



PARAGON®

GROUP INTERIM REPORT
AS OF SEPTEMBER 30 2018
NINE MONTHS

Highlights in First Nine Months of 2018

- Group sales grow 40.2% to € 118.8 million (prior year: € 84.7 million)
- EBITDA up by 36.3% to € 17.2 million (prior year: € 12.6 million)
- EBIT increases by 25.4% to € 7.7 million (prior year: € 6.1 million)
- Revenue and profitability forecast for the current fiscal year confirmed

Group Key Figures (IFRS)

In € thousands / as indicated	Jan. 1, 2018 to Sep. 30, 2018	Jan. 1, 2017 to Sep. 30, 2017	Change in %	Jul. 1, 2018 to Sep. 30, 2018	Jul. 1, 2017 to Sep. 30, 2017	Change in %
Revenue	118,807	84,745	40.2	40,217	29,454	36.5
Electronics segment ¹	63,094	65,784	-4.1	18,073	20,618	-12.3
Mechanics segment ¹	22,243	5,196	328.1	6,802	3,101	119.3
Electromobility segment ¹	33,469	13,765	143.1	15,341	5,735	167.5
EBITDA	17,172	12,595	36.3	6,135	4,595	33.5
EBITDA margin in %	14.5	14.9	n. a.	15.3	15.6	n. a.
EBIT	7,687	6,132	25.4	2,887	2,422	19.2
EBIT margin in %	6.5	7.2	n. a.	7.2	8.2	n. a.
Group result	1,960	2,141	-8.5	1,236	544	127.2
Earnings per share in €	0.43	0.47	-8.5	0.27	0.12	127.2
Investments ²	24,916	13,313	87.2	9,038	3,763	140.2
Operating cash flow	-35,356	-3,180	-1,011.8	-6,558	-4,882	-34.3

In € thousands / as indicated	Sep. 30, 2018	Dec. 31, 2017	Change in %	Sep. 30, 2018	Sep. 30, 2017	Change in %
Total assets	331,002	311,847	6.1	331,002	152,146	117.6
Equity	178,154	177,062	0.6	178,154	35,043	408.4
Equity ratio in %	53.8	56.8	n. a.	53.8	23.0	n. a.
Available liquidity	73,517	166,826	-55.9	73,517	52,272	40.6
Interest-bearing liabilities	95,564	86,336	10.7	95,564	85,473	11.8
Net debt ³	22,047	-80,490	n. a.	22,047	33,201	-33.6
Employees ⁴	847	678	24.9	847	556	52.3

Share

	Sep. 30, 2018	Dec. 31, 2017	Change	Sep. 30, 2018	Sep. 30, 2017	Change
Xetra closing price in €	37.35	78.68	-52.5 %	37.35	88.55	-57.8 %
Number of shares outstanding	4,526,266	4,526,266	0 %	4,526,266	4,526,266	0 %
Xetra closing price in €	169.1	356.1	-187.0	169.1	400.8	-231.7

1 Segment revenue with third parties.

2 Investments (CAPEX) = cash payments for investments in property, plant and equipment + cash payments for investments in intangible assets.

3 Net debt = interest-bearing liabilities – available liquidity.

4 Plus 88 temporary workers (December 31, 2017: 130; September 30, 2017: 109).

paragon Investor Relations

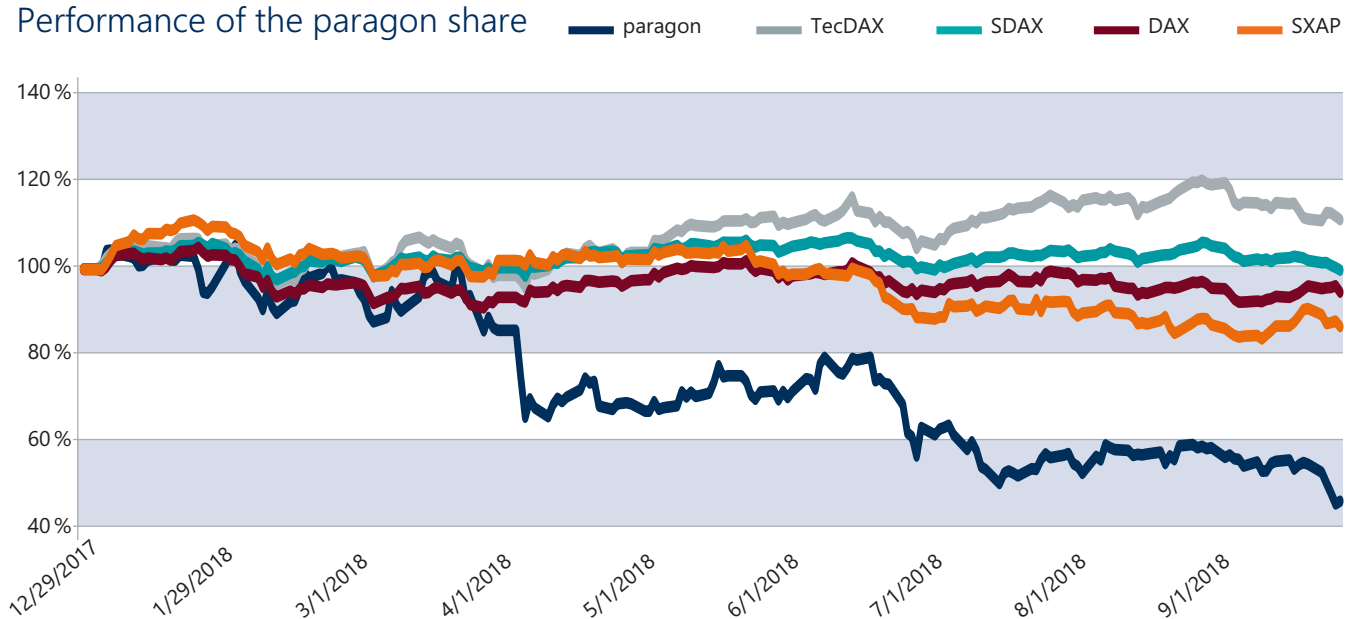
Following the somewhat moderate start to the year, overall economic activity picked up strongly in the spring. However, the uncertainty over how the trade conflicts between the major economic regions would develop, the lack of clarity over the stance which the new Italian government would adopt and the drastic devaluation of the Turkish lira temporarily resulted in significant outflows from the stock markets. Volatility on the financial markets increased accordingly. The outcome was that, at times, the gap between the fallen yields on ten-year German government securities and US government securities with the same maturity reached levels not seen since the late 1980s. The pace of overall economic growth also declined; in early October, the International Monetary Fund cut its forecast by 0.2% to its current figure of 3.7% for 2018 and 2019.

