

VARTA AG Group

Quarterly Report Q1/2023

as of 31 March 2023

www.varta-ag.com



VARTA



VISION

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

MISSION

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

VARTA AG – SELECTED GROUP KPIs

(€ k)	31 March 2023	31 March 2022
Revenue	164,225	185,291
EBITDA	-7,590	37,130
Adjustments:		
Cost of share-based payment	1	4
Costs of M&A transactions	0	940
Restructuring costs VARTA AG Group	5,579	0
Adjusted EBITDA	-2,010	38,074
Adjusted EBITDA Margin (%)	-1.2%	20.5%
Group result	-37,789	6,033
Earnings per share	-0.89	0.15
Investments (CAPEX)	24,862	30,812
Free Cash Flow	-97,107	-23,853
Equity ratio*	20.4%	19.0%
Balance sheet total*	1,232,643	1,258,454
Employees at the end of quarter**	4,390	4,610

* Comparison period relates to 31 December 2022

** Prior year adjusted according to IAS 8



VARTA AG

VARTA Aktiengesellschaft (VARTA AG), Ellwangen (Jagst), Germany, is the parent company of the VARTA group. Since October 2017, VARTA AG has been listed on the Frankfurt Stock Exchange in the Prime Standard segment and listed on the SDAX. The business activities of VARTA AG and its subsidiaries encompass the research and development, production and sale of micro and household batteries, large-format batteries, customer-specific battery solutions and energy storage systems. The business activities of the VARTA AG Group are divided into five reportable business segments: "Micro Batteries", "Lithium-Ion CoinPower", "Consumer Batteries", "Energy Storage Systems" and "Other". Through intensive research and development, VARTA sets global standards in many areas of lithium-ion technology and microbatteries and ranks among the innovation leaders in the key growth markets of lithium-ion technology in addition to primary hearing aids and household batteries. Our production processes that have been developed and refined over the years, including customised production systems in some cases, round off the Company's competence profile alongside a highly qualified and experienced workforce. The VARTA AG Group currently employs 4,390 staff. The Group operates five production and battery manufacturing plants in Germany, Romania and Indonesia in addition to distribution centres in the USA, Europe and Asia, from which sales to customers in more than 100 countries around the world are coordinated.

Micro Batteries

The segment "Micro Batteries" covers the business activities in the area of microbatteries and hearing aid batteries. The Group is one of the leading manufacturers of microbatteries for hearing aids.

Lithium-Ion CoinPower

The segment "Lithium-Ion CoinPower" represents the business with small lithium-ion round cells, also known as CoinPower, for OEM applications. VARTA boasts reputable firms as clients and manufactures batteries in numerous key electro-chemical systems as well as in a variety of structural shapes and sizes, while the range of applications extends from hearing aids to True Wireless Stereo Headsets all the way through to automotive applications operated by way of microbatteries. The two segments "Micro Batteries" and "Lithium-Ion CoinPower" work together in a synergistic manner.

Consumer Batteries

The "Consumer Batteries" segment comprises the product categories of household batteries, rechargeable batteries, chargers, portable power (power banks) and lights. VARTA AG is one of the European market leaders with production activities located in Germany for household device batteries. "Consumer Batteries" is predominantly geared towards end customers. The innovative, high-quality products from the "Consumer Batteries" segment are developed and manufactured using cutting-edge technology and by leveraging the expertise of internationally qualified specialists. A combination of innovative capacity, breadth, quality and design make the product range unique. An intensive focus on the lifestyle of consumers and close cooperation with retailers are crucial in enabling VARTA to react quickly and flexibly to the latest device trends with the best energy solutions.

Energy Storage Systems

In the "Energy Storage Systems" segment, the Company primarily manufactures energy storage systems for private households in addition to large-scale commercial storage solutions for trade customers. In this context, VARTA is playing a key role in the energy transition by developing and manufacturing energy storage systems. The energy storage solutions developed by VARTA in the home and mass storage markets range from compact, basic models such as the wall-mounted VARTA pulse neo to large-scale storage solutions including the VARTA flex storage for commercial applications. The existing product portfolio for private households as part of the VARTA pulse neo and

VARTA element backup product series comprises AC-coupled systems, which feature integrated battery inverters and can therefore be combined with photovoltaic systems without the need for additional PV inverters. As such, they are perfectly suited to new installations as well as retrofit projects. The smart energy management system also ensures optimal use of self-produced solar energy and is designed to significantly increase domestic solar power use. With the VARTA.wall, the Company presented a state-of-the-art system based on round cell technology in 2022, which is extremely flat and space-saving and benefits from a small installation depth of around only 10 centimetres. The DC-coupled VARTA.wall storage system is set to be launched on the market with capacities of 10 to 20 kWh and is therefore geared towards the particular capacity requirements of individual customers. In addition, the modular stacking design facilitates a subsequent storage capacity expansion in order to ensure sufficient capacity even if the energy demand increases in the future. With this design, VARTA is aiming for an installation in under 30 minutes, which means installers would save a significant amount of time in comparison with existing products. In addition, compatibility with various market-leading inverter manufacturers facilitates the use of the VARTA.wall for both new installations and pre-installed PV systems.

