

*paragon*<sup>®</sup>

**GROUP INTERIM REPORT**  
JANUARY 1 TO MARCH 31, 2016  
1<sup>ST</sup> QUARTER

## Highlights in first quarter of 2016

- Consolidated revenue grows 9.4% to € 23.2 million (prior year: € 21.2 million)
- EBITDA rises 8.3% to € 3.0 million (prior year: € 2.8 million)
- EBIT of € 1.4 million matches prior year's figure
- Revenue and earnings forecast for current fiscal year confirmed

## Group key figures at a glance (IFRS)

in € thousands or as indicated	Jan. 1 to March 31, 2016	Jan. 1 to March 31, 2015	Change in %
Revenue	23,154	21,156	9.4
EBITDA	3,034	2,802	8.3
EBITDA margin in %	13.1	13.2	n. a.
EBIT	1,359	1,395	- 2.6
EBIT margin in %	5.9	6.6	n. a.
Net income	91	769	- 88.2
Earnings per share in €	0.02	0.19	- 88.2

in € thousands or as indicated	March 31, 2016	March 31, 2015	Change in %
Total assets	102,310	74,957	36.5
Equity	19,674	17,792	10.6
Equity ratio in %	19.2	23.7	n. a.
Available liquidity	12,716	7,282	74.6
Interest-bearing liabilities	52,651	34,642	52.0
Net debt <sup>1</sup>	39,935	27,360	46.0
Investments	4,958	9,559	- 48.1
Operating cash flow	1,534	2,800	- 45.2
Employees <sup>2</sup>	485	452	7.3

## Share

	March 31, 2016	March 31, 2015	Change in %
Closing price in Xetra in €	24.90	18.09	37.7
Number of shares outstanding	4,114,788	4,114,788	0
Market capitalization in € thousands	102,458	74,437	37.7

1 Net debt = interest-bearing liabilities – available liquidity

2 Plus 91 temporary employees (prior year: 58)

## Investor relations at paragon

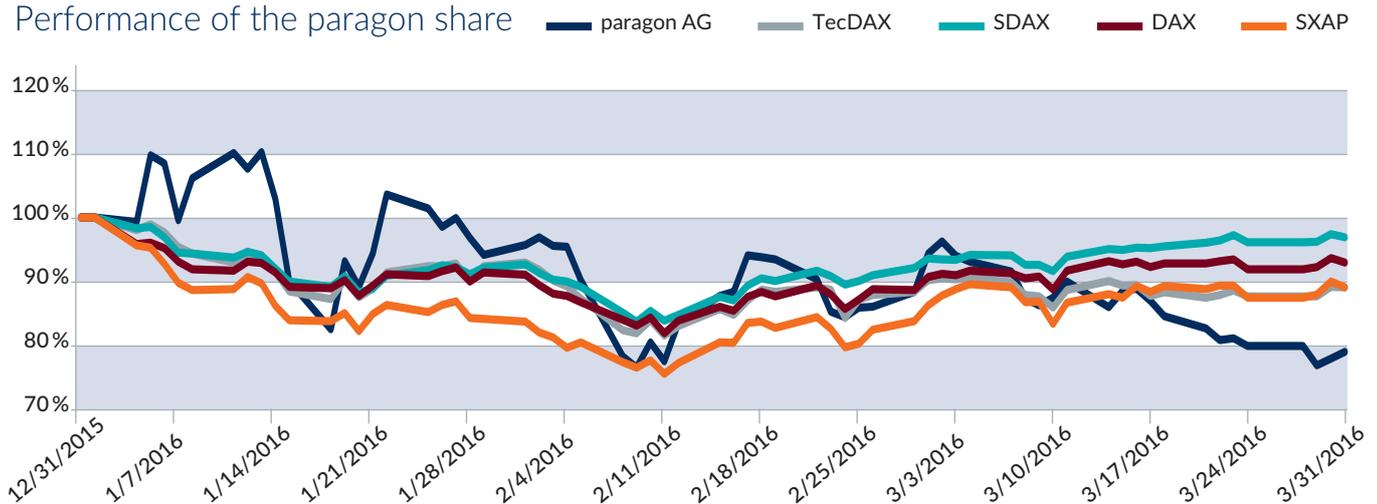
Overall, the first quarter was characterized by volatile investor sentiment. This led to fluctuations, in some cases substantial, in German share prices. As a result, Germany’s most important stock indices concluded the quarter in the red (DAX -7%, TecDAX -11%). Professional investors most recently adopted a neutral position, while foreign investors have increasingly withdrawn. The STOXX Europe 600 Automobiles & Parts (SXAP) index, which lists the most important European automotive industry stocks, also posted a quarterly loss of 11%.