While sentiment initially improved slightly on the German stock market at the start of the third quarter and German investors closed out short positions, institutional investors exploited the market environment in order to take profits. However, negative market sentiment continued to predominate among private investors. As a result, no clear trend emerged on the

market. In the end, private investors increased their short positions again. Halfway through the quarter, this group of investors then exploited the DAX's sideways movement in order to exit their short positions while avoiding losses. Private investors subsequently switched to the buyer side, while institutional investors increasingly sold off their stocks. The leading indices suffered a significant decline in early September, without this prompting purchasing on the part of the active traders among the institutional players. Accordingly, the bear camp – measured in terms of sentiment on the Frankfurt Stock Exchange – increased by more than a third. At the end of the quarter, private investors especially were once again bullish, while international institutional investors continued to reallocate their investments to the USA and significantly expanded their short positions in German stocks. At the same time, profits were taken so as to be able to reinvest at a lower level amid an anticipated sideways trend. On the other hand, private investors were increasingly optimistic and did not engage in profit-taking.

In the third quarter, the automotive sector was particularly badly affected by speculation over the impact of American trade policy as well as increased profit warnings from manufacturers and various suppliers.

Performance of the paragon share



As a result, the key German share indices ended the first nine months of the year with mixed results. While the broad DAX (-5.2%) and the SDAX (-0.2%) fell, only the TecDAX achieved a positive performance (11.2%). On the other hand, over the course of the year the STOXX Europe 600 Automobiles & Parts (SXAP) index, which lists the most important European automotive industry stocks, has increased its loss to -13.0%.

In this market environment, the paragon share suffered disproportionately strongly in the first few months of the year with a fall in value of 52.5%, even though management does not consider the current challenges facing the automotive market to have a significant impact on paragon. While the average volume of daily trading on Deutsche Börse's platforms increased by 29.9% year-on-year to an average of 12,199, the proportion of shares traded via alternative trading venues rose by 24.6% to an average of 8,711. In the period under review, the proportion of the overall volume traded on these alternative trading venues decreased slightly to 41.7% (prior year: 42.7%).

Starting from an initial price of € 78.68, a high of € 82.90 was reached at the end of January. In the further course of trading with a rising level of volatility, the share was increasingly weak as several chart support levels were breached at the beginning of the second quarter, which saw exceptionally high trading volumes. In the second quarter of the year, short positions were temporarily established in the paragon share. At the present time, the German Federal Gazette has not been notified of any net short positions for the paragon share.

A low of € 36.85 was reached at the end of the third quarter, while the first nine months of the year closed at a price of € 37.35. This corresponds to a stock market value of approximately € 169.1 million for paragon GmbH & Co. KGaA as of the end of the reporting period and represents a decrease of around € 187.0 million in the company's market capitalization for the first nine months of the year.

On July 5, the corporate bond 2013/18 was fully repaid as scheduled with its outstanding volume of € 13 million. In the first nine months of the year, the corporate bond 2017/22 was stable with an average price of 104.86%. On October 15, 2018, management decided to offer a new bond with a target volume of € 50 million by way of a public offer and a private placement. On October 24, 2018, in view of the currently very difficult and volatile market environment, management decided to hold off on the placement of a new corporate bond for the time being and to cancel the public offer that was initiated on October 23, 2018. paragon will now finance its investment activities through its available liquidity and credit lines.

Oddo BHF Asset Management SAS informed us that its voting rights in the company exceeded the threshold of 3% of the company's share capital on January 15, 2018, and amounted to 3.03% on this date.

Oddo BHF Asset Management SAS informed us that its voting rights in the company fell below the threshold of 3% of the company's share capital on October 25, 2018, and amounted to 2.98% on this date.

