trade receivables show the following changes:

(K €)	2017	2016
Status at the beginning of the fiscal year	671	617
Allocation	94	199
Utilization	0	-19
Reversal	-219	-143
Currency differences	-51	17
Total value adjustments	**495**	**671**

A 100% value adjustment of accounts receivable is implemented as soon as the non-collectability is known or an account receivable is 501 days overdue. For overdue accounts receivable between 180 and 500 days a value adjustment is posted according to the following progressive rates:
- > 180 days: 25% value adjustment
- > 270 days: 50% value adjustment
- > 360 days: 75% value adjustment

To take into account past experience, the major outstanding accounts receivable, corrected for the insured and already adjusted claims and for claims against public entities, are shown annually corrected by a lump-sum value adjustment. The value adjustment in use is calculated annually from a 5-annual average of the ratio of outstanding claims to defaulted claims.

The likelihood of future collections on already adjusted claims was considered small at the time of the closing.

The following illustration shows the information about overdue trade receivables:

	DECEMBER 31, 2017			DECEMBER 31, 2016		
(K €)	BOOK VALUE BEFORE VALUE ADJUSTMENTS	VALUE ADJUSTMENTS	NET	BOOK VALUE BEFORE VALUE ADJUSTMENTS	VALUE ADJUSTMENTS	NET
0 to 10 days overdue	1,798	-33	1,765	1,271	-45	1,226
11 to 30 days overdue	2,953	-6	2,947	396	-11	385
31 to 60 days overdue	814	-46	768	29	0	29
61 to 180 days overdue	0	0	0	241	-35	206
181 to 360 days overdue	127	-61	66	197	-140	57
More than 360 days overdue	201	-200	1	260	-260	0
Total corporate group	**5,893**	**-346**	**5,547**	**2,394**	**-491**	**1,903**

The overdue net trade receivables are primarily claims under relationships with clients of long standing. The corporate group does not expect any major losses based on past experience.

Liquidity risk
The liquidity is constantly protected and monitored by the Treasury of MTC GmbH, VARTA AG and VARTA Microbattery GmbH. The control reaches from the constant comparison of the projected and actual payment streams to the coordination of the maturity profiles of the financial assets and liabilities. The major liquidity risks stem from general economic risks, defaulting clients and exchange rate risks.

Below we show the non-discounted contractual maturities of the non-derivative and derivative financial liabilities. There are no changes to the risk of default on the financial liabilities over time. The table contains both interest and principal payments:

December 31, 2017

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

* Without derivative financial instruments € 178K; including debt forgiveness in the amount of € 6,200K with an expected maturity of more than 5 years, which under certain circumstances may be repaid earlier (cf. Notes 20 „Other financial liabilities")

** Without short-term prepayments received € 62K (trade liabilities > 1 year are shown in the balance sheet under other non-current liabilities)

*** Without deferred liabilities for employee benefits € 8,501K

**** Without deferred income € 23K, tax liabilities € 4,869K and in the context of the social security € 232K

(K €)	BOOK VALUES	CONTRACTUAL CASH FLOW	IMMEDIATELY	TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	MORE THAN 5 YEARS
Derivative financial liabilities							
Forward foreign exchange transactions (cash flow hedge)	178	16,340	0	16,340	0	0	0
Total derivative financial liabilities	**178**	**16,340**	**0**	**16,340**	**0**	**0**	**0**
Total corporate group	**54,499**	**70,678**	**10,636**	**45,089**	**8,649**	**104**	**6,200**

December 31, 2016

(K €)	BOOK VALUES	CONTRACTUAL CASH FLOWS	IMMEDIATELY	TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	MORE THAN 5 YEARS
Non-derivative financial liabilities							
Other financial liabilities*	24,669	25,609	0	2,164	754	16,491	6,200
Trade payables**	21,411	21,344	3,656	17,688	0	0	0
Deferred liabilities***	6,698	6,698	0	0	6,698	0	0
Other liabilities****	6,456	6,456	112	4,876	1,468	0	0
Total non-derivative financial liabilities	**59,234**	**60,107**	**3,768**	**24,728**	**8,920**	**16,491**	**6,200**

* Without derivative financial instruments € 218K; including debt forgiveness in the amount of € 6,200K with an expected maturity of more than 5 years, which under certain circumstances may be repaid earlier (cf. Notes 20 „Other financial liabilities")

** Without short-term prepayments received € 671K (trade liabilities > 1 year are shown in the balance sheet under other non-current liabilities)

*** Without deferred liabilities for employee benefits € 7,568K

**** Without deferred income € 143K, tax liabilities and in the context of the social security € 968K

(K €)	BOOK VALUES	CONTRACTUAL CASH FLOWS	IMMEDIATELY	TO 3 MONTHS	3 TO 12 MONTHS	1 TO 5 YEARS	MORE THAN 5 YEARS
Derivative financial liabilities							
Forward foreign exchange transactions (cash flow hedge)	217	16,034	0	16,034	0	0	0
Total derivative financial liabilities	**217**	**16,034**	**0**	**16,034**	**0**	**0**	**0**
Total corporate group	**59,459**	**76,141**	**3,768**	**40,762**	**8,920**	**16,491**	**6,200**

Market risk
The market risk contains the currency, raw material and interest-rate risk, which are explained in more detail below.