port. Key focuses here included numerous one-to-one meetings with investors at road shows held in the financial centers of Frankfurt and London. We plan to further extend our IR activities in the coming quarters.

We received two voting right notifications in the quarter under report:

- On January 12, Otus Capital Management notified us that its shareholding had fallen short of the 5% threshold on January 5. At this time, its share of voting rights in paragon AG came to around 4.99%.
- On February 19, Otus Capital Management notified us that its shareholding had exceeded the 5% threshold on February 11. At this time, its share of voting rights in paragon AG came to around 5.05%.

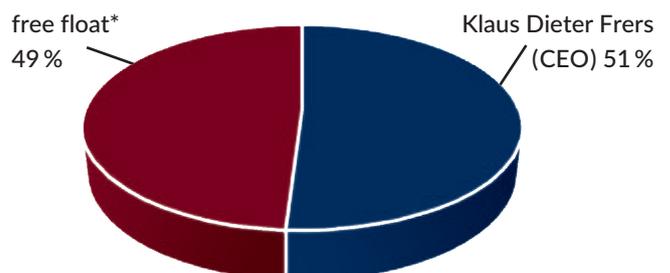
## Performance of the paragon share



paragon’s shares were unable to escape the effects of this volatile and weaker overall market climate. Starting at an opening price of € 31.73, the share initially rose past the € 35 mark by mid-January, but nevertheless closed the quarter at € 24.90 and thus not far from its period low. That corresponds to a stock market value of around € 102.5 million for paragon at the reporting date.

The shareholder structure at the end of the period under report was therefore as follows:

## Shareholder structure as of March 31, 2016



The paragon AG corporate bond was comparatively stable in the quarter under report, with an average price of around € 106.50.

We pressed ahead with our personalized communications with the capital market in the quarter under re-

\* acc. to definition of Deutsche Börse AG

Dear shareholders,  
customers, business partners, and employees,

paragon AG remained absolutely on course in the first quarter of the current year. We posted almost double-digit growth once again, with revenue rising 9.4% from € 21.2 million in the prior year to € 23.2 million.

These figures are not just a further strong result and confirmation of our expectations – they also take the wind out of the sails of those skeptics who had a negative overall view of developments in the automotive industry and the potential implications for paragon AG.

The opposite situation arose – and that not only at our company. All German carmakers sold more vehicles in the first quarter than in prior years, with BMW and Daimler leading the field. In a development which many would not have thought possible, even the VW Group managed to post growth driven by its strong subsidiaries. In Europe, a total of 8.2% more new cars were sold than in the prior year's quarter. March was the 30<sup>th</sup> consecutive month with rising turnover figures. Even in China, where the outlook was said to be particularly weak, sales grew by an impressive 12% in March. Volkswagen, by the way, sold 6.5% more vehicles here. According to sector analysts, the growth in the automotive industry is set to continue throughout the year.

We can afford to be pleased with these developments at paragon. After all, our products and solutions can now be found in virtually all new cars sold, especially in the premium segment. Not only that, our product campaign from last year will boost this trend yet further.

However, that is not enough to keep us satisfied. The strong performance in our electromobility business division – with our Voltabox subsidiaries in Germany and the US – is promoting our independence of the overall market. The growth rate in this business division will be well within a double-digit range this year as well – and we have additional new orders over and above this in our sights.