Other

The "Other" segment includes the business units "Lithium-Ion Battery Packs" and "Lithium-Ion Large Cells". The Group can call on extensive industry experience in the construction of high-performance, safe and needs-based lithium-ion battery packs within the Lithium-Ion Battery Packs business segment – for medical technology, robotics, connectivity, household and telecommunications applications. The product portfolio ranges from fully customer-specific battery packs all the way through to fully configured standard batteries that can be used immediately. With the Lithium-Ion Large Cells division, VARTA is planning to offer large lithium-ion round cells for automotive (V4Drive) and non-automotive (RoundPower) applications. Preparations for the Company's entry into the e-mobility business are focused on the V4Drive large-format lithium-ion round cells. An initial small scale production line is supplying up to 10,000 round cells per week, which are already being used in the pre-series production for an OEM customer. In the non-automotive business, the focus with RoundPower is on all fields of application outside of classic e-mobility. This includes, for example, industrial vehicles, power tools, home and garden applications, e-bikes and various other potential application areas. However, at present, no sales are being generated here.



Business development in the first three months of 2023

VARTA AG meets the challenges in a difficult market environment

- Macroeconomic aspects as consequences of the global crises and reduced customer orders continue to weigh on results.
- Q1 revenue € 164.2 million (Q1 2022: € 185.3 million), Q1 adjusted EBITDA € -2.0 million (Q1 2022: € 38.1 million).
- Energy Storage Systems increases revenue by a factor of 2.7 and becomes the second largest segment. High order backlog until the 4th quarter of 2023 ensures high predictability for Energy Storage Systems' sales potential in 2023.
- The development of the Energy Storage segment together with an easing of energy and raw material prices and the restructuring that is underway will, in the opinion of the management, lead to a stabilisation of the annual result.
- Forecast for financial year 2023 unchanged: Revenue € 820 - 870 million, adjusted EBITDA to be at least in the order of the previous year.

VARTA AG stands by its assessment for the 2023 financial year despite the ongoing global challenges. The reasons for this are the continuing high order backlog for energy storage systems and the resulting increase in customer demand in the wake of the energy transition, the significant fall in energy and raw material prices observed since autumn 2022 and the successive adjustment of product prices over the course of the year. According to the company's assessment, these factors will ensure an improvement in the margin picture. In addition, the Executive Board of VARTA AG is convinced that it will return to profitability with the adopted restructuring programme, the successfully implemented capital increase and targeted investments in growth markets.

Like all companies producing in Europe, the consequences of the global crises continue to burden the business of the Ellwangen-based technology company in the first three months of the 2023 financial year. Stock purchases by private households in the previous year are one of the consequences of the global crises, as is the current lower market demand from important customer groups. The decline in demand in the Lithium-Ion CoinPower segment is also related to the significantly lower demand from a single major customer.

In the first three months of the 2023 financial year, the VARTA AG Group's revenue fell by 11.4% year-on-year from € 185.3 million to € 164.2 million. Adjusted EBITDA fell from € 38.1 million in the previous year to € -2.0 million. For the 2023 financial year, VARTA AG's Executive Board continues to expect sales of between € 820 million and € 870 million and anticipates adjusted EBITDA in 2023 to be at least on a par with the previous year.

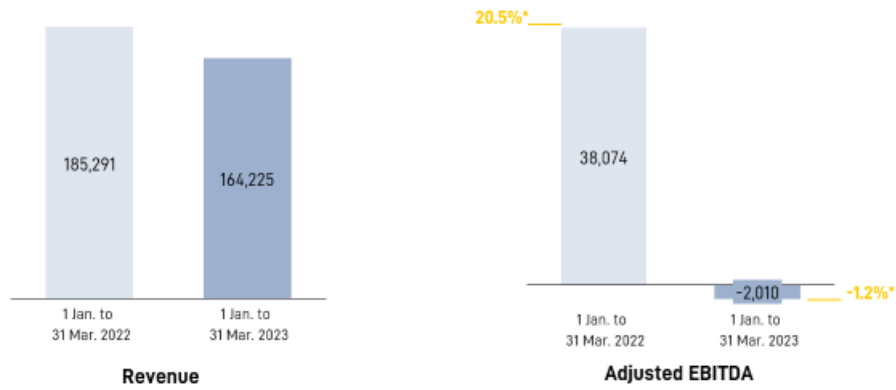
Dr Markus Hackstein, Speaker of the Executive Board of VARTA AG: "2023 is a year of change for VARTA AG. The restrained customer demand in the majority of the segments requires a very strict savings course. We are currently implementing the measures of our restructuring programme. Unfortunately, this also means painful cuts in personnel. Our customers' business is generally focused on the second half of the year, with only the home storage business running evenly strong throughout the year. In the second half of

2023, we expect higher utilisation of our production capacity for our lithium-ion cells, but also in the Consumer Batteries segment, due to our customers' forecasts."