Dear shareholders, customers, business partners and employees,

In the third quarter, paragon held its own in a challenging market environment while also laying the foundations for its further planned growth in the digital segment of the automotive value chain. The acquisition of SemVox GmbH (now: paragon semvox GmbH), which we consider a “gem of the artificial intelligence industry,” represents an important milestone in this respect. Over the past few weeks, we have worked intensively on the integration of SemVox within the paragon Group. We are confident that SemVox’s team, led by its CEO, Dr. Norbert Pflieger, will enable us to successfully enter the market for digital assistance systems for automobiles and beyond.

As a spinoff of the German Research Center for Artificial Intelligence in Saarbrücken, SemVox’s employees contribute wide-ranging and unusually deep expertise. Through this acquisition, we have provided the paragon Group with 10 years of SemVox AI development, which is significantly superior to the well-known voice control systems of the major American tech corporates. In particular, SemVox’s technology semantically links available information such as the user’s personal preferences, thus enabling a genuine, fluent and “intelligent” human-machine dialogue – a broad user experience that is miles ahead of the competition.

There is also another, entirely different distinguishing feature for automobile manufacturers that have already fitted a large number of vehicle types with SemVox technology: Only SemVox offers the option of integrating an assistant deep inside an automobile, which the car manufacturer is able to customize, thus enabling it to stand out against the competition. This approach will enable every manufacturer to establish its own, independent online marketplace and thus offer individual functions, add-ons and business models. The topic of data security is relevant here; SemVox users remain in control of their own data – users’ behavior is not saved in the background.

paragon semvox GmbH is the new “Digital Assistance” business unit of paragon GmbH & Co. KGaA. The goal is to develop new product generations and to play a role in shaping the automotive industry’s digital future. paragon aims to increasingly become a full-range supplier here. Manufacturers will thus be able to obtain solutions comprising hardware and software in the field of voice assistance systems from a single source. In the future, an automobile’s level of intelligence will represent an important means of differentiation. SemVox is thus an ideal addition to paragon’s portfolio.

The acquisition of LPG – which we successfully completed on October 30, 2018 – represents a further important expansion of our value chain. Among hi-fi experts, LPG loudspeakers are the crème de la crème of what audio technology currently has to offer. From our point of view, we are expanding our technology base for acoustics solutions and thus our value chain in our Interior division. For many years now, LPG has operated as a close partner of various automobile manufacturers in the mid-range and premium segments, including BMW, Volkswagen, Opel and Rolls Royce. We will integrate this company in our Group as paragon electroacoustic GmbH and thus strengthen our positioning as a system provider in the field of acoustics. As well as tweeters and cone loudspeakers, LPG also develops and produces external speakers. These represent a fundamental safety issue as e-mobility becomes increasingly widespread on our roads, because electric engines naturally produce very little noise. External speakers will therefore be essential at the very latest when electric cars become established across the board, so that pedestrians and cyclists receive acoustic signals in road traffic and are thus protected against possible hazards. Through these acquisitions, we have laid the foundations for further growth in our Electronics operating segment, which realized revenue with third parties of € 63.1 million in the first nine months of the year, with an EBIT margin

of 8.7%. The temporary decline in revenue by comparison with the prior year is mainly attributable to outstanding one-off cost settlements.

In the Mechanics operating segment, we realized revenue with third parties of € 22.2 million in the first three quarters of the year, with an EBIT margin of -0.8%. This development is particularly due to the acquisition of HS Genion GmbH (now paragon movasys GmbH) at the end of November 2017 as well as the start of series production for the latest generation of rear spoilers for several vehicle models over the course of 2017. The one-time effects incurred in the Mechanics operating segment in fiscal year 2017, which consisted of start-up costs and the increased cost of materials due to prototype construction, were again incurred in the first half of the year and amounted to € 0.8 million. In the third quarter, these additional costs have decreased to € 0.3 million.

The Electromobility operating segment, which is covered through the 60 percent-owned subsidiary Voltabox AG, achieved revenue of € 33.5 million in the period from January to September, with an EBIT margin of 7.0%. The newly concluded contract with a company's partner of many years, Triathlon, has had a direct impact on output volumes. Voltabox has produced modules for use in intralogistics applications with a correspondingly high output. Moreover, battery systems for trolleybuses in particular have played a key role in production over the past few months.

In view of the fact that the American government authorities have not yet approved the announced acquisition of Navitas Systems, LLC, contrary to original expectations, the purchase price has been revised, due to the delay of the execution – Voltabox will now pay around USD 41.5 million (equivalent to about € 35.7 million) for Navitas instead of the original amount of USD 43 million (equivalent to around € 37 million). In addition, the parties have agreed to a payment of the purchase price in four yearly installments, the largest of which will become due upon execution of the contract. Currently, the Management Board expects approval from the US authorities in the near future, so that the entire transaction can be executed in November.

Through its acquisition of ACCURATE Smart Battery Systems GmbH, Voltabox has acquired the final component of the M&A growth strategy that it presented as of its IPO. ACCURATE's standardized battery systems will enable Voltabox to enter selected mass markets. This includes, in particular, pedelecs and e-bikes, especially in the premium segment. A particular feature is the specific design and the flexibility of ACCURATE's solutions which can be fitted in bike frames so that they are protected and virtually invisible. Tailor-made production of these battery systems – also known as battery packs – thus represents a further technological leap forward for bikes featuring an electric support engine. However, the fields of application for ACCURATE battery systems are even more diverse. ACCURATE also develops and produces solutions in the areas of sport and leisure, garden technology and medical technology.