Strong underlying conditions and excellent positioning in various markets – this combination shows how promising the years ahead are for paragon.

Consistent with expectations, our first-quarter EBITDA and EBIT were at or above the superb prior year's figures. It goes without saying that we aim to generate growth here as well in 2016 – and with a forecast EBIT margin of around 9% disproportionately so when compared with revenue.

In summary, all indicators for paragon AG in what is still a relatively new year point to success in 2016. We will be working hard to turn that expectation into reality in the months ahead.

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



Klaus Dieter Frers  
Chief Executive Officer



Dr. Stefan Schwehr  
Chief Technology Officer

## Business performance and major events

paragon AG can report a successful start to the fiscal year, with revenue growth of 9.4% from € 21.2 million to € 23.2 million in first quarter of 2016. This growth was driven above all by the strong performance in the Acoustics and Electromobility business divisions. The company is therefore well on track to achieve the revenue growth of around 8% forecast for the fiscal year as a whole. As of March 31, paragon had already received 96.6% of the customer call-up volumes required to achieve its revenue target.

## Breakdown of revenue by business divisions

The Sensors business division generated revenue growth of 2.0% from € 8.5 million to € 8.7 million in the first quarter. In the period under report, this division witnessed the production start-up of air quality sensors for a new southern European customer. Not only that, preparations for the production launch of paragon's CO<sub>2</sub> sensor progressed apace. This is expected to take place in the first half of the year.

The Acoustics business division generated very substantial revenue growth of 14.8% from € 3.8 million to

€ 4.3 million. In the first quarter, the production launch of the Belt-Mic was confirmed for the current year in a further platform at a German premium carmaker. The In-Car-Com system also has very good prospects of having production launched for a German carmaker before the end of 2016. Finally, in-depth negotiations were held with a German customer in the past quarter concerning a significant expansion in unit numbers for premium microphones.

At € 7.4 million, revenue in the Cockpit business division in the first three months of 2016 fell 4.3% short of the prior year's figure of € 7.7 million. This division nevertheless reported the strongest new order growth in the first quarter. This includes new production launches for various clocks for German and international premium manufacturers and a new generation of additional instruments. What's more, the Cockpit business division implemented what is the world's first pilot production launch for a smartphone mounting with wireless charging for motorcycles at a premium manufacturer.

The Body Kinematics business division posted revenue of € 1.0 million, as against € 1.1 million one year earlier (-12.0%). This division is working on several serial developments in parallel that are expected to lead to production launches in 2017 in each case. Body Kinematics is benefiting overall from its extraordinarily strong market position for freely adjustable rear spoilers for optimizing motor vehicle aerodynamics.

Business division in € thousands or as indicated	Jan. 1, 2016 to March 31, 2016	Share in %	Jan. 1, 2015 to March 31, 2015	Share in %	Change in %
Sensors	8,681	37.5	8,509	40.2	2.0
Acoustics	4,348	18.8	3,787	17.9	14.8
Cockpit	7,374	31.8	7,703	36.4	- 4.3
Body Kinematics	989	4.3	1,125	5.3	- 12.0
Electromobility	1,762	7.6	32	0.2	n. a.
of which: Voltabox Deutschland GmbH	321	1.4	32	0.2	n. a.
of which: Voltabox of Texas, Inc.	1,441	6.2	0	0	n. a.
Total	23,154	100.0	21,156	100.0	9.4

First-quarter revenue in the Electromobility business division grew to € 1.8 million, whereas no material revenue was yet generated in the prior year's period. The US subsidiary Voltabox of Texas began supplying two US customers with battery systems in the first quarter. Voltabox Deutschland supplied battery systems to Vossloh Kiepe for a new trolleybus project in Switzerland. The production launch for the major starter battery order received last year is scheduled for the third quarter of 2016.