The restructuring programme decided in March includes cost savings in all areas and reductions in working capital, especially through a reduction in inventories. Savings in human resources amount to around 800 positions worldwide. More than half of these will come from planned departures and fluctuation. Another roughly 240 jobs will be cut at the German locations this year, and about 150 more jobs are to be relocated abroad next year. Talks with employee representatives are already underway.

Revenue & Adjusted EBITDA

(IN K€, unaudited)



*Margins: Adjusted EBITDA to revenue

1. Development of Financial Position and Financial Performance

1.1. Financial Performance

Consolidated income statement for the period 1 January 2023 to 31 March 2023 (unaudited)
VARTA Aktiengesellschaft, Ellwangen (Jagst)

(€ k)	31 March 2023	31 March 2022
Sales revenue	164,225	185,291
Increase in finished and unfinished goods	19,966	32,398
Own work capitalized	6,441	2,669
Other operating income	5,085	20,368
Cost of materials	-103,204	-97,671
Personnel expenses	-63,450	-68,202
Other operating expenses	-36,653	-37,723
EBITDA	-7,590	37,130
Depreciation	-22,397	-25,446
Operating income (EBIT)	-29,987	11,684
Interest income	368	335
Interest expenses	-5,291	-1,478
Other financial income	880	258
Other financial expenses	-189	-778
Financial result	-4,232	-1,663
Earnings before taxes	-34,219	10,021
Income taxes	-3,570	-3,988
Group result	-37,789	6,033
Appropriation of loss (PY profit):		
Shareholders of VARTA AG	-37,789	6,033

Revenue

In the first three months of financial year 2023, VARTA AG Group revenue fell by 11.4 % year on year from € 185.3 Mio. €m to € 164.2 Mio. €m. The reason for this is a slowdown in consumer behaviour owing to high inflation and the current economic landscape.

Revenue in the "Energy Storage Systems" segment rose from € 14.7 m to € 39.7 m, an increase of € 25.1 m. This pleasing development is due to the high demand for home storage solutions.

In the "Consumer Batteries" segment, revenue fell from € 82.2 m to € 74.9 m, which reflects a decline of € 7.3 m. This revenue drop is the result of a downturn in demand for household batteries.

Revenue in the "Micro Batteries" segment fell by € 9.0 m from € 43.3 m to € 34.2 m. The economic slowdown has led to a decline in demand that has impacted business with rechargeable hearing aid batteries in particular, as well as zinc-air batteries to a lesser extent.

Revenue in the "Li-Ion CoinPower" segment was down by € 31.9 m, falling from € 34.6 m to € 2.7 m in the process. The main driver in this respect is the fact that one of our largest customers took significantly lower volumes.

Expenses and other operating income

In the first three months of the year, the cost of materials amounted to € 103.2 m compared with € 97.7 m in the same period of the previous year. This equates to an increase of 5.7 %. The cost of materials ratio in relation to total output (sales revenue plus increase in finished and unfinished goods) rose from 44.9 % to 56.0 %. The rise in the cost of materials ratio is primarily the result of increased prices for raw materials and changes in the product mix. The sharp rise in raw material prices did not have a significant impact until the second quarter of 2022. The Company has already initiated measures with the aim of bringing the cost of materials ratio back down.

Personnel expenses declined by 7.0% from € 68.2 m to € 63.5 m. This development can be attributed to the personnel measures implemented, such as the short-time work in Nördlingen and the non-extension of limited employment contracts, in addition to general fluctuations in staff turnover.

Other operating expenses fell by a total of 2.8 % from € 37.7 m to € 36.7 m. On account of short-time work and falling revenue, the expenses for energy fell by € 1.5 m, while those for outward freight and customs duties declined by € 0.6 m. Miscellaneous other operating expenses fell by € 2.6 m, mainly due to a non-recurring effect in the previous year. Conversely, expenses for legal, auditing and consulting fees increased by € 4.0 m, mainly in connection with the restructuring concept. Furthermore, expenses for warranties increased by € 1.7 m.

Other operating income declined by € 15.3 m from € 20.4 m in the first three months of 2022 to € 5.1 m as at the end of the first quarter of 2023. This decline is primarily the result of reduced income from subsidies and public grants, which was down as expected by € 16.1 m in the first three months of 2023.

EBITDA

In comparison with the same period of the previous year, EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation) declined sharply, falling from € 37.1 m to € -7.6 m in the process. This was mainly due to the negative factors described above and the significantly more restrained development of sales revenue by comparison with the same period of the previous year.

Adjusted EBITDA

Adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortisation, adjusted for extraordinary effects) represents a sustainable earnings indicator for the Group. At the same time, adjusted EBITDA is the appropriate control parameter for the Executive Board to assess the operating earnings capacity of the Group and the five segments. The non-cash expenses for share-based remuneration payments and expenses linked to the restructuring plan were adjusted as extraordinary effects. The table below shows the reconciliation from EBITDA to adjusted EBITDA:

(€ k)	31 March 2023	31 March 2022
EBITDA	-7,590	37,130
Expenses from share-based remuneration	1	4
Expenses for M&A transactions	0	940
Restructuring costs VARTA AG Group	5,579	0
adjusted EBITDA	-2,010	38,074

The restructuring concept resulted in additional expenses. These have been identified as an extraordinary effect and are to be adjusted this year.