Raw material risk
The corporate group buys raw materials in different quantities, and these are subject to a price change risk. The important raw materials are determined by analyzing the planned raw material quantities and by hedging them through raw material swaps. The residual raw material risk for the corporate group is considered to be small.

Foreign exchange risk
The corporate group handles its purchases and sales of products using the functional currency of the three regions primarily in euros (Europe) and US dollars (USA, Asia). Foreign exchange risks concerning trade receivables are very small because the majority of the invoices issued by the foreign companies are denominated in the respective local currency. Likewise, purchases of inventory items and/or services are transacted by the subsidiaries mainly in the local currency.
On the closing date most interest-bearing liabilities are shown in euros and US dollars, which correspond to the functional currencies of the respective group companies, so that in the opinion of the corporate group there exists no major foreign exchange risk in this respect.

The following chart shows the financial assets and liabilities by currency pairs in which the currency differs from the functional currency of the respective affiliate holding these financial instruments.

	DECEMBER 31, 2017	DECEMBER 31, 2016
(K €)	EUR/USD	EUR/USD
Cash and cash equivalents	6,965	3,281
Trade receivables	3,179	1,844
Claims against related companies	11,280	8,797
Liabilities for goods and services	151	1,420
Loans of related companies	16,176	15,843
Liabilities toward related companies	3,107	3,532
Total currency exposure gross	**1,990**	**-6,873**
Forward foreign exchange transactions	16,176	15,843
Total currency exposure net	**18,166**	**8,970**

Sensitivity analysis

A change in the following functional currency vis-à-vis the foreign currency from currency pair in the amount of the percentages shown below would have increased (decreased) the result of the consolidated annual report by the following amounts per December 31. The remaining variables, in particular the interest rates, are held constant in the context of this analysis.

(T€)		GAIN (+)/LOSS (-)	
December 31, 2017			
EUR/USD	+/- 6.9%	-840	951

(T€)		GAIN (+)/LOSS (-)	
December 31, 2016			
EUR/USD	+/- 8.7%	-474	645

The volatility for the individual relevant currency pairs was calculated with historical data for the most recent 250 quoted days (before the respective closing date). The stated annual volatility was determined on the basis of the daily exchange rate fluctuations (change of the currently quoted rate compared with the day before) by scaling up these daily volatilities.

The sensitivity analysis showed that the currency pairs would not have had any major effects on the equity of the corporate group.

Interest rate risk

The interest rate risk is divided into changes in the future interest payments as a result of the fluctuations of the market interest rate and the interest rate-contingent risk of a change in the market value, in fact that the market value of a financial instrument changes as a result of fluctuations of the market interest rate.

The corporate group is exposed to interest rate risks resulting from the borrowing and the investment of financial resources at fixed and variable interest rates, whereby the corporate group is financed predominantly by fixed interest loans from related persons.

The following interest financial instruments existed on the closing date:

	BOOK VALUES	
(K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Fixed-interest financial instruments		
Financial assets*	530	4,507
Financial liabilities**	8,223	9,911
Variable-interest financial instruments		
Financial assets*	138,524	12,265
Financial liabilities**	0	14,758

* includes credit balances at banks and time deposits as well as loans
** includes other financial liabilities without derivative financial instruments in the amount of € 178K

Sensitivity analysis for fixed-interest financial instruments
The corporate group has valued neither fixed-interest financial assets (time deposits) nor fixed-interest financial liabilities (liabilities to banks) at the fair value with impact on the income statement. These financial instruments were valued at their amortized cost. An increase in the interest rates would thus have no influence on the consolidated result.

Sensitivity analysis for variable-interest financial instruments
An interest rate increase by one percentage point – taking into consideration the hedge for variable-interest financial instruments by fixed interest rates - would have increased the consolidated result by € 981K (2016: reduced by 18K). A reduction of the interest rate by one percentage point would entail a reduction of the consolidated result by € 981K (2016: increase by € 18K). In this process a possible drop of the interest rates below 0% was also considered. In the context of this analysis it is assumed that all remaining variables, in particular the foreign currency effects, remain constant.

Derivative financial instruments
The corporate group essentially uses derivative financial instruments for mitigating the risk from fluctuations of the exchange rate and raw material prices. Forward foreign exchange transactions and commodity swaps are used to reduce the short-term effects of exchange rate and raw material prices fluctuations. All relevant contractual partners are reputable international financial institutions with which the corporate group is in constant business contact. Accordingly, the corporate group considers the risk of default by a contractual partner and thus the risk of the relevant losses as small. The losses of the presented derivative financial instruments on December 31, 2017 amount to € 1,829K (December 31, 2016: profit of € 334K).