## Earnings performance

paragon AG generated consolidated revenue of € 23.2 million in the first quarter (prior year: € 21.2 million), corresponding to growth of 9.4% on the prior year's quarter. Due to the expansion in business in Electromobility and various production launches in other divisions, cost of material grew by 9.9% from € 11.8 million to € 13.0 million. The materials quota showed a corresponding slight increase from 55.8% to 56.1%. Driven above all by newly hired development staff in new business divisions, personnel expenses rose by 12.8% from € 6.3 million to € 7.1 million in the first quarter of 2016. The personnel expense quota accordingly came to 30.6%, up from 29.7% in the prior year. Earnings before interest, taxes, depreciation and amortization (EBITDA) rose by 8.3% from € 2.8 million to € 3.0 million. Net of increased depreciation and amortization of € 1.7 million (prior year: € 1.4 million), earnings before interest and taxes (EBIT) amounted to € 1.4 million and thus matched the prior year's figure. Net of a decreased financial result of € - 0.7 million (prior year: € - 0.4 million) and of higher income taxes of € 0.5 million (prior year: € 0.2 million), the paragon Group generated net income of € 0.1 million in the first quarter of 2016 (prior year: € 0.8 million). This results in earnings per share of € 0.02 (prior year: € 0.19).

## Net asset and financial position

Total assets rose to € 102.3 million as of March 31, 2016 (March 31, 2015: € 75.0 million). This growth was mainly driven by the acquisition of the building in Artegastrasse 1 in Delbrück, the production building in Austin, Texas (US), and capitalized development expenses.

Non-current assets grew to € 62.2 million (March 31, 2015: € 40.6 million). This was due to increased investments in property, plant and equipment in connection with the development of new business divisions and to a higher volume of development work capitalized for numerous new projects.

Current assets rose slightly to € 40.1 million (March 31, 2015: € 34.3 million). This resulted above all from an increase in inventories consistent with the expansion in the business and higher trade receivables accompanied by a stable development in cash and cash equivalents.

Non-current provisions and liabilities grew by € 16.2 million to € 47.8 million (March 31, 2015: € 31.6 million). Current provisions and liabilities rose by € 9.4 million to € 34.9 million (March 31, 2015: € 25.5 million). This increase was driven above all by higher current loan liabilities and trade payables resulting from the expansion in the business.

The equity of paragon AG grew by € 1.9 million to € 19.7 million (March 31, 2015: € 17.8 million). Given the marked rise in total assets, the equity ratio decreased as expected to 19.2% (March 31, 2015: 23.7%).

The cash flow from operating activities fell to € 1.5 million in the first quarter of 2016, down from € 2.8 million in the prior year's quarter. This development was chiefly due to a significantly lower rise in trade payables. As planned, the cash flow from investing activities dropped from € 9.5

million to € 4.9 million, thus documenting the company's return to a normal volume of investment activity.

Cash and cash equivalents totaled € 9.7 million at the balance sheet date, as against € 8.5 million at the end of fiscal year 2015. Available liquidity dropped slightly over the same period from € 13.8 million to € 12.8 million.

## Forecast

Accounting for the marginally positive outlook for the automotive industry and the dynamic growth in the market for lithium ion batteries, at the end of the February the Managing Board confirmed its earlier forecast for the current year in the 2015 Annual Report.

Based on the current competitive position of the paragon Group and the extensive investments made in recent years, particularly in developing production sites in Germany, the US, and most recently in China, the Managing Board expects paragon to generate significantly higher growth than the global automotive industry once again in fiscal year 2016. Key drivers of this growth are expected in the Sensors and Electromobility (Voltabox) business divisions.

Consolidated revenue is expected to grow by around 8% in the current year and thus to exceed the € 100

million mark. This should be accompanied by disproportionate earnings growth, with an EBIT margin of around 9 percent.

paragon's Managing Board expects an investment volume of around € 14.0 million in the current year. Investments in operating sites will be made mainly in Germany in 2016.