In the first nine months of this year, we have accordingly laid the further foundations in order to realize the solid order backlog and thus further growth for the paragon Group. A bond issue was planned in order to finance various projects. However, at the time that we approached investors through our supporting bank in October, the international financial markets came under pressure. We have therefore deferred this bond issue for the time being. Yet the discussions we held with institutional investors showed that there is an undampened high level of interest in the paragon story and a strong belief in paragon's capacity for development and innovation, its operating performance and its financial strength.

Our equity ratio currently stands at 53.8%. Following our acquisition of SemVox, paragon has cash and cash equivalents as well as unused credit lines with its principal banks of around € 17.7 million, thus enabling it to finance investment activities even without a bond issue. A further € 55.8 million or so is currently available to Voltabox as liquidity. We are on an absolutely solid footing to achieve our growth at every level, both operationally and spatially.

According to the German Association of the Automotive Industry, the performance of the international automotive markets varied in July. While Western Europe realized high single-digit growth, sales declined

in the USA and China. Car sales on the world's key markets also varied in August. While the European market gained ground strongly thanks to pull-forward effects due to the introduction of WLTP, the USA remained at the level seen in the same month in the prior year. On the other hand, sales fell in China. The expected decline finally took place in September; domestic production and exports remained below the prior year's level in the automotive industry. The negative sentiment toward automotive stocks on the stock exchanges also had a clear impact on the paragon share, amplified by various profit warnings from major manufacturers and suppliers. Thanks to our specific product/customer mix, we have a penetration rate of over 75% with our largest customer and are thus comparatively broadly positioned. Our growth is mainly being driven by the increase in take-rates with our products and systems. Dependence on the global development of the overall market or individual drive systems plays a lesser role.

The total order backlog for the paragon Group for the period up to June 30, 2023, amounts to around € 2 billion. Of this volume, framework contracts and orders have been received for an amount of € 1.37 billion. The Voltabox subgroup accounts for around 54% of this € 1.37 billion figure.

With a Group sales figure of € 118.8 million, the past three quarters represent a new record result in our company's history. We have achieved an EBIT margin of 6.5%, as forecast. In the final quarter, we expect the normal increase in volume of orders for our products in this period. In the fourth quarter, we will once again see rising output volumes in the Electromobility operating segment in particular.

We expect to fulfill our updated revenue and profitability forecast for the current fiscal year, which we published on August 21. Accordingly, we aim to achieve revenue of € 180–185 million in the paragon Group. Although there have been no changes to the operating profitability of Voltabox, the restructuring of Voltabox's agreement with Triathlon is burdening EBIT in the current fiscal year by about € 2 million; as a result, the EBIT margin at the paragon Group is expected to be 8%.

We would like to take this opportunity to thank all our employees for their outstanding work and our business partners, customers and shareholder for their trust.



Klaus Dieter Frers
Chairman of the Management Board
paragon GmbH



Dr. Matthias Schöllmann
Managing Director
paragon GmbH



Dr. Stefan Schwehr
Managing Director
paragon GmbH

Business Performance

The excellent operative performance in the Electromobility and Mechanics operating segments was a key factor in the company's growth in the first nine months of the year.

GmbH & Co. KGaA. Of the segment revenue in the amount of € 57.2 million (prior year: € 48.9 million), € 22.2 million was attributable to third-party revenue (prior year: € 5.2 million). Since December 2017, segment revenue with third parties has been recognized under paragon movasys GmbH and accounted for 18.7% of Group sales in the first nine months of the

Operating Segment in € thousands/as indicated	Electronics		Mechanics		Electromobility		Elimination		Group	
	9M/2018	9M/2017	9M/2018	9M/2017	9M/2018	9M/2017	9M/2018	9M/2017	9M/2018	9M/2017
Revenue with 3 rd parties	63,094	65,784	22,243	5,196	33,469	13,765	0	0	118,807	84,745
Revenue Intersegment	3,510	2,341	34,968	43,741	1	2,556	-38,479	-48,637	0	0
Revenue	66,604	68,125	57,212	48,937	33,470	16,321	-38,479	-48,637	118,807	84,745
EBIT	5,781	12,445	-438	-2,599	2,353	-1,754	-8	-1,960	7,687	6,132
EBIT margin	8.7 %	18.3 %	-0.8 %	-5.3 %	7.0 %	-10.7 %	n. a.	n. a.	6.5 %	7.2 %

As expected, the largest operating segment, Electronics, continued to dominate the Group's activities with revenue of € 66.6 million (prior year: € 68.1 million). Of this amount, € 63.1 million (prior year: € 65.8 million) was attributable to third-party revenue in the Sensors, Cockpit and Acoustics units, which corresponds to approximately 53.1% of Group sales (prior year: 77.6%). Revenue in the Sensors unit increased by 7.9% to € 25.8 million (prior year: € 23.9 million) due to the continued increase in the take-rates of current vehicle models fitted with the latest generation of sensors. Revenue in the Cockpit unit decreased slightly, in part due to life cycle effects, by 0.6% to € 25.3 million (prior year: € 25.5 million). The Acoustics unit posted a decline in revenue of 26.4% to € 12.0 million, primarily due to the phasing out of a product (prior year: € 16.3 million). EBIT for this unit amounted to about € 5.8 million (prior year: € 12.4 million), which corresponds to an EBITDA margin of 8.7% (prior year: 18.3%).