Operating result (EBIT)

At € -30.0 m, the operating result is significantly below the previous year (€ 11.7 m). The main effect results from the operating business as well as the negative influencing factors outlined previously.

Financial result

The financial result deteriorated in the reporting period from € -1.7 m in 2022 to € -4.2 m in 2023. This is primarily due to the growth in interest expenses, which rose by € 3.8 m from € 1.5 m to € 5.3 m, on account of increased borrowing. This was due to the increase in the volume of debt financing and the rise in variable interest rates compared with the same period of the previous year.

Taxes

As at 31 March 2023, there was a tax expense of € 3.6 m on the back of deferred tax liabilities that arose due to temporary differences and the expected actual tax expenses as a result of the positive earnings situation of the Consumer companies.

Group result

Due to the reasons outlined above, at € -37.8 m (2022: € 6.0 m), the group result was well down on the value recorded in the prior-year period.

1.2 Financial position

Consolidated balance sheet as at 31 March 2023

(€ k) 31 MARCH 2023 31 DECEMBER 2022

ASSETS

Non-current assets	746,666	749,220
Current assets	485,977	509,234
Total assets	1,232,643	1,258,454

(€ k) 31 MARCH 2023 31 DECEMBER 2022

EQUITY AND LIABILITIES

Equity	251,762	239,465
Total liabilities	980,881	1,018,989
Non-current liabilities	197,430	196,035
Current liabilities	783,451	822,954
Total equity and liabilities	1,232,643	1,258,454

Non-current assets

Non-current assets fell by € 3.0 m from € 749.2 m in 2022 to € 746.7 m. This decrease is mainly the result of the decline in deferred tax assets from € 19.7 m to € 10.1 m as at 31 March 2023. Intangible assets developed in the opposite direction, rising from € 99.6 m to € 104.1 m. Capitalised development costs were crucial to this development.

Current assets

Current assets decreased by € 23.3 m in comparison with 31 December 2022, falling from € 509.2 m to € 486.0 m as at 31 March 2023. This change is due to the increase in inventories by € 21.2 m, as well as the reduction in tax refund claims by € 8.0 m and in cash and cash equivalents by € 30.8 m. Trade receivables also fell by € 6.2 m compared to the end of 2022.

Equity/equity ratio

Equity increased from € 239.5 m as at 31 December 2022 to € 251.8 m as at 31 March 2023. The equity ratio amounted to 20.4 % as at the reporting date (31 December 2022: 19.0%). The increase here is mainly due to the capital increase of € 50.7 m. The negative consolidated result of € -37.8 m trended in the opposite direction.

Non-current liabilities

Non-current liabilities rose by € 0.9 m from € 196.0 m as at 31 December 2022 to € 197.4 m as at 31 March 2023. The main factor behind this development is the decline in deferred tax liability claims from € 16.9 m to € 9.2 m. Conversely, other non-current liabilities in connection with the capitalised development costs increased from € 27.4 m to € 31.3 m. Furthermore, long-term lease liabilities grew by € 3.8 m in comparison with 31 December 2022.

Current liabilities

Current liabilities fell from € 823.0 m to € 783.5 m as at 31 March 2023. This development was essentially due to the reduction of € 38.5 m in trade payables compared with 31 December 2022. Moreover, tax liabilities declined by € 12.4 m and deferred liabilities were down € 12.2 m versus 31 December 2022. The reduction in deferred liabilities is mainly due to deferred customer bonuses of € 15.4 m. Other financial liabilities developed in the opposite direction, rising by € 25.5 m from € 497.0 m to € 522.5 m in the process.

Net Working Capital

Net working capital rose from € 162.7 m as at year-end 2022 to € 232.4 m as at 31 March 2023. This corresponds to growth of € 69.8 m year on year. The net working capital ratio is calculated in relation to the revenue of the last three months extrapolated to one year and stands at 35.4 % as at 31 March 2023 (31 December 2022: 17.1 %). The change in the net working capital ratio by 18.3 percentage points is mainly due to the restrained development of sales revenue in the last three months, increased inventories and the decline in receivables.

Cash flow statement

(€ k)

	31 March 2023	31 March 2022
Cash and cash equivalents as at 1 January	108,709	73,107
Cash flow from operating activities	-65,885	22,092
Cash flow from investing activities	-31,222	-45,945
Cash flow from financing activities	66,526	228,397
Net change in cash and cash equivalents	-30,581	204,544
Effects of exchange rate fluctuations	-211	261
Cash and cash equivalents as at 31 March	77,917	277,912

Cash flow from operating activities amounted to €-65.9 m as at 31 March 2023 and therefore stands € 88.0 m below the value recorded in the same period of the prior year.

The reason for the decline in cash flow from operating activities is the drop in earnings of € 44.2 m year on year and the reduction in trade receivables due to the weaker fourth quarter, which resulted in a decline of € 47.5 m.