The major order for lithium ion starter batteries received in the past fiscal year is included with initial revenue in the 2016 forecast. Serial production is scheduled to be launched at paragon's Voltabox Deutschland subsidiary in mid-2016. The further significant expansion planned in this business division is intended to make the paragon Group more independent in strategic terms of macroeconomic factors in the automotive industry. For 2017, consolidated revenue in this division is currently expected to show growth in a range of 15% to 20%.

The forecast is based on orders on hand at the beginning of the fiscal year. Viewed over the product lifetimes, the Group had orders on hand of more than € 1 billion as of March 31, 2016.

Against this backdrop, the Managing Board expects the equity ratio to return to around 24% by the end of 2016 fiscal year, and for this increase to be accompanied by a reduction in the net debt-equity ratio.

## Development in key performance indicators:

in € thousands or as indicated	2015	Since start of year / 1 <sup>st</sup> quarter of 2016	Forecast	
			2016	2017
<b>Financial performance indicators</b>				
Consolidated revenue	94,990	23,154	approx. 8% growth	15 – 20% growth
EBIT margin	8.2%	5.9%	approx. 9%	n. a.
Investments	33,170	4,958	approx. 14,000	n. a.
Equity ratio	21.0%	19.2%	approx. 24%	n. a.

Condensed interim consolidated financial statements:  
 Consolidated statement of comprehensive income of paragon AG,  
 Delbrück, for the period from January 1 to March 31, 2016 (IFRS)

in € thousands	January 1 – March 31, 2016	January 1 – March 31, 2015
<b>Revenue</b>	<b>23,154</b>	<b>21,156</b>
Other operating income	264	1,252
Increase or decrease in inventory of finished goods and work in progress	440	457
Other own work capitalized	3,296	1,335
<b>Total operating performance</b>	<b>27,154</b>	<b>24,200</b>
Cost of material	- 12,982	- 11,810
<b>Gross profit</b>	<b>14,172</b>	<b>12,390</b>
Personnel expenses	- 7,096	- 6,290
Depreciation of property, plant and equipment and amortization of intangible assets	- 1,675	- 1,397
Impairment of property, plant and equipment and intangible assets	0	- 10
Other operating expenses	- 4,042	- 3,298
<b>Earnings before interest and taxes (EBIT)</b>	<b>1,359</b>	<b>1,395</b>
Financial income	1	154
Financial expenses	- 749	- 568
<b>Financial result</b>	<b>- 748</b>	<b>- 414</b>
<b>Earnings before taxes (EBT)</b>	<b>611</b>	<b>981</b>
Income taxes	- 520	- 212
<b>Net income for period</b>	<b>91</b>	<b>769</b>
Earnings per share in € (basic)	0.02	0.19
Earnings per share in € (diluted)	0.02	0.19
Average number of shares outstanding (basic)	4,114,788	4,114,788
Average number of shares outstanding (diluted)	4,114,788	4,114,788
<b>Other comprehensive income</b>		
Actuarial gains and losses	0	0
Currency translation reserve	181	- 176
<b>Total comprehensive income</b>	<b>272</b>	<b>593</b>

## Condensed interim consolidated financial statements: Consolidated balance sheet of paragon AG, Delbrück, as of March 31, 2016 (IFRS)

in € thousands	March 31, 2016	March 31, 2015
<b>ASSETS</b>		
<b>Non-current assets</b>		
Intangible assets	26,631	14,435
Goodwill	770	840
Property, plant and equipment	34,389	24,885
Financial assets	326	376
Other assets	86	85
	<b>62,202</b>	<b>40,621</b>
<b>Current assets</b>		
Inventories	14,970	11,667
Trade receivables	12,112	10,142
Income tax claims	1,369	1,028
Other assets	1,953	2,138
Cash and cash equivalents	9,704	9,361
	<b>40,108</b>	<b>34,336</b>
<b>Total assets</b>	<b>102,310</b>	<b>74,957</b>