The Mechanics operating segment is comprised of the Body Kinematics unit and productronic GmbH – the internal German production company of paragon

year (prior year: 6.1%). This development is particularly due to the acquisition of HS Genion GmbH (now paragon movasys GmbH) at the end of November 2017 as well as the start of series production for the latest generation of rear spoilers for several vehicle models over the course of 2017. The one-time effects incurred in the Mechanics operating segment in fiscal year 2017, which consisted of start-up costs and the increased cost of materials due to prototype construction, were again incurred in the first half of the year and amounted to € 0.8 million. In the third quarter, additional costs came to € 0.3 million. EBIT for the operating segment amounted to € -0.4 million (prior year: € -2.6 million), which corresponds to an EBIT margin of -0.8% (prior year: -5.3%).

Almost all of the revenue in the Electromobility operating segment, in the amount of € 33.5 million (prior year: € 16.3 million), comprised third-party revenue (prior year: € 13.8 million). This corresponded to 28.2% of Group sales in the period under review (prior year: 16.2%). This operating segment is represented by the subsidiary Voltabox AG, headquartered in Delbrück, and a development site for power elec-

tronics in Aachen as well as by its subsidiary Voltabox of Texas, Inc., in Austin, Texas, USA. Growth in this operating segment was particularly driven by the significant increase in the production of battery modules for intralogistics applications as well as by the series production of large battery systems for trolleybuses and, for the first time, for an underground mining vehicle. Series production of starter batteries also contributed to revenue. EBIT for this operating segment amounted to € 2.4 million (prior year: € -1.8 million), which corresponds to an EBIT margin of 7.0% (prior year: -10.7%).

such as specific module electronics and are configured as battery systems.

Development costs capitalized were up as expected by 37.4% to € 14.5 million (prior year: € 10.6 million), equally attributable to all three operating segments. Due to the expansion of production in the new units (especially increase in inventory of finished goods and work in progress at Voltabox AG), the cost of materials increased by 59.6% to € 72.7 million (prior year: € 45.6 million). The cost of materials ratio (calculated from the

Operating Segment in € thousands/as indicated	9M 2018	Share in %	9M 2017	Share in %	Change in %	3 rd Quarter 2018	Share in %	3 rd Quarter 2017	Share in %	Change in %
Sensors	25,773	21.7	23,876	28.2	7.9	8,139	20.2	7,399	25.1	10.0
Cockpit*	25,299	21.3	25,464	30.0	-0.6	7,120	17.7	8,216	27.9	-13.3
Acoustics*	12,022	10.1	16,330	19.3	-26.4	2,813	7.0	4,889	16.6	-42.5
Body kinematics	22,243	18.7	5,310	6.3	318.9	6,803	16.9	3,215	10.9	111.6
Electromobility	33,469	28.2	13,765	16.2	143.1	15,342	38.2	5,735	19.5	167.5
thereof: Germany	28,465	24.0	11,597	13.7	145.5	13,679	34.0	5,520	18.7	147.8
thereof: USA	5,005	4.2	2,168	2.5	130.8	1,663	4.2	215	0.7	674.0
Total	118,807	100.00	84,745	100.0	40.2	40,217	100.00	29,454	100.00	36.5

* Will be continued as Interior business unit in the future.

Financial Performance

In the first three quarters of the current fiscal year, paragon GmbH & Co. KGaA achieved Group sales of € 118.8 million (prior year: € 84.7 million), which corresponds to an increase of 40.2%. The increase in the inventory of finished goods and work in progress of € 9.3 million (prior year: € 1.1 million) is mainly attributable to the expansion of business activities in the Electromobility operating segment and chiefly comprises modules already completed, for use in forklifts and other intralogistics applications. In the remainder of the work process, these modules are refined with components

ratio of cost of materials to sales and changes in inventories) amounted to 56.4% (previous year 52.7%). This increase is mainly due to the higher sales contribution of paragon movasys GmbH, whose cost of materials ratio is still higher than the average cost of materials ratio in the Group. In addition, the share of development revenues in the Cockpit division was lower than in the previous year. At the same time, the cost of materials ratio in the Electromobility segment decreased due to economies of scale. This results in a gross profit for the first nine months of € 70.6 million (prior year: € 51.5 million), which constitutes a gross profit margin of 59.4% (prior year: 60.8%). Personnel expenses rose by 39.5% to € 35.9 million, mainly due to the increase in personnel in the new

units (prior year: € 25.8 million). Accordingly, the personnel expense ratio came to 30.2% (prior year: 30.4%).