Cash flow from investment activities moved from € -45.9 m in the prior-year period to € -31.2 m in the first quarter of 2023. Payment outflows in connection with investments in intangible assets and property, plant and equipment (CAPEX) are lower than in the same period of the previous year and amount to € 24.9 m (2022: € 30.8 m). They were adjusted to the current business development.

Cash flow from financing activities fell from € 228.4 m in the first three months of 2022 to € 66.5 m in the period under review here. The positive cash flow in the first quarter of 2023 results from the capital increase of € 50.7 m. In the same period of the previous year, the high cash inflow resulted from the raising of the promissory note loan in the amount of € 250.0 m.

As at the reporting date of 31 March 2023, cash and cash equivalents totalled € 77.9 m (2022: € 277.9 m). As at the balance sheet date, existing credit lines had been drawn down in full.

2. Financial performance Segments

The company is divided into the segments "Micro Batteries", "Lithium-Ion CoinPower", "Consumer Batteries", "Energy Storage Systems" and "Other".

Many of VARTA's customers around the world are facing major challenges. The war in Ukraine, which has resulted in cost increases for raw materials and energy prices, in addition to the downturn in consumer behaviour as a result of high inflation, are leading to reduced demand for our batteries in the "Consumer Batteries", "Micro Batteries" and "Other" segments. However, the "Energy Storage Systems" segment is clearly bucking the general trend, which is firstly due to the high order volume generated in 2022 and secondly to high levels of demand for domestic energy storage solutions.

Micro Batteries

	31 March 2023	31 March 2022	Change
Sales revenue (€ k)	34,210	43,256	-20.9%
Adjusted EBITDA (€ k)	3,917	7,360	-46.8%
Adjusted EBITDA margin %	11.4%	17.0%	-5.6 PP

The Micro Batteries segment comprises business with micro batteries and hearing aid batteries. In the first quarter of 2023, revenue amounted to € 34.2 m, reflecting a revenue drop of 20.9 %.

In the first three months of financial year 2023, adjusted EBITDA fell from € 7.4 m to € 3.9 m year on year. This corresponds to an above-average decline in relation to revenue development. The adjusted EBITDA margin stands at 11.4 %, which equates to a decline of 5.6 percentage points in comparison with the previous year.

Alongside falling demand, this decline in earnings results from the rise in manufacturing costs, in particular due to the negative development of the energy and raw material prices to which VARTA is subject.

Lithium-Ion CoinPower

	31 March 2023	31 March 2022	Change
Sales revenue (€ k)	2,737	34,608	-92.1%
Adjusted EBITDA (€ k)	-18,231	20,034	< 100.0 %
Adjusted EBITDA margin %	-666.1%	57.9%	-724.0 PP

The "Lithium-Ion CoinPower" segment includes the small-format lithium-ion round cells for OEM applications. In the first quarter of 2023, revenue amounted to € 2.7 m. This corresponds to a revenue decline of 92.1 %.

In the first quarter of 2023, adjusted EBITDA fell from € 20.0 m to € -18.2 m in comparison with the same period of the previous year, which corresponds to a disproportionate decline in relation to revenue development.

The main cause for this sharp decline is the significant reduction in the sales volume in connection with the largest customer in the "Lithium-Ion CoinPower" segment. Personnel measures, such as the imposition of short-time work in Nördlingen and the non-extension of limited employment contracts, were already initiated at the end of 2022, with the aim of taking account of developments linked to sales volumes and demand. In addition, in the event of a recovery in demand, VARTA has sufficient existing capacities, allowing it to produce additional quantities at short notice.

Consumer Batteries

	31 March 2023	31 March 2022	Change
Sales revenue (€ k)	74,880	82,219	-8.9%
Adjusted EBITDA (€ k)	6,184	11,592	-46.7%
Adjusted EBITDA margin %	8.3%	14.1%	-5.8 PP

The "Consumer Batteries" segment comprises business activities in the area of household batteries, rechargeable batteries, chargers, portable power (power banks) and lights. In this segment, revenue fell from € 82.2 m in the first three months of the previous year to € 74.9 m as at 31 March 2023. This reflects a decline of 8.9 %. By way of comparison, adjusted EBITDA fell by 46.7 %. The adjusted EBITDA margin stands at 8.3 %, which corresponds to a decline of 5.8 percentage points in comparison with the previous year.

This revenue decline is the result of a fall in demand for household batteries. The very marked increase in raw material prices and the high additional energy costs compared to the first quarter of the previous year had a negative impact here, with the Company only able to partially pass on these increased costs to customers. VARTA is confidently confronting the current trend in energy and raw material costs with the ambition of passing on the increased costs in the medium term. Accordingly, the Executive Board expects that the material-intensive "Consumer Batteries" segment will be able to return to the margin levels seen in 2020 and 2021 over the medium term.

Energy Storage Systems

	31 March 2023	31 March 2022	Change
Sales revenue (€ k)	39,718	14,650	> 100.0 %
Adjusted EBITDA (€ k)	5,843	-182	> 100.0 %
Adjusted EBITDA margin %	14.7%	-1.2%	15.9 PP

In the first three months of 2023, revenue in the "Energy Storage Systems" segment increased from € 14.7 m to € 39.7 m year on year. This corresponds to revenue growth of 171.1 %. Adjusted EBITDA increased by € 6.0 m, rising from € -0.2 m to € 5.8 m in the process. The adjusted EBITDA margin stands at 14.7 % in relation to revenue, up 15.9 percentage points year on year.

