

paragon consolidated interim report
for the period January 1 to September 30, 2014

paragon.[®]



The first nine months of 2014 at a glance

Highlights of the first nine months of 2014

- Consolidated revenue for paragon AG up by 7.2% after nine months
- Q3 revenue equates to a 10.0% increase year on year
- Capital investment up to EUR 4.5 million, three times the level of Q3 2013
- Adjusted earnings figures well in excess of Q1-Q3 2013
- Revenue in Acoustics business segment grows by 24%
- Sensors: AQI becomes a big success story
- Electromobility: sustained heavy demand for large batteries

The first nine months of 2014 at a glance

In EUR thousands	Jan. 1 - Sept. 30, 2014	Jan. 1 - Sept. 30, 2013	Change in %
Revenue	55,971	52,214	+ 7.2
EBITDA	5,355	6,870	- 22.1
EBITDA margin in %	9.6	13.2	
Adjusted EBITDA*	7,909	6,870	+ 15.1
Adjusted EBITDA margin in %*	14.1	13.2	
EBIT	2,010	3,626	- 44.6
EBIT margin in %	3.6	6.9	
Adjusted EBIT*	4,564	3,626	+ 25.9
Adjusted EBIT margin in %	8.2	6.9	
Net income	157	1,757	- 91.1
Earnings per share in EUR	0.04	0.43	- 91.1
Total assets	56,069	50,914	+ 10.1
Total equity	14,991	13,344	+ 12.3
Equity-to-assets ratio in %	26.7	26.2	
Unrestricted cash	10,468	14,311	- 26.9
Interest-bearing liabilities	27,853	23,433	+ 18.9
Net debt**	17,385	9,122	+ 90.6
Cash flow from operating activities	- 324	921	- 135.2

* Adjusted for expenses incurred in connection with the development of new future-oriented business areas – year-on-year increase in these expenses of EUR 2.6 million

** Net debt = interest-bearing liabilities minus unrestricted cash

Economic conditions

The pace of growth in the global economy has turned out to be relatively weak during the course of the year to date¹. This is attributable both to sharp variations in the performance of the industrialized nations and to generally flagging growth in emerging markets. The economic situation in the euro-zone continues to be subdued; even the contribution from the German economy proved to be unexpectedly weak in the second and third quarters. The relevance of the general economic environment for paragon AG in its business as an automotive supplier is that this environment has a positive or negative impact on global vehicle sales and therefore on demand for the products manufactured by the Company. Nevertheless, the Company continued to experience a positive trend in overall demand.

Automotive industry growth

The global passenger car market continued to grow in the first nine months of 2014, although the pace slackened off in the third quarter. According to information provided by the German Association of the Automotive Industry (VDA), the number of new registrations in the largest national markets was approximately 5.5% higher than in the previous year². Significant proportions of this growth were accounted for by the markets in China (up by 13%), the US (up by 5%), and western Europe (up by 5%). The boost to the Japanese market at the start of the year caused by new vehicle purchases in anticipation of the hike in VAT from April 2014 increasingly levelled out thereafter. The market is still up by just under 6% for the first nine months, although it will probably see a further drop in the fourth quarter. Economic sanctions were the reason behind a substantial contraction in the Russian market (down by 13%). In Brazil (down by 9%), there was no improvement in the weak growth experienced in 2013 but there were signs of a slight recovery in the Indian market (around 0%). Overall, paragon AG therefore benefited from a positive market environment in the first nine months of 2014.

Business performance and Group situation

In the first nine months of 2014, consolidated revenue generated by paragon AG rose by 7.2% year on year to EUR 56.0