The derivatives are contracted in the context of the German master agreement for financial derivative transactions, allowing for the netting of pending positions. The underlying contract does not meet the criteria of IAS 39.32 for netting. Under certain conditions, as for example the default or bankruptcy of a contractual partner, there still is a legally enforceable right for netting pending transactions. No netting in the financial items was carried out on the closing date. Therefore the potentially netted amount that would be possible under the master agreement corresponds to the gross book value shown for the derivatives.

The following table shows the portfolio of derivative financial instruments on the closing date:

December 31, 2017

	CURRENCY	NOMINAL AMOUNT (IN THOUSANDS OF THE ORIGINAL CURRENCY)	FAIR VALUE (K €)	THEREOF NOT REFLECTED IN THE INCOME STATEMENT	MATURITY
Forward foreign exchange transaction	USD	19,400	-178	0	up to 1 year
Forward foreign exchange transaction	USD	444	142	142	up to 1 year
Total corporate group			**-36**	**142**	

December 31, 2016

	CURRENCY	NOMINAL AMOUNT (IN THOUSANDS OF THE ORIGINAL CURRENCY)	FAIR VALUE (K €)	THEREOF NOT REFLECTED IN THE INCOME STATEMENT	MATURITY
Forward foreign exchange transaction	USD	16,700	-218	0	up to 1 year
Total corporate group			**-218**	**0**	

In the fiscal year 2017 € 142K (2016: -161K €) were reclassified from the statement of comprehensive income to the income statement.

The liquidity analysis of the derivative financial instruments was described already in the above part of this chapter under "Liquidity risk".

Categories of financial instruments

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

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

(K €)	2016	STAGE 1	STAGE 2	STAGE 3
Financial instruments valued at the fair value with effect on the income statement				
Derivative financial instruments - equity and liabilities	-218	0	-218	0
Total	**-218**	**0**	**-218**	**0**

(K €)	DECEMBER 31, 2017	DECEMBER 31, 2016
Derivative financial instruments	142	0
Derivative financial liabilities at fair value through profit or loss	**142**	**0**
Cash and cash equivalents	138,536	12,347
Loans	444	4,425
Trade receivables	20,103	15,676
Other assets*	23,173	6,744
Loans and accounts receivable	**182,256**	**39,192**
Total financial assets	**181,398**	**39,192**
Derivative financial instruments	178	218
Derivative financial liabilities at fair value through profit or loss	**178**	**218**
Other financial liabilities**	8,223	24,669
Trade payables***	32,417	21,411
Deferred liabilities****	8,072	6,698
Other liabilities*****	5,609	6,456
Valued at amortized cost	**54,321**	**59,234**
Total financial liabilities	**54,499**	**59,451**

* without other tax claims € 4,992K (December 31, 2016: € 2,248K) and prepaid expenses € 684K (December 31, 2016: € 365K)
** without derivative financial instruments € 178K (December 31, 2016: € 218K)
*** without prepayments received € 62K (December 31, 2016: € 671K)
**** Without deferred liabilities for employee benefits € 8,501K (December 31, 2016: € 7,568K)
***** Without deferred income € 23K (December 31, 2016: € 143K), other liabilities from taxes € 4,869K and in the context of social security € 232K (December 31, 2016: € 968K)

Calculation of the fair value:

A series of accounting methods and guidelines of the corporate group make it necessary to determine the fair values for financial and non-financial assets and liabilities. The fair value is the price that could be obtained with the sale of an asset or would have to be paid with the transfer of a liability in a normal transaction at arm's length on the valuation date (IFRS 13.9).

When determining the fair value of an asset or a liability the corporate group uses to the extent possible data that can be observed in the market. Based on the input factors used in the valuation techniques, the fair values are classified into different stages in the fair value hierarchy:

- *Stage 1*: Listed prices (unadjusted) on active markets for identical assets and liabilities;
- *Stage 2*: Valuation parameters that are not listed prices considered in step 1 but which can be observed for the asset or the liability either directly (i.e. as price) or indirectly (i.e. as derivative prices);
- *Stage 3*: Valuation parameters for assets or liabilities which are not based on observable market data.

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

On the closing date the corporate group showed only stage 2 and stage 3 financial instruments that are valued at the fair value.

Capital management
The capital management of the corporate group in the reporting periods was handled centrally by MTC GmbH, VARTA AG and VARTA Microbattery GmbH. Considerations regarding the capital requirement are based on the requirements of the Montana Tech Components Group.