The pleasing sales growth in the material-intensive "Energy Storage Systems" segment is firstly due to the high order volume generated in 2022 and secondly to high levels of demand for domestic energy storage solutions. At the beginning of financial year 2023, VARTA has been able to pass on in full the increased costs incurred in 2022. As expected, this led to a significant improvement in the EBITDA margin.

Other

	31 March 2023	31 March 2022	Change
Sales revenue (€ k)	12,679	10,557	20.1%
Adjusted EBITDA (€ k)	277	-730	> 100.0 %
Adjusted EBITDA margin %	2.2%	-6.9%	9.1 PP

In the new segment structure, the "Other" segment includes the "Lithium-Ion Battery Packs" and "Lithium-Ion Large Cells" (V4Drive and RoundPower) business units. In addition, any potential extraordinary effects at Group level are assigned to this segment. In the first quarter of 2023, revenue in the "Other" segment amounted to € 12.7 m, which equates to sales growth of 20.1 %. The adjusted EBITDA increased by € 1 million compared to the previous year. The adjusted EBITDA margin was 2.2 % in relation to revenue, reflecting an improvement of 9.1 percentage points in comparison with the prior year.

3. Employees

The number of employees across the entire Group decreased from 4,610 employees (previous year adjusted in accordance with IAS 8) in the first quarter of the previous year to 4,390 employees as of 31 March 2023. This is mainly due to normal staff turnover and initial restructuring measures.

4. Key events after the reporting date

After the profit collapse in 2022, VARTA AG has developed a restructuring concept to facilitate the Company's return to the growth path. In a final report of the restructuring expert for the assessment of the restructuring ability according to IDW S6, VARTA AG was certified to have the restructuring ability and growth prospects with short-term financing requirements for the further stabilisation of the company. VARTA has agreed on a term sheet for the implementation of a restructuring concept with the financing banks and the majority shareholder Montana Tech Components AG, including an extension of the existing financing until 31 December 2026 and changes to the credit conditions (covenants). The boards of the financing banks approved this agreement on 17 April 2023; the provisions of the term sheet still have to be contractually documented with the banks in a restructuring agreement.

For further information, please refer to the detailed explanations in the risk report and supplementary report of the consolidated financial statements 2022 dated 28 April 2023.

On the basis of the measures already initiated, also taking into account the corporate planning reviewed by an external expert, the Executive Board is convinced that the Company will return to the growth path with corresponding profitability.

5. Outlook

The VARTA AG Group maintains a very good position in its core markets and is promisingly positioned to benefit from long-term market developments – especially in the case of lithium-ion batteries and the range of application options these offer. The short-term sales outlook is currently being impaired by the macroeconomic landscape for most segments: stockpiling on the part of private households and businesses in the previous year and due to the current lower purchase volumes of important customers. The downturn in demand seen in the "Lithium-Ion CoinPower" segment can also be attributed to far lower demand on the part of a single major customer. In contrast, the rapidly increasing importance of regenerative energies and demand for energy self-sufficient solutions that we are seeing from many customers are driving demand for energy storage systems. The margin situation is currently impacted by the fact that energy and raw material prices are significantly higher than at the beginning of 2022. However, the Group expects this situation to improve owing to the sharp decline in energy and raw material prices that has set in since autumn 2022 and the gradual adjustment of product prices over the course of the year.

Indications from VARTA customers to this point, for example the high order volume for energy storage systems in particular, give rise to grounds for a certain degree of optimism. For financial year 2023 as a whole, the VARTA AG Group expects to record revenue growth. Adjusted EBITDA will come in at least on a par with the prior-year level.

In view of the risk situation for the 2023 financial year, the business outlook for the VARTA AG Group is associated with an above-average level of uncertainty compared with previous years: in terms of operational risks, there is a pronounced focus on procurement risks, which are due in particular to the high raw material and energy costs, as well as

production and logistics risks. Although the probability of a gas shortage would now appear to be low, if one were to occur, this would significantly compromise both production activities and, as a result, the business results. As far as strategic risks are concerned, dependency on individual customers remains high despite successful diversification measures. This must therefore be classified as a high risk. The risk situation in terms of technological progress made by competitors and receivables risks in connection with public funding can be categorised as medium. The same applies to the potential implementation and financing of a possible factory construction for large-format lithium-ion round cells, which has been discontinued for the time being. Projects that go beyond the existing contractual terms and installed facilities require significant investment and would therefore also be contingent on securing external financing sources, for example from strategic partners and customers. The financing position of VARTA has markedly improved since the turn of the year. Firstly, the company generated gross proceeds of € 50.7 m following a capital increase excluding subscription rights on 21 March 2023. Secondly, on 17 April 2023 (i.e., after the end of the reporting period), the syndicate banks finally approved an extension to the debt financing until 31 December 2026. The documentation pertaining to the restructuring agreement and adjustment of the syndicated loan agreement still need to be finalised. In addition to implementing the restructuring concept, which will lead to operational adjustments in terms of the production and administrative costs, VARTA has drawn up plans for targeted investments in growth areas such as the energy transition and e-mobility.