million (Q1 – Q3 2013: EUR 52.2 million). Revenue of EUR 18.2 million in the third quarter of 2014 was up by 10.0% on the figure of EUR 16.6 million achieved in the equivalent period in 2013 and thus also exceeded the Company's own forecasts. The third quarter therefore saw the biggest percentage revenue uplift in the year to date – despite vacation-related plant shutdowns at the OEMs. Overall, the operating business is performing very well. Strategic investment was focused on continuing the expansion of the Body Works Kinematics and Electromobility business segments, for example by recruiting additional development personnel and by building up the subsidiary Voltabox of Texas, Inc. Personnel expenses alone grew by EUR 1.8 million year on year. Investment in the Acoustics business segment was also significantly higher than in the corresponding period in 2013. This generated a leap in revenue of almost 25% in this segment after nine months, attributable in particular to a rise in unit sales of the belt-mic following the addition of a further vehicle model and substantially higher call-off orders for other microphones. The total additional expenditure dedicated to the development of forward-looking business areas compared with the first nine months of 2013 amounted to EUR 2.6 million. In addition, capital expenditure of EUR 4.7 million was directed toward these business segments in the period under review. Accordingly, EBIT declined from EUR 3.6 million to EUR 2.0 million. If adjusted for the additional expenses described above, EBIT would have amounted to EUR 4.6 million, a substantial increase of 25.9% on the level achieved during the equivalent period in 2013.

Revenue distribution by business segment

Within the overall operating performance of the paragon Group, all the business segments performed well. For example, in the third quarter, the Cockpit business segment won development contracts for very high-quality instruments to be supplied to various premium manufacturers. In August, a major OEM expressed a keen interest in implementing paragon ideas following a presentation by the Acoustics business segment of its in-car communications expertise. During the third quarter, the Sensors business segment presented its contactless transmission range sensors at the CTI Symposium in Suzhou, China.

¹ Kiel Institute for the World Economy (IfW), September 11, 2014

² VDA press release dated October 17, 2014: 'Western Europe, USA and China all expand'

Revenue distribution by business segment

	9m/2014 in TEUR	in %	9m/2013 in TEUR	in %
Sensors	22,542	40.3	20,579	39.5
Acoustics	10,855	19.4	8,730	16.7
Cockpit	20,243	36.2	20,488	39.2
Body Works Kinematics	2,048	3.6	2,211	4.2
Voltabox Deutschland GmbH *)	183	0.3	206*	0.4
Voltabox of Texas, Inc.	99	0.2	0	0
Total	55,971	100.0	52,214	100.0

* Formerly the Electromobility business segment

One of the largest global vehicle manufacturers (and already a customer for paragon's AQI air quality improver) has determined in 'customer clinics' that users rate the paragon ionizer the number one most desirable product. The paragon Managing Board expects this to quickly lead to further sales successes. The AQI product is thus increasingly becoming a real success story.

The Body Works Kinematics business segment has successfully completed the production run for a spoiler module on behalf of a German sports car manufacturer – following the production run, the total number of units has even slightly exceeded paragon's own forecasts. The sales performance of steering wheel gearshift paddles is also very good. The Company is predicting a significant rise in the unit sales of this product from the beginning of the coming year.

In the Electromobility business segment, the final preparations for production start-up at US subsidiary Voltabox of Texas, Inc., were completed. Production began in September in a leased building as planned with the assembly of high-performance batteries. This has created the foundation that will enable paragon to service the huge demand in the US, which will be reflected in the revenue generated by Voltabox of Texas, Inc., primarily from the first quarter of 2015 onward. In connection with US orders for Vossloh Kiepe, two buses equipped with battery packs from Voltabox successfully completed test runs in Seattle accompanied by a great deal of

public interest. At the same time, the groundbreaking ceremony took place for the construction of a dedicated plant on an area of land totaling some 21,000 square meters in Cedar Park, close to Austin, Texas. It is planned to ramp up production at this site from April 2015 using a fully automated assembly line. This represents a major step forward in the implementation of paragon's international expansion strategy.

As part of the gradual internationalization of the business, paragon has also concluded discussions on a joint venture in China and has already signed a corresponding framework agreement with its Chinese partner, Jiangsu Riying Electronics Co. Ltd. (R&Y). The objective of the joint venture is to produce and market electrical and electronic components and systems for the automotive industry, especially air-quality sensors, other systems to improve air quality, instruments and associated components. R&Y is a leading supplier in the Chinese automotive and motorcycle industry. To create the necessary structures, paragon Automotive Technology in Shanghai will be transformed into a joint venture in which R&Y will hold 35% and paragon 65% of the shares. A regional office in Changzhou will be developed into a production facility while the head office in Shanghai will focus on administration, application, and sales. Production is expected to start as early as 2015 and paragon is already on the cusp of signing a number of substantial contracts for this joint venture.