39 RELATED PERSONS AND COMPANIES

The following persons and companies were identified as related persons and companies in the reporting periods 2017 and 2016:
- MTC as ultimate parent company and all enterprises controlled, jointly controlled or materially influenced directly or indirectly by MTC;
- All enterprises controlled, jointly controlled or materially influenced directly or indirectly by members of the Management;
- DDR. Michael Tojner as highest control instance and all enterprises controlled, jointly controlled or materially influenced directly or indirectly by DDR. Michael Tojner;
- Members of the Executive Committee and the Board of Directors of VARTA AG and their relatives.

The transactions with related persons of the corporate group fall into the following categories:

Related companies:
- Companies controlled, jointly controlled or materially influenced by MTC and MTC itself (hereafter “MTC Companies”);
- Companies controlled, jointly controlled or materially influenced by DDR. Michael Tojner (hereafter “DDR. Tojner Companies”);
- Joint ventures of the corporate group;
- Companies with which an equity relationship exists.

Related persons:
- Persons who have the direct or indirect power and responsibility for planning, managing and controlling the activities of the corporate group, including a business director of the corporate group (a member of the Executive Committee or the Board of Directors).

39.1 RELATED COMPANIES

The consolidated annual report as represented contains the sale and the acquisition of assets and services from and to related companies:

(K €)	2017 TRANSACTION VOLUME		2016 TRANSACTION VOLUME	
TRANSACTIONS	SALES REVENUE FROM THE SALE OF PRODUCTS AND SERVICES	PURCHASE OF GOODS AND SERVICES	SALES REVENUE FROM THE SALE OF PRODUCTS AND SERVICES	PURCHASE OF GOODS AND SERVICES
Transactions with MTC Companies	1,002	230	1,012	941
Transactions with DDR. Tojner Companies	22	2,010	41	1,853
Transactions with joint ventures	3,896	1,577	4,693	2,775
Transactions with companies with which an equity relationship exists	4	419	9	2
Total	**4,924**	**4,236**	**5,755**	**5,571**

The following claims and liabilities were pending on the closing date December 31, 2017:

(K €)	DECEMBER 31, 2017 PENDING POSITIONS		DECEMBER 31, 2016 PENDING POSITIONS	
TRANSACTIONS	CLAIMS	LIABILITIES	CLAIMS	LIABILITIES
Transactions with MTC Companies	101	127	2,914	15,887
Transactions with DDR. Tojner Companies	0	0	1,030	548
Transactions with joint ventures	268	442	27	237
Transactions with companies with which an equity relationship exists	1	14	8	0
Total	**370**	**583**	**3,979**	**16,672**

Furthermore, there are financial liabilities vis-à-vis the MTC Companies under the debtor warrant (cf. Notes 20 “Other financial liabilities”) in the amount of € 6,200K (2016: € 6,200K).

The pending claims and liabilities are not secured.

Transactions with MTC Companies

The following transactions were executed with MTC Companies in the present fiscal year:

(K €)	2017		2016	
	TRANSACTION VOLUME		TRANSACTION VOLUME	
TRANSACTIONS	SALES REVENUE FROM THE SALE OF PRODUCTS AND SERVICES	PURCHASE OF GOODS AND SERVICES	SALES REVENUE FROM THE SALE OF PRODUCTS AND SERVICES	PURCHASE OF GOODS AND SERVICES
Services	1,002	230	1,012	793
Licenses/trademarks	0	0	0	148
Total	**1,002**	**230**	**1,012**	**941**

Compared to the previous year the other operating costs from services and licenses/trademarks were reduced in amount of € 148K in total. This is due to the termination of trademark, licensing and service agreements with MTC Companies per June 30, 2016.

The pending claims and liabilities with affiliated MTC Companies show the following positions per December 31, 2017:

(K €)	DECEMBER 31, 2017		DECEMBER 31, 2016	
	PENDING POSITIONS		PENDING POSITIONS	
TRANSACTIONS	CLAIMS	LIABILITIES	CLAIMS	LIABILITIES
Services	101	127	99	78
Licenses and trademarks	0	0	0	40
Loans including interest	0	0	2,815	15,769
Total	**101**	**127**	**2,914**	**15,877**

With the mentioned termination of the trademark, licensing and service agreements it was also possible to reduce the respective liabilities.

In the fiscal year a loan repayment took place due to the inflow of funds from the initial public offering. There were thus no more pending claims under loan agreements by the closing date.