Earnings before interest, taxes, depreciation and amortization (EBITDA) rose 36.3% to € 17.2 million (prior year: € 12.6 million), which corresponds to an EBITDA margin of 14.5% (prior year: 14.9%). After an expected increase in depreciation and amortization totaling € 9.5 million (prior year: € 6.5 million), earnings before interest and taxes (EBIT) improved by 25.4% to € 7.7 million (prior year: € 6.1 million). The EBIT margin decreased slightly to 6.5% (prior year: 7.2%). With a financial result of € 3.9 million (prior year: € 2.9 million) and increased income taxes of € 1.9 million (prior year: € 1.1 million), the paragon Group generated a consolidated income of € 2.0 million in the period under review (prior year: € 2.1 million). This corresponds to earnings per share of € 0.43 (prior year: € 0.47). Minority interests accounted for € 0.7 million of consolidated income.

Net Assets and Financial Position

As of September 30, 2018, total assets increased by € 19.2 million to € 331.0 million (December 31, 2017: € 311.8 million), which is mainly attributable to the significant increase in financial assets as well as intangible assets and goodwill.

Noncurrent assets increased accordingly by € 47.0 million to € 158.8 million (December 31, 2017: € 111.8 million). While financial assets rose by € 19.9 million, intangible assets increased by € 13.9 million to € 74.0 million (December 31, 2017: € 60.0 million) due to the further capitalization of own work in connection with the development of new product generations and product innovations, while goodwill increased by € 6.5 million to € 13.9 million due to the acquisitions of Concurrent Design, Inc. as well as ACCURATE Smart Battery Systems GmbH by Voltabox (December 31, 2017: € 7.4 million). At the same time, noncurrent assets rose by € 5.3 million to € 41.8 million (December 31, 2017: € 36.4 million).

By contrast, current assets decreased by € 27.9 million to € 172.2 million (December 31, 2017: € 200.1 million),

which is the result of offsetting effects. In addition to inventories, which rose by € 27.9 million to € 45.2 million (December 31, 2017: € 17.3 million), and trade receivables, which rose by € 17.1 million to € 49.8 million (December 31, 2017: € 32.7 million), other assets also increased by € 7.8 million to € 12.0 million (December 31, 2017: € 4.2 million), while cash and cash equivalents decreased to € 65.1 million due to the investments made on account of the company's growth strategy (December 31, 2017: € 145.8 million). The increase in inventories and the significant rise in trade receivables are mainly due to the dynamic growth of the Electromobility operating segment. Other assets increased due to the early reorganization of the cooperation agreement that this Voltabox subsidiary signed with its partner Triathlon in the second quarter, primarily reflecting the capitalization of the related one-time investment contribution for capacity expansion. In the third quarter, in addition to the acquisitions of ACCURATE and SemVox, the decrease in cash and cash equivalents was attributable in particular to further expenses for operating activities in connection with the organic growth of the new units.

Noncurrent provisions and liabilities increased by € 26.8 million to € 115.2 million (December 31, 2017: € 88.4 million), which mainly reflects an increase in long-term loans.

On the other hand, current provisions and liabilities decreased by € 8.8 million to € 37.6 million (December 31, 2017: € 46.4 million). In particular, this is due to the complete repayment of the 2013/18 bond at the start of the second quarter (December 31, 2017: € 13.4 million). In contrast, trade payables increased by € 2.6 million to € 20.1 million (December 31, 2017: € 17.5 million). At the same time, other current liabilities rose by € 2.1 million to € 11.8 million (December 31, 2017: € 9.6 million) and other provisions from € 0.2 million (December 31, 2017) to the current € 1.2 million.

The equity of paragon GmbH & Co. KGaA increased only slightly to € 178.2 million (December 31, 2017: € 177.1 million). Against the backdrop of slightly higher total equity and liabilities as of the end of the reporting period, the equity ratio fell to 53.8% (December 31, 2017: 56.8%).

Cash flow from operating activities decreased in the period under review by € 32.2 million to € -35.4 million (prior year: € -3.2 million). The main reasons for this were the € 17.0 million increase in trade receivables to € 25.0 million, due to the sales financing of an important customer by Voltabox and the € 23.3 million increase in inventories to € 27.9 million. At the same time, trade payables and other liabilities increased by € 5.4 million in the period under review, having declined by € 1.9 million in the prior year. Finally, depreciation of noncurrent assets increased by € 2.9 million to € 9.4 million.

Cash flow from investing activities decreased by € 40.7 million to € -53.5 million (prior year: € -12.9 million) in the reporting period, which is mainly due to a € 6.7 million increase in payments for investments in property, plant and equipment of € 8.3 million (prior year: € 1.6 million), a € 5.6 million increase in payments for investments in intangible assets in the amount of € 16.6 million and payments for investments in financial assets of € 19.9 million due to the acquisition of SemVox (prior year: € 0 million). Moreover, payments resulting from the acquisition of consolidated companies and other business units increased by € 7.9 million to € 8.7 million on account of the acquisition of Concurrent Design and ACCURATE.

Cash flow from financing activities decreased by € 27.4 million to € 8.2 million (prior year: € 35.6 million) in the reporting period due to the full repayment of the corporate bond 2013/18 in the third quarter.

Cash and cash equivalents totaled € 65.1 million as of the end of the reporting period (prior year: € 33.8 million).