Overall statement on future development

The guidance outlined in the following sections was published on 28 April 2023. It was reviewed on 14 May 2023 and remains unchanged.

VARTA AG Group

The Executive Board of VARTA AG anticipates that Group revenue of € 820 – 870 m will be generated in financial year 2023 (Q1 2023: € 164 m), with adjusted EBITDA expected to be at least on a par with the previous year (Q1 2023: € -2.0 m). This guidance is based on the assumption that the challenging economic environment and existing global crises will continue in 2023, with the corresponding negative impact on costs, supply chains and consumer demand that these entail. In addition, projections with regard to customer purchases remain subject to a high degree of volatility, meaning that it is still very difficult to provide an accurate forecast in this regard.

The range of the forecasts takes account of these expected negative developments. However, it remains the case at present that the further course of developments linked to energy costs, raw material prices and supply chains, as well as the financing situation, can only be estimated to a limited extent for the coming year. This equally applies to the scope and expenses related to planned restructuring measures that have been agreed with the syndicate banks within the framework of a term sheet. With the costs related to the implementation of the restructuring agreement and the resulting internal operational measures also dependent on external factors such as inflation, the consumer climate and interest rates within the EU, the guidance for the 2023 financial year is subject to an above-average level of risks.

In order to overcome present and future challenges, the Executive Board already launched a comprehensive package of cost-cutting measures in financial year 2022. Capacities for CoinPower cells (TWS) are being scaled back but can be increased again at short notice depending on the demand situation. As part of these adjustments, personnel measures are also in the pipeline, and, in a first step, the Company has temporarily mandated short-time working hours for the "Lithium-Ion CoinPower" segment at the Nördlingen production site. Construction activities in connection with the new factory for large-format lithium-ion round cells (V4Drive/RoundPower) will only continue once

binding customer commitments have been secured and the syndicated banks approve the investment. The operation of the first series production line is continuing as planned. Moving forwards, this will supply cells to fulfil an OEM contract with a premium car manufacturer.

KPI	GUIDANCE FOR 2023 ON BASIS Q1 2023	FINANCIAL YEAR 2022	Q1 2023
Financial indicators: Group			
Revenue	€ 820 – 870 m	€ 806.9 m	€ 164.2 m
Adjusted EBITDA	At least similar with previous year	€ 69.5 m	-€ 2.0 m
Financial indicators: Segment Micro Batteries			
Revenue	Similar to prior year	€ 163.9 m	€ 34.2 m
Adjusted EBITDA	Significant double-digit percentage revenue growth	€ 15.3 m	€ 3.9 m
Financial indicators: Segment Lithium-Ion CoinPower			
Revenue	Very significantly below prior year	€ 136.6 m	€ 2.7 m
Adjusted EBITDA	Very significantly below prior year	€ 18.8 m	-€ 18.2 m
Financial indicators: Segment Consumer Batteries			
Revenue	Low single-digit percentage increase	€ 365.9 m	€ 74.9 m
Adjusted EBITDA	Slightly above prior year	€ 30.4 m	€ 6.2 m
Financial indicators: Segment Energy Storage Systems			
Revenue	Very significant double-digit percentage revenue growth	€ 90.9 m	€ 39.7 m
Adjusted EBITDA	Significant triple-digit percentage growth	€ 5.2 m	€ 5.8 m
Financial indicators: Segment Others			
Revenue	Significantly below prior year	€ 49.6 m	€ 12.7 m
Adjusted EBITDA	Significantly below prior year	€ -0,1 m	€ 0.3 m

The outlook at segment level for financial year 2023 also remains unchanged on the guidance published in the Annual Report 2022.

Micro Batteries segment

The "Micro Batteries" segment comprises micro batteries and hearing aid batteries. In the hearing aid batteries business, the Company intends to further consolidate its market-leading position in a market subject to restrained growth. The Company expects moderate growth in the area of zinc-air batteries and will benefit from its highly automated and efficient production plants. While revenue is likely to remain stable versus the previous year's level, significant double-digit percentage growth is expected for adjusted EBITDA year on year.

Lithium-Ion CoinPower segment

The "Lithium-Ion CoinPower" segment focuses on small Lithium-Ion round cells for OEM applications. Recently, demand for lithium-ion batteries for True Wireless Stereo (TWS) headsets in the area of Lithium-Ion CoinPower has sharply declined. According to current

estimates, VARTA anticipates a very significant decline in both sales revenues and adjusted EBITDA for the segment compared with the previous year due to continued low demand.

Consumer Batteries segment

The "Consumer Batteries" segment comprises business activities in the area of household batteries, rechargeable batteries, chargers, portable power (power banks) and lights. In 2023, revenue is expected to rise moderately versus the prior year. Growth impetus is likely to come from a further slight expansion of the brand business in particular. Adjusted EBITDA is set to slightly improve in comparison with the previous year on account of lower energy and raw material costs in addition to price increases being partially passed on to customers.