Transactions with DDR. Tojner Companies

In the context of the sale & leaseback transaction in the year 2015 rental expenses in the amount of € 1,500K (prev. yr.: € 1,500K) and € 57K in other pass-through charges accrued in fiscal 2017 with a company controlled by DDR. Michael Tojner (cf. Notes 10 "Leases") from the leaseback of properties and buildings:

(K €)	TRANSACTION VOLUME 2017		TRANSACTION VOLUME 2016	
TYPE OF TRANSACTION	SALE OF PRODUCTS AND SERVICES	PURCHASE OF PRODUCTS AND SERVICES	SALE OF PRODUCTS AND SERVICES	PURCHASE OF PRODUCTS AND SERVICES
Services	22	2,010	41	1,853
Total	**22**	**2,010**	**41**	**1,853**

On the closing date the following claims and liabilities from the transactions on the closing date were pending in the corporate group account:

	DECEMBER 31, 2017		DECEMBER 31, 2016	
(K €)	PENDING POSITIONS		PENDING POSITIONS	
TRANSACTIONS	CLAIMS	LIABILITIES	CLAIMS	LIABILITIES
Loans including interest	0	564	0	548
Services	0	0	5	0
Total	**0**	**564**	**5**	**548**

The loans received from the DDR. Tojner Companies do not have a maturity. The interest rate is 3% (2016: 3.37%)

Transactions with joint ventures

In the reporting period there was essentially the joint venture VW-VM Forschungsgesellschaft mbH & Co.KG. The transactions with the joint venture consist of the following items:

	2017		2016	
(K €)	TRANSACTION VOLUME		TRANSACTION VOLUME	
TYPE OF TRANSACTION	SALE OF PRODUCTS AND SERVICES	PURCHASE OF PRODUCTS AND SERVICES	SALE OF PRODUCTS AND SERVICES	PURCHASE OF PRODUCTS AND SERVICES
Loaned personnel	3,143	16	3,613	1
Services	47	484	41	1,273
Rental income	403	0	475	0
Other	303	1,077	564	1,501
Total	**3,896**	**1,577**	**4,693**	**2,775**

Apart from the operating business activities there were no transactions with joint ventures in 2017.

Other purchases in the amount of € 1,077K (2016: € 1,501K) include acquistions of fixed assets in amount of € 213K (2016: € 1,501K). The additional transaction volume of € 864K results from the operating business.

Transactions with companies with which an equity relationship exists

In the reported fiscal years of the corporate group account there was an equity relationship with VARTA Micro Innovation GmbH. In the 2017 financial year, a transaction volume of € 118K for purchases of materials and € 301K for service and patent purchases was generated. Per December 31 2017 there were receivables in the amount of € 1K from services sold and liabilities in amount of € 14K.

39.2 RELATED PERSONS

The managers received the following compensation:

(K €)	2017	2016
Current employee benefits	3,560	3,372
Non-current employee benefits	3,602	45
Total compensation for managers	**7,162**	**3,417**

An expense against the capital reserve in the amount of € 3,557K is included in "Other non-current employee benefits" due to the share-based payment, which must be understood as a special effect.

40 MANAGEMENT OF VARTA AG

The Executive Committee of VARTA AG has the following composition:

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

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

- Steffen Munz, Director of Finance / CFO
  Since February 1, 2018
  No other mandates

The Board of Directors of VARTA AG has the following composition:

- DDr. Michael Tojner (Chairman)
  CEO Montana Tech Components GmbH
  Other mandates:
  - Chairman of the Board of Directors of VARTA Microbattery GmbH
  - Chairman of the Board of Directors of ASTA Energy Transmission Components GmbH
  - Member of the Board of Directors of Universal Alloy Corporation USA
  - Member of the Board of Directors of VW-VM Forschungsgesellschaft mbH & Co. KG
  - Member of the Board of Directors of VW-VM Verwaltungsgesellschaft mbH
  - Chairman of the Governing Board of Montana Tech Components AG
  - Chairman of the Governing Board of Montana AS Beteiligungs Holding AG

- Dr. Harald Sommerer (Deputy Chairman)
  CEO H.F.R.C. Private Trust
  Other mandates:
  - Member of the Board of Directors of Kapsch Traffic Com AG

- Frank Dieter Maier
  Pensioner
  Other mandates:
  - Member of the Board of Directors of ASTA Elektrodraht GmbH & Co. KG
  - Member of the Board of Directors of Vishay Intertechnology Inc.
  - Member of the Advisory Board of Basic Lebensmittelhandel AG
  - Member of the Advisory Board of Montana Tech Components AG

- Sven Quandt
  Business director of S. Qu.- Vermögensberatung GmbH & Co. KG
  No other mandates

- Dr. Franz Gugenberger
  - Attorney-at-law and partner of the partnership Hasch & Partner
  Other mandates
  - Member of the Board of Directors of Wohnbauvereinigung der Gewerkschaft Öffentlicher Dienst Gemeinnützige Gesellschaft m.b.H.