Results of operations

In the first nine months of 2014, paragon AG generated consolidated revenue of EUR 56.0 million, which equated to an increase of 7.2% compared with the figure of EUR 52.2 million for the equivalent period in 2013. Revenue in the third quarter of 2014 amounted to EUR 18.2 million, which was also up by 10% year on year (Q3 2013: EUR 16.6 million). With these results, paragon well exceeded its own budgets both for the nine-month period and the third quarter.

The cost of materials in the first nine months of 2014 rose by 13.1% year on year from EUR 27.2 million to EUR 30.7 million. As a consequence, the ratio of the cost of materials to revenue increased temporarily from 52.0% to 54.9%. This additional expenditure can be attributed largely to one-off third-party services involving development and production in the Acoustics, Body Works Kinematics, and Electromobility (represented by Voltabox) business segments. The Company anticipates that the cost-of-materials ratio will return to normal during the remaining months of the year, ending the year close to the 52% mark again. The trend in the cost-of-materials ratio in subsequent years will depend to a great extent on the success of the Electromobility and Body Works Kinematics business segments because the cost-of-materials ratios are significantly higher in these segments.

Personnel expenses rose in the first nine months of 2014 to EUR 16.3 million compared with EUR 14.5 million in the equivalent period in 2013, an increase of 12.4%. This was primarily attributable to the additional personnel in the new business segments. The ratio of personnel expenses to revenue went up from 27.7% to 29.1% (30.2% in Q3) as the contribution to revenue from the relevant business segments was still relatively low. The ratio of personnel expenses to revenue is expected to level out at just under 28% at the end of the year and then fall again in the coming year as revenue rises significantly. According to current forecasts, the consolidation effect from the increase in revenue will ultimately re-establish a personnel-expenses-to-revenue ratio of around 26.5%.

Given the trends described above, earnings before interest, tax, depreciation, and amortization (EBITDA) for the period under review declined by 22.1% to EUR 5.4 million (Q1 – Q3 2013: EUR 6.9 million) in line with forecasts. This was prima-

rily attributable to the rise in personnel expenses and in the cost of materials. The Company continued to exceed its budget figures for both for the nine-month period and the third quarter. EBITDA was particularly impacted by the additional expenses of EUR 2.6 million incurred in connection with the development of the forward-looking business segments Body Works Kinematics and Electromobility and by expenses associated with the investment in the Acoustics business segment. If these additional expenses are disregarded, EBITDA would have risen in the first nine months of 2014 from EUR 6.9 million to EUR 7.9 million, an increase of 15.1%.

After depreciation and amortization of EUR 3.3 million (Q1 – Q3 2013: EUR 3.2 million), earnings before interest and tax (EBIT) for the first nine months of 2014 were still well over budget at EUR 2.0 million (Q1 – Q3 2013: EUR 3.6 million). Adjusted for the additional expense of EUR 2.6 million referred to above, EBIT would have amounted to EUR 4.6 million, up by as much as 25.9% year on year. The EBIT margin fell from 6.9% to 3.6%, the adjusted figure was 8.2%. Overall, paragon AG therefore generated consolidated net income in accordance with IFRS of EUR 0.2 million in the first nine months of 2014 (Q1 – Q3 2013: EUR 1.8 million). This equates to an earnings per share figure of EUR 0.04 (Q1 – Q3 2013: EUR 0.43).

Financial position and net assets

Total assets as of September 30, 2014 had increased significantly to EUR 56.1 million compared with the figure of EUR 50.9 million as of September 30, 2013. This increase arose mainly as a result of investment in non-current assets and a higher level of inventories.

Non-current assets rose to EUR 24.1 million (September 30, 2013: EUR 19.1 million), which was primarily attributable to the extensive capital investment in real estate and in other property, plant and equipment in connection with the expansion of the new business segments. Current assets increased marginally from EUR 31.8 million to EUR 31.9 million. Higher inventories and trade receivables as a consequence of the positive business performance were partially offset by a significant fall in cash and cash equivalents resulting from the capital investment and paragon AG's international expansion

strategy. The increased inventories arose firstly from the revenue growth in the established business segments, which led to higher inventories of raw materials, semi-finished products, and finished goods. Secondly, this increase was compounded as warehouse inventory levels were pushed up to cope with the start of battery module production at Voltabox of Texas and Voltabox Deutschland.