Control System

Management regularly uses key figures to measure the economic success of the operative implementation of its corporate strategy. The control system takes into account the type and/or amount of one-time or extraordinary effects on the performance indicators, particularly regarding the new operating seg-

ments Electromobility and Mechanics. Due to these specific influences, the internal targets are generally set as bandwidths for measuring and managing operative performance, depending on the respective planning horizon. The relative development of the key figures of Group sales, EBIT margin and investments is observed using medium-term planning that accounts for experience curve effects within a given corridor. Given the dynamic growth strategy, this facilitates forward-looking management in terms of both risk- and opportunity-oriented corporate governance.

Opportunity and Risk Report

In the first nine months of 2018, there have been no significant changes in the opportunities and risks described in detail under "Opportunity and Risk Report" in the 2017 Annual Report. The 2017 Annual Report can be accessed on the internet at <https://ir.paragon.ag>.

Events After the Balance Sheet Date

On October 30, 2018, paragon GmbH & Co. KGaA acquired all the shares of Lautsprecher-Produktions-Gesellschaft mbH (LPG), which is headquartered in Neu-Ulm and was established in 1983. With this acquisition, paragon is expanding its technology base for acoustics solutions and thus also its value chain in its Interior division. LPG has around 66 employees. The purchase price is € 3 million. In fiscal year 2017, LPG achieved revenue of around € 11 million, with a positive operating result.

Forecast

Management has explained in detail its forecast for the current year and the key assumptions for its derivation in the Group management report for fiscal year 2017 and updated this in its interim report for the first half of the year.

Accordingly, and based on the good order situation for fiscal year 2018, paragon GmbH & Co. KGaA expects to once more grow significantly faster than the automotive sector, which is currently affected by uncertainty in connection with the protectionist economic policy of the US government. However, due to paragon's specific product-customer mix, management does not see any additional risks to its further economic development in the current fiscal year. In view of Voltabox AG's robust order backlog for fiscal year 2018, management is expecting a significantly higher growth rate in the Electromobility operating segment. The Voltabox executive board has confirmed its revenue and profitability forecast for the current fiscal year in the amount of € 65–70 million with an EBIT margin of 7%. The Body Kinematics unit should also

make a particularly strong contribution to growth; the organizational measures that have been taken raise the prospect of synergy effects totaling € 3–5 million over the course of the next three years. From the fiscal year 2019 onwards, the Electronics operating segment is expected to increasingly contribute to the Group's growth through new products and acquisitions.

Against this backdrop, paragon's management remains very optimistic about fiscal year 2018 and has therefore confirmed its revenue forecast of € 180–185 million. Profitability has been burdened by about € 2 million due to the restructuring of Voltabox's agreement with Triathlon in the second half of 2018. paragon's management continues to expect an EBIT margin of around 8% for fiscal year 2018.

Management expects to see an investment volume of around € 35 million for fiscal year 2018.

The further significant expansion planned in the Electromobility operating segment is intended to make paragon more independent of macroeconomic factors in the automotive industry and broaden the customer structure.

Development of Key Performance Indicators

In € thousands / as indicated	2017	Year-to-date/ first nine months 2018	Forecast 2018	
			as of March 13, 2018	as of August 21, 2018
Financial performance indicators				
Group revenue	124,823	118,807	about € 175 million	€ 180 million to € 185 million
EBIT margin	6.1 %	6.5 %	about 9 %	about 8 %
Investments (CAPEX)	37,747	24,916	about € 35 million	about € 35 million

Note for the condensed interim consolidated financial statements: rounding differences of +/- one unit (€ 000s) may occur in the tables.

Condensed Consolidated Financial Statement:
 Consolidated statement of Comprehensive Income of paragon GmbH & Co.
 KGaA, Delbrück, for the period of January 1 to September 30, 2018 (IFRS)

In € thousands	Jan. 1 to Sep. 30, 2018	Jan. 1 to Sep. 30, 2017	Jul. 1 to Sep. 30, 2018	Jul. 1 to Sep. 30, 2017
Group revenue	118,807	84,745	40,217	29,454
Other operating income	751	720	211	222
Increase or decrease in inventory of finished goods and work in progress	9,266	1,060	7,611	2,901
Other own work capitalized	14,501	10,557	5,502	3,028
Total operating performance	143,325	97,082	53,541	35,605
Cost of materials	-72,712	-45,567	-28,209	-17,830
Gross profit	70,613	51,515	25,332	17,775
Personnel expenses	-35,935	-25,765	-12,731	-9,033
Depreciation of property, plant and equipment, and amortization of intangible assets	-9,386	-6,458	-3,218	-2,173
Impairment of property, plant and equipment and intangible assets	- 99	- 5	- 30	0
Other operating expenses	-17,506	-13,155	-6,466	-4,147
Earnings before interest and taxes (EBIT)	7,688	6,132	2,887	2,422
Financial income	3	6	2	1
Financial expenses	-3,860	-2,892	-994	-1,373
Financial result	-3,857	-2,886	-992	-1,372
Earnings before taxes (EBT)	3,831	3,246	1,895	1,050
Income taxes	-1,871	-1,105	-659	-506
Group result	1,960	2,141	1,236	544
Earnings per share in € (basic)	0.43	0.47	0.27	0.12
Earnings per share in € (diluted)	0.43	0.47	0.27	0.12
Average number of outstanding shares (basic)	4,526,266	4,526,266	4,526,266	4,526,266
Average number of outstanding shares (diluted)	4,526,266	4,526,266	4,526,266	4,526,266
Other result				
Actuarial gains and losses	0	0	0	0
Currency translation reserve	263	-640	-44	-188
Total comprehensive income	2,223	1,501	1,192	356
Group result attributable to minority interests				
Shareholder paragon Group	1,244		335	
Non-controlling interests	716		901	
Total comprehensive income attributable to minority interests				
Shareholder paragon Group	1,373		305	
Non-controlling interests	850		887	