- Dr. Georg Blumauer
  Attorney-at-law, owner of B-legal
  - Chairman of the Board of Directors of WertInvest Entertainment und Veranstaltungs AG

41 CONTINGENT LIABILITIES

(K €)	2017	2016
Rental and lease agreements		
Due by 2018/2017	3,264	3,163
Due by 2019 - 2023/2018 - 2022	8,596	8,825
Due after 2023/2022	7,500	1,880
Servicing and service obligations		
Due by 2018/2017	650	893
Due by 2019 - 2023/2018 - 2022	1,636	1,191
Due after 2023/2022	27	0
Order obligation from approved investments		
Due by 2018/2017	25,019	1,521
Remaining acceptance obligations		
Due by 2018/2017	47,841	11,198
Due by 2019 - 2023/2018 - 2022		0
Total	**94,533**	**28,671**

The remaining acceptance obligations concern essentially orders and supply contracts signed with various suppliers to cover short-term needs in raw materials, pre-products and semi-finished products.

In addition, mention should be made of the risks from legacy encumbrances existing at VARTA AG. The former properties of VARTA AG and of its former subsidiaries served mainly as manufacturing plants for the production of batteries and are burdened with nearly all legacy encumbrances typical for the industry. A buyer of all foreign and one domestic participation took over these risks as well as any risks arising in the future and will be holding VARTA AG harmless against these risks; however, the legal liability of VARTA AG continues in relation to outsiders. An enterprise affiliated with the buyer has hedged this indemnity additionally with a guarantee in the amount of € 20,000K lasting until 2031. VARTA AG has evaluated these risks and, after taking into consideration the contractual claims for reimbursement, did not set aside any provisions. VARTA AG will be exposed to that extent only if these risks exceed the hedge potential of the buyer and of the guarantor or if these are not able to fulfill their contractual obligations.

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

42 AFFILIATED ENTERPRISES

The following enterprises were included for the periods represented in the corporate annual report (information provided pursuant to Sec. 315e para. 1 in conj. with Sec. 313 para. 2 no. 1 - 6 HGB):

FROM/TO	NAME OF THE COMPANY	PRINCIPAL PLACE OF BUSINESS	COUNTRY	CURRENCY	STAKE	SHARE CAPITAL
from 2012/09	VARTA AKTIENGESELLSCHAFT	Ellwangen	Germany	EUR	100.00%	38,200,000
from 2007/12	VARTA Microbattery GmbH	Ellwangen	Germany	EUR	100.00%	5,000,000
from 2012/04	VARTA Storage GmbH	Nördlingen	Germany	EUR	100.00%	100,000
from 2007/12	VARTA Microbattery Pte Ltd	Singapore	Singapore	USD	100.00%	1,971,544
from 2007/12	VARTA Microbattery Ltd Shanghai	Shanghai	China	CNY	100.00%	42,142,757
from 2007/12	PT VARTA Microbattery Indonesia	Batam	Indonesia	USD	100.00%	249,900
from 2014/10	VARTA Microbattery Japan K.K.	Tokyo	Japan	USD	100.00%	385,485
from 2014/01	VARTA Microbattery S.R.L.	Brasov	Romania	RON	100.00%	45,000
from 2007/12	VARTA Microbattery Inc.	Rye, NY	United States of America	USD	100.00%	2,800,000
from 2009/10	VW-VM Forschungsgesellschaft mbH & Co. KG*	Ellwangen	Germany	EUR	50.00%	400,000
from 2009/09	VW-VM Verwaltungsgesellschaft mbH*	Ellwangen	Germany	EUR	50.00%	25,000
from 2017/06	Auditas GmbH***	Nördlingen	Germany	EUR	25.10%	100,000
from 2017/06	Auditas Inc.***	Ridgefield	United States of America	USD	25.10%	100
from 2017/09	Connexio alternative investment & holding AG	Vienna	Austria	EUR	20.00%	100,000
from 2009/08	VARTA Micro Innovation GmbH**	Graz	Austria	EUR	17.74%	70,000

* Accounted for at equity
** Accounted for at acquisition costs
*** cf. Notes 1 "General information" and 2 "Changes in the scope of consolidation"

43 ADDITIONAL INFORMATION PURSUANT TO HGB

Exemptions pursuant to Sec. 264 para. 3 HGB

The companies VARTA Microbattery GmbH, Ellwangen, (Germany) and VARTA Storage GmbH, Nördlingen, (Germany), included in the consolidated annual report under IFRS take advantage of the exemption provisions pursuant to Sec. 264 para. 3 HGB. For these companies the consolidated annual report of VARTA AG is the exempting consolidated annual report.

Parent company

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

Liabilities
The debt forgiveness of a related company in the amount of the € 6,200K described in position 20 "Other financial liabilities" has a remaining term of more than five years. There are no other major liabilities with a remaining term of more than five years.

There are no secured group liabilities.

Number of employees
In this respect we refer to Notes 30 regarding "Personnel costs".

Executive Committee compensation
The total compensation of the Executive Committee in the fiscal year 2017 amounted to € 1,612K. Information about the Executive Committee compensation in 2017 is described in the compensation report (cf. management report). According to the resolution of the extraordinary general meeting of shareholders dated October 6, 2017 the individualized information regarding the payment of the Executive Committee required under Sec. 285 sect. 1 no. 9 lit. a) clause 5 et seqq. HGB and Sec. 314 para. 1 no. 6 lit. a) clause 5 et seqq. HGB is dispensed with.