Non-current provisions and liabilities rose by a total of around EUR 2.4 million to EUR 28.4 million (September 30, 2013: EUR 26.0 million), first and foremost as a consequence of placing a further tranche of the bond during the first quarter of 2014. Current provisions and liabilities increased to EUR 12.7 million (September 30, 2013: EUR 11.5 million), a significant contributing factor in this case being the trade payables, which likewise reflected the higher business volume. Consolidated net debt rose from EUR 9.1 million to EUR 17.4 million, which was accounted for by both the increased liabilities and the temporary reduction of unrestricted cash. Amongst others, paragon pre-financed some of its capital expenditure that will be refinanced strategically using different financing models such as leasing, hire-purchase or long-term financing instruments later on.

The total equity of paragon AG had reached EUR 15.0 million as of September 30, 2014 compared with EUR 13.3 million as of September 30, 2013. This gave rise to an equity-to-assets ratio of 26.7% as against 26.2% as of September 30, 2013. Despite the placement of a further bond tranche, paragon was therefore able to strengthen its equity position.

Cash flow from operating activities decreased in the first nine months of 2014 by EUR 1.2 million to a net outflow of EUR 0.3 million compared with a net inflow of EUR 0.9 million over the corresponding period in 2013. This cash flow was negatively impacted in particular by the rise in inventories (net effect: EUR -2.9 million) and the partial outsourcing of pension provisions (net effect: EUR -1.5 million). On the other side of the equation, there was a positive effect from the increased trade payables (net effect: EUR 3.0 million). The cash flow from investing activities was significantly influenced by the high level of investment in property, plant and equipment in connection with the expansion of the new business segments; the net outflow of EUR 8.8 million in the period under review significantly exceeded the net outflow of EUR 3.8 million in the first nine months of 2013. The main

reasons were capital investment in real estate and, primarily, investment in the assembly lines for the Sensors and Electromobility business segments so that existing orders can be serviced as efficiently as possible in the coming years. The cash flow from financing activities amounting to EUR 3.3 million (Q1-Q3 2013: EUR 6.3 million) largely reflected the effect of placing a further tranche of the bond.

Primarily as a consequence of the high level of investing activities, cash and cash equivalents therefore diminished by a total of EUR 5.9 million and as of September 30, 2014 amounted to EUR 11.8 million compared with EUR 17.5 million as of September 30, 2013.

Research and development

In the third quarter of 2014, paragon continued to place great emphasis on research and development, as befits an enterprise that has acquired an outstanding reputation in the market based on its steady stream of innovations. In all five business segments, ongoing development projects that will substantially improve the market position and the sales opportunities of the business saw very good progress. There was notable focused development activity in the individual business segments. The Body Works Kinematics business segment carried out a number of paid preliminary development orders related to aerodynamics; these activities also involved early integration into the development processes of the various OEMs. In addition, the segment processed various prototype orders for cabrio peripherals. Finally, in the third quarter, it also completed the development of a spoiler module for a premium manufacturer. In Q3, the Acoustics business segment worked on the preliminary development of new microphone concepts with adaptive wind adjustment. It also continued to develop the innovative belt-mic hands-free microphone and in the future will be able to offer colored belts, allowing drivers greater customization options for vehicle interiors. The Electromobility business segment, which comprises the Voltabox subsidiaries, completed validation work in the third quarter on a second module kit based on prismatic cells. It also developed an additional high-performance storage module. With these developments, paragon aims to position itself so that it can offer optimum solutions tailored to specific needs for all kinds of applications in a variety of industries.

Overall, paragon stepped up its R&D expenditure in the first nine months of 2014 by 19.6% to approximately EUR 5.9 million (Q1-Q3 2013: EUR 4.9 million). This equates to 10.5% of revenue (Q1-Q3 2013: 9.4%). The number of employees involved in development also increased from 64 to 73.