Condensed Group Interim Financial Statement:
Consolidated balance sheet of paragon GmbH & Co. KGaA, Delbrück,
as of September 30, 2018 (IFRS)

In € thousands	Sep. 30, 2018	Dec. 31, 2017
ASSETS		
Noncurrent assets		
Intangible assets	73,954	60,027
Goodwill	13,893	7,410
Property, plant and equipment	41,756	36,360
Financial assets	20,237	326
Other assets	91	90
Deferred taxes	8,861	7,574
	158,792	111,787
Current assets		
Inventories	45,227	17,344
Trade receivables	49,819	32,662
Income tax assets	22	22
Other assets	12,006	4,206
Liquid funds	65,136	145,826
	172,210	200,060
Total assets	331,002	311,847
In € thousands	Sep. 30, 2018	Dec. 31, 2017
EQUITY AND LIABILITIES		
Equity		
Subscribed capital	4,526	4,526
Capital reserve	15,165	15,165
Minority interests	58,634	57,918
Revaluation deficit	-915	-915
Profit/loss carried forward	100,387	106,048
Group result	1,244	-4,530
Currency translation differences	-887	-1,150
	178,154	177,062
Noncurrent provisions and liabilities		
Noncurrent liabilities from finance lease	909	1,402
Noncurrent loans	40,826	16,350
Noncurrent bonds	49,240	49,566
Special item for investment grants	939	1,005
Deferred income tax liabilities	20,144	17,054
Pension provisions	3,147	3,001
	115,205	88,378
Current provisions and liabilities		
Current portion of liabilities from finance lease	750	1,067
Current loans and current portion of noncurrent loans	3,839	4,588
Current bonds	0	13,363
Trade payables	20,068	17,492
Other provisions	1,194	220
Income tax liabilities	0	34
Other current liabilities	11,792	9,643
	37,643	46,407
Total equity and liabilities	331,002	311,847

Condensed Group Interim Financial Statement:
Consolidated cash flow statement of paragon GmbH & Co. KGaA, Delbrück,
for the period of January 1 to September 30, 2018 (IFRS)

In € thousands	Jan. 1 to Sep. 30, 2018		Jan. 1 to Sep. 30, 2017	
Earnings before taxes (EBT)	3,831		3,246	
Depreciation/amortization of noncurrent fixed assets	9,386		6,458	
Financial result	3,856		2,886	
Gains (-), losses (+) from the disposal of property, plant and equipment and financial assets	4		- 92	
Increase (+), decrease (-) in other provisions and pension provisions	259		1,529	
Income from the reversal of the special item for investment grants	-66		-66	
Other non-cash income and expenses	-1,325		-970	
Increase (-), decrease (+) in trade receivables, other receivables, and other assets	-24,958		-7,999	
Impairment of intangible assets	98		5	
Increase (-), decrease (+) in inventories	-27,883		-4,602	
Increase (+), decrease (-) in trade payables and other liabilities	5,404		-1,853	
Interest paid	-3,860		-2,892	
Income taxes	-102		1,170	
Cash flow from operating activities		-35,356		-3,180
Cash receipts from the disposal of property, plant and equipment	0		451	
Cash payments for investments in property, plant and equipment	-8,326		-1,554	
Cash payments for investments in intangible assets	-16,590		-10,973	
Cash payments for investments in financial assets	-19,911		0	
Cash payments for the acquisition of consolidated companies and other business units	-8,692		-786	
Interest received	3		6	
Cash flow from investment activities		-53,516		-12,856
Distribution to shareholders	-1,132		-1,132	
Loan repayments	-3,445		-11,479	
Proceeds from loans	27,075		110	
Repayments of liabilities from finance lease	-627		-745	
Net inflow / Net outflow from bond issue / bond redemption	-13,689		48,824	
Cash flow from financing activities		8,182		35,578
Changes in cash and cash equivalents	-80,690		19,542	
Cash and cash equivalents at the beginning of the period	145,826		14,278	
Cash and cash equivalents at the end of the period	65,136		33,820	

Financial Calendar 2018/2019

November 26-28, 2018	Eigenkapitalforum, Frankfurt am Main
April 1, 2019	Annual Report – Consolidated Financial Statements 2018
April 3-5, 2019	Bankhaus Lampe German Conference, Baden-Baden
May 13, 2019	Group Interim Report as of March 31, 2019 – First quarter
May 13-14, 2019	Equity Forum Spring Conference, Frankfurt am Main
May 15, 2019	Annual General Meeting, Delbrück
August 22, 2019	Group Interim Report as of June 30, 2019 – Half year
November 14, 2019	Group Interim Report as of September 30, 2019 – Nine months

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