in € thousands	March 31, 2016	March 31, 2015
<b>EQUITY AND LIABILITIES</b>		
<b>Equity</b>		
Subscribed capital	4,115	4,115
Capital reserve	2,450	2,450
Revaluation deficit	- 766	- 781
Profit/loss carried forward	13,896	11,521
Consolidated net income for the period	91	769
Currency translation differences	- 112	- 282
	<b>19,674</b>	<b>17,792</b>
<b>Non-current provisions and liabilities</b>		
Non-current lease obligations	1,372	1,873
Non-current loans	25,880	11,356
Non-current bonds	13,299	13,146
Investment grants	1,158	1,246
Deferred tax liabilities	3,916	2,106
Pension provisions	2,143	1,915
	<b>47,768</b>	<b>31,642</b>
<b>Current provisions and liabilities</b>		
Current portion of lease obligations	778	457
Current loans and current portion of non-current loans	11,322	7,810
Trade payables	15,955	9,268
Other provisions	363	370
Income tax liabilities	48	199
Other current liabilities	6,402	7,419
	<b>34,868</b>	<b>25,523</b>
<b>Total equity and liabilities</b>	<b>102,310</b>	<b>74,957</b>

## Condensed interim consolidated financial statements: Consolidated cash flow statement of paragon AG, Delbrück, for the period from January 1 to March 31, 2016 (IFRS)

in € thousands	January 1 – March 31, 2016		January 1 – March 31, 2015	
<b>Earnings before income taxes</b>	<b>611</b>		<b>981</b>	
Depreciation/amortization of non-current assets	1,675		1,397	
Financial result	748		414	
Gains from the disposal of property, plant and equipment and financial assets	- 3		- 8	
Increase (+) / decrease (-) in other provisions and pension provisions	1,458		- 359	
Income from the reversal of the special item for investment grants	- 22		- 22	
Other non-cash income and expenses	60		- 23	
Increase in trade receivables, other receivables, and other assets	- 2,159		- 747	
Impairment of intangible assets	0		10	
Increase in inventories	- 3,754		- 4,756	
Increase in trade payables and other liabilities	3,911		6,837	
Interest paid	- 749		- 568	
Income taxes	- 242		- 356	
<b>Cash flow from operating activities</b>		<b>1,534</b>		<b>2,800</b>
Cash receipts from disposals of property, plant and equipment	25		9	
Cash payments for investments in property, plant and equipment	- 992		- 5,769	
Cash payments for investments in intangible assets	- 3,243		- 2,571	
Cash payments to acquire consolidated companies and other business units	- 723		- 1,219	
Interest received	1		1	
<b>Cash flow from investing activities</b>		<b>- 4,932</b>		<b>- 9,549</b>
Cash payments for loan repayments	- 1,136		- 983	
Amounts paid on insolvency ratio	0		607	
Cash proceeds from loans taken up	5,978		3,337	
Cash payments for finance lease liabilities	- 194		- 115	
<b>Cash flow from financing activities</b>		<b>4,648</b>		<b>2,846</b>
Cash-effective change in liquidity	1,250		- 3,903	
Cash and cash equivalents at beginning of period	8,454		17,647	
Cash and cash equivalents at end of period	9,704		13,744	

## Financial calendar

March 17, 2016	Edison-Automotive Tech Conference, London
April 27, 2016	Publication of Interim Report as of March 31, 2016 (1 <sup>st</sup> Quarter)
April 27, 2016	Annual General Meeting, Delbrück
May 9, 2016*	7 <sup>th</sup> DVFA Spring Conference 2016, Frankfurt am Main
June 2, 2016*	Quirin Champions 2016, Frankfurt am Main
August 16, 2016*	Publication of Interim Report as of June 30, 2016 (2 <sup>nd</sup> Quarter)
November 18, 2016*	Publication of Interim as of September 30, 2016 (3 <sup>rd</sup> Quarter)
November 21-23, 2016*	Equity Forum 2016, Frankfurt am Main

\* expected date

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