Employees

As of September 30, 2014 paragon AG had a total of 420 permanent and 49 temporary employees across the Group. The total number of employees had therefore risen by 7.1% compared with 388 permanent and 50 temporary employees as of September 30, 2013. Of the total employees, 15 were employed outside Germany in Shanghai (2) and in the US subsidiary Voltabox of Texas, Inc., (13). The employee breakdown by individual site in Germany (and by permanent/temporary contract) as of September 30, 2014 was as follows: Delbrück (122/1), Suhl (206/46), Nuremberg (27/2), and St. Georgen (50/0). These figures included 26 permanent employees of Voltabox Deutschland GmbH.

Capital investment

Total capital investment at paragon from January 1 to September 30, 2014 amounted to approximately EUR 8.8 million (Q1-Q3 2013: EUR 3.8 million). Of this total, EUR 7.3 million (Q1-Q3 2013: EUR 1.8 million) was accounted for by spending on property, plant and equipment. In the third quarter of 2014 alone, the volume of capital investment amounted to EUR 4.5 million, more than three times the amount in the corresponding quarter of 2013 (Q3 2013: EUR 1.4 million). This capital investment was concentrated on new production lines for the subsidiaries Voltabox Deutschland GmbH and Voltabox of Texas, Inc., and on buying the office building at Bösendamm 11 from Frers Grundstücksverwaltungs GmbH & Co. KG at a purchase price of EUR 1.7 million, the full amount of which has now been paid.

Investor Relations

General stock market environment

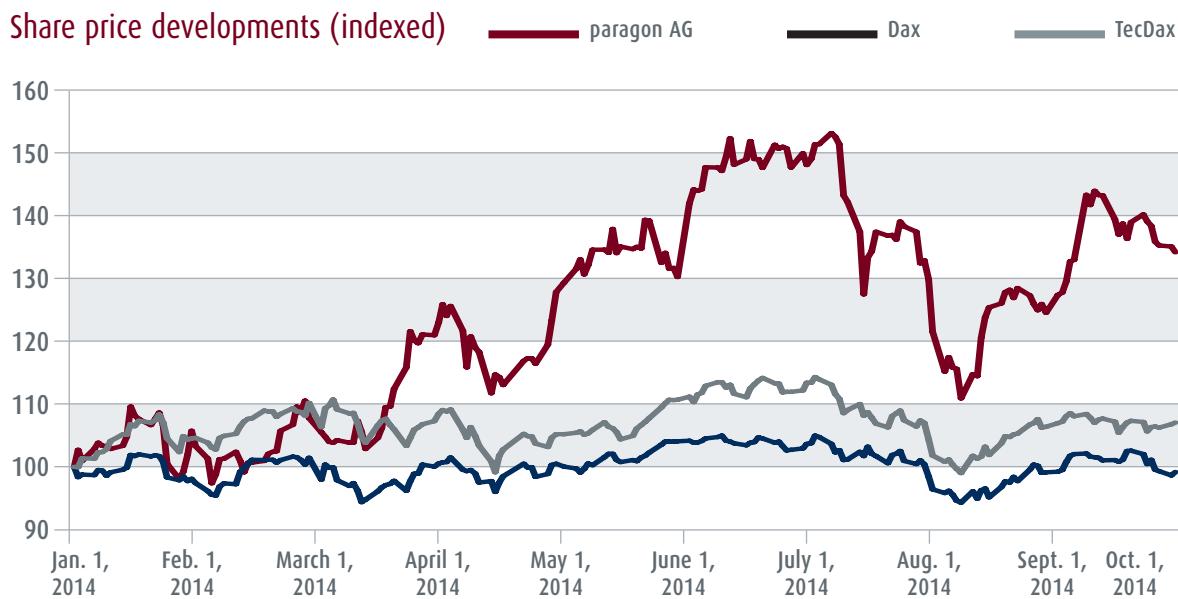
Germany's DAX stock index proved to be quite volatile during the first nine months of 2014, fluctuating in a range between

9,000 and 10,000 points, although financial markets became noticeably more nervous during the third quarter. The index also broke through the landmark 10,000-point barrier when it reached the high for the year to date of 10,029 points (based on closing prices) on July 3, 2014. However, this was rapidly followed by a dramatic slide to the low for the year to date of 9,009 points (August 8). The DAX then recovered to close at 9,474 points on September 30, 2014, down slightly by 1% on the position as of December 31, 2013 (9,552 points).

paragon stock