Energy Storage Systems segment

The "Energy Storage Systems" segment primarily includes energy storage solutions intended for private applications, although some commercial solutions are offered as well. The Company expects growth to continue at a very high level, with VARTA set to at least match the market growth rate, although VARTA could potentially record growth as high as around 70 % in comparison with the 2022 sales revenue. This would likely produce huge double-digit percentage revenue growth compared with the previous year. Very strong growth is likewise expected in the area of adjusted EBITDA.

Other segment

The "Other" segment comprises the business units of "Lithium-Ion Battery Packs" and "Lithium-Ion Large Cells" (V4Drive and RoundPower). VARTA anticipates a significant reduction in sales and adjusted EBITDA in this segment.

Consolidated statement of financial position as at 31 March 2023 (unaudited)
 VARTA Aktiengesellschaft, Ellwangen (Jagst)

(€ k)

	31 MARCH 2023	31 DECEMBER 2022
ASSETS		
Property, plant and equipment	593,921	591,893
Intangible assets	104,059	99,612
Long-term investments and other participations recognised in the balance sheet under the equity method	60	58
Deferred tax assets	10,134	19,704
Other assets	38,492	37,953
Non-current assets	746,666	749,220
Inventories	244,515	223,317
Contract assets	3,389	3,959
Trade receivables	104,180	110,378
Other financial assets	418	675
Tax refund claims	9,265	17,238
Other assets	46,293	44,958
Cash and cash equivalents	77,917	108,709
Current assets	485,977	509,234
Total assets	1,232,643	1,258,454

(€ k)

31 MARCH 2023

31 DECEMBER 2022

EQUITY AND LIABILITIES

Subscribed capital	42,642	40,422
Capital reserve	300,800	252,292
Retained earnings	-56,492	144,027
Group result	-37,789	-200,420
Other reserves	2,601	3,144
Equity of the VARTA AG Group	251,762	239,465
Lease liabilities	73,496	69,700
Other financial liabilities	18,876	18,795
Provisions for employee benefits	55,456	53,932
Other liabilities	31,290	27,396
Deferred tax liabilities	9,151	16,925
Other provisions	6,768	6,768
Deferred liabilities	2,393	2,519
Non-current liabilities	197,430	196,035
Tax liabilities	34,031	46,434
Lease liabilities	17,707	17,397
Other financial liabilities	522,485	497,000
Provisions for employee benefits	3,507	3,711
Contract liabilities	1,161	2,534
Trade payables and advance payments received	78,136	116,667
Other liabilities	34,952	33,364
Other provisions	7,214	9,438
Deferred liabilities	84,258	96,409
Current liabilities	783,451	822,954
Liabilities	980,881	1,018,989
Equity and total liabilities	1,232,643	1,258,454

Consolidated income statement for the period 1 Januar to 31 March 2023 (unaudited)
VARTA Aktiengesellschaft, Ellwangen (Jagst)

(€ k)

	31 March 2023	31 March 2022
Sales revenue	164,225	185,291
Increase in finished and unfinished goods	19,966	32,398
Own work capitalised	6,441	2,669
Other operating income	5,085	20,368
Cost of materials	-103,204	-97,671
Personnel expenses	-63,450	-68,202
Other operating expenses	-36,653	-37,723
EBITDA	-7,590	37,130
Depreciation	-22,397	-25,446
Operating income (EBIT)	-29,987	11,684
Interest income	368	335
Interest expenses	-5,291	-1,478
Other financial income	880	258
Other financial expenses	-189	-778
Financial result	-4,232	-1,663
Earnings before taxes	-34,219	10,021
Income taxes expenses	-3,570	-3,988
Group result	-37,789	6,033
Appropriation of loss (PY profit):		
Shareholders of VARTA AG	-37,789	6,033
Earnings per share		
	31 March 2023	31 March 2022
Basic earnings per share	-0.89	0.15
Diluted earnings per share	-0.89	0.15

Explanatory notes to the quarterly report

The condensed consolidated interim financial statements were prepared on the basis of all IAS / IFRS published by the International Accounting Standards Board (IASB) that were applicable on the reporting date as well as all interpretations (IFRIC / SIC) drawn up by the International Financial Reporting Interpretations Committee and the Standing Interpretations Committee, provided these have been adopted by the European Union through the endorsement process. These condensed consolidated interim financial statements should be read in conjunction with the consolidated annual financial statements prepared as at 31 December 2022.

The condensed consolidated interim financial statements as of 31 March 2023 and the Group Interim Management Report have neither been audited in accordance with section 317 of the German Commercial Code (HGB) nor reviewed by an auditor.

Financial calendar

Financial statements 2022	28 April 2023
Interim statement Q1 2023	15 May 2023
Annual General Meeting	11 July 2023
Half-year report 2023	11 August 2023
Interim statement Q3 2023	14 November 2023

Imprint

Quarterly report Q1/2023:

<https://www.varta-ag.com/en/investoren/publications>

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