Compensation of the Board of Directors
The information about the compensation of the Board of Directors in the year 2017 is described in the compensation report (cf. management report).

Total fees of the auditor of the consolidated annual report
Pursuant to Sec. 314 para. 1 no. 9 HGB, the fees for the auditor of the consolidated annual report KPMG AG Wirtschaftsprüfungsgesellschaft recognized as expense in the current fiscal year must be broken down as follows:

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

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

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

German Corporate Governance Codex
The Executive Committee and the Board of Directors of VARTA AG issued a declaration pursuant to Sec. 161 AktG on December 21, 2017 and made it permanently available for the shareholders on the website under www.varta-ag.com.

44 EVENTS AFTER THE CLOSING DATE

In January 2018 the parent company VGG GmbH (Vienna) set up a stock option program for employees (MSOP) according to which the eligible employees of the VARTA AG Group, including the Executive Committee, are entitled to purchase common stock of VARTA AG. The basic vesting period is 4 years and the condition for its exercise is that the beneficiaries are in an ongoing employer-employee relationship with the VARTA AG Group on the date the option is exercised.

Ellwangen, April 9, 2018

VARTA Aktiengesellschaft

Chief Executive Officer	*Chief Financial Officer*	
Herbert Schein	Steffen Munz	Dr. Michael Pistauer

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 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 31 December 2017, 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 1 January to 31 December 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined Management Report of VARTA AG for the financial year from 1 January to 31 December 2017 (hereinafter the "Management 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 31 December 2017, and of its financial performance for the financial year from 1 January to 31 December 2017, 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.

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) point (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 judgment, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January to 31 December 2017. 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 4.9. Pension obligation disclosure information is available under Section 21.2 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. A reimbursement claim 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 claim against Colibri Beratungsgesellschaft mbH amounts to a total of EUR 15,780K as at 31 December 2017.

The assessment of the capitalization criteria and of the value of the contractually negotiated reimbursement claim includes estimates and requires the assessment of the creditworthiness as well as the legal estate of the shareholder of Colibri Beratungsgesellschaft mbH.

Colibri Beratungsgesellschaft mbH is furthermore obligated to invest the transfer fee in offsetable plan assets pursuant to IAS 19.8. The assessment of whether offsetable plan assets exist requires a discretionary interpretation of the relevant requirements of IAS 19.8 in consideration of existing legal technical literature and professional guidance.

There is a financial statement risk that the capitalization criteria for the recognition of the reimbursement right are not met or that the reimbursement right is impaired. There is also a financial statement risk that the pension obligations are offset against assets without the plan asset requirements pursuant to IAS 19.8 being met.

OUR AUDIT APPROACH

We have gained an understanding of the transaction based on inspection of the contractual agreements underlying the transaction. We have considered the basis on which the reimbursement right is recorded and have evaluated the assessment of management concerning the relevant capitalization criteria and the recoverability of the reimbursement right. With regard to the review of the valuation of the reimbursement right against Colibri Beratungsgesellschaft mbH, VARTA Microbattery GmbH has provided us with its bank confirmation concerning the assets including a deposit statement for investments made by Colibri Beratungsgesellschaft mbH, to fulfill its contractual obligation. In our audit regarding the valuation of the difference guaranteed by the shareholder of Colibri Beratungsgesellschaft mbH, we have evaluated the implemented guarantees, in particular an existing bank guarantee in the amount of EUR 4,000K and a subordinate guarantee of VGG GmbH, Vienna, for a maximum amount of EUR 8,000K for this portion of the reimbursement claim.

In the assessment of the offsetability we have considered the submitted contracts. To assess the offsetting criteria pursuant to IAS 19.8, we have also involved specialists in the audit team specializing in the relevant questions concerning professional interpretations.

OUR OBSERVATIONS

The assessment of the capitalization criteria and the creditworthiness of the obliged party of the reimbursement agreement is appropriate. Reimbursement right and pension obligation are fairly presented on a gross basis, and not offsetted.

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 4.3.2 or 4.8. Intangible assets disclosure information 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 2017, and the capitalized development costs amount to EUR 10,850K. Their share of the balance sheet total assets amounts to 2.7% or 3.3% 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”. Therefore, the book value is compared to the recoverable amount of the respective CGU. If the book value is above the recoverable amount, an impairment loss needs to be recorded. The recoverable amount is the higher amount of fair value less costs of disposal and value in use of the CGU.

The impairment test of the trademark right and the capitalized development work is complex and based on several discretionary assumptions. This includes in particular the expected future cash flows, the expected long-term growth, and the applied discounting rate.

As a result of the impairment test, no need for impairment has been identified.

There is a financial statement risk that the value of the trademark right and the capitalized 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 most significant assumptions concerning business and profit development as well as the assumed long-term growth prospects based on the explanations of the parties responsible for planning. With regard to the cash-generating units "Microbattery" and "Power & Energy", we have reconciled the expected future cash flows with the planning information approved by the supervisory board. We have furthermore performed a plausibility check of the derived company value based on the calculated values in use with the stock market capitalization of VARTA AG (number of shares multiplied by stock market price).

We have furthermore assessed the previous forecasting quality of the company by comparing plans from previous financial years to the actual realized revenue results and the result before taxes, and by analyzing differences. With the assistance of our valuation specialists we have assessed the appropriateness of the assumptions and parameters underlying the discounting rate.

We have re-performed the company's calculations based on selected, risk-oriented elements to ensure the correct calculation of the utilized valuation model.

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.

Existence and value of inventory

Concerning the applied accounting and valuation methods we refer to the notes under Section 4.7. Disclosure information concerning inventory is available under Section 12 of the notes.

THE FINANCIAL STATEMENT RISK
Inventory amounts to EUR 53,770K in the balance sheet as at 31 December 2017.

The value of inventory is initially assessed at acquisition or production costs (in consideration of incidental acquisition costs and purchase price reductions) and must be reduced if the stock is damaged, obsolete in full or in part, or if its presumable net selling value no longer covers acquisition or production costs.

Determining the net realizable value as upper value limit is discretionary. The net realizable value requires in part future-oriented estimates concerning the amounts that can presumably realized when selling inventory. The aging of inventory with short technological cycles and the suitability for storage over time also plays a significant role.

Based on experience, there is a risk that inventory needs to be impaired. The risk for the consolidated financial statement also exists that inventory may possibly be overstated due to possibly unidentified impairment needs.

OUR AUDIT APPROACH
Based on our gained process understanding, we have assessed the implementation, design, and effectiveness of identified internal controls, in particular with regard to the calculation of the expected net realizable values as well as the with regard to inventory management

We have observed stock taking and in particular have used purposive samples to ensure the correct recording of existing inventory. For our test we have assessed the correct transfer of inventoried volumes from the inventory sheets to the inventory system. We furthermore analyzed significant deviations between the counted inventory quantities and the quantities pursuant to the inventory system.

We evaluated the sales prices assessed for the determination of the net realizable value through selling prices applicable immediately after the closing date. We furthermore verified the days-of-inventory analysis of the company and considered, based on historical values of the company, whether the recorded deductions are appropriate.

We have re-performed the calculations to determine the net realizable value and the need for impairment for selected, risk-based chosen elements of inventory.

OUR OBSERVATIONS
The assumptions underlying the determination of the net realizable values and the estimates made by management are appropriate. The inventory management is appropriate.

Cut-off for revenue recognition

Concerning the applied accounting and valuation methods we refer to the notes under Section 4.15. Disclosure information concerning revenues is available under Section 27 of the notes.

THE FINANCIAL STATEMENT RISK

The Group's revenue in financial year 2017 amounts to EUR 242,157K.

VARTA AG Group records revenue from the sale of products if the requirements under IAS 18 are met. For this, among other things, the decisive opportunities and risks associated with the ownership of products sold must have been transferred to the customers.

The significant markets of the Group are in Europe, North America, and Asia. The Group companies apply various Incoterms for the global deliveries of products. Incoterms specify transfer of risks and thus the moment of revenue recognition.

Due to the use of various Incoterms for the respective customer and the various transportation times jointly with a high volume of deliveries, there is a financial statement risk that revenues are recognized improperly at the cut-off date.

OUR AUDIT APPROACH

Based on our gained process understanding, we have assessed the implementation, design, and effectiveness of identified internal controls, in particular with regard to ensuring the existence of proof of delivery or service upon invoicing.

We furthermore assessed the appropriate cut-off of revenue recognition by obtaining confirmations from third parties or alternatively by reconciliating 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 a sample of revenue items posted by selected, risk-oriented system users in a specified period prior to the balance sheet date.

OUR OBSERVATIONS

The method of the VARTA AG Group used for proper revenue recognition at year end is appropriate.

Other Information

Management is responsible for the other information. The other information comprise the annual report presumably provided to us after the date of this report, with the exception of the audited consolidated financial statements and the Management Report and our auditor's report.

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 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 aspects, with the 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 the financial performance of the Group. In addition, management is responsible for such internal control, as they have determined necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the 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, the 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 judgment and maintain professional skepticism 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 control.
- 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 by the annual general meeting on 12 May 2017. We were engaged by the supervisory board on 30 November 2017. We have been the Group auditor of the VARTA AG without interruption since the 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, 9. April 2018
KPMG AG Wirtschaftsprüfungsgesellschaft
(Original German version signed by:)

Petra Mayran	Dietmar Hundshagen
Wirtschaftsprüferin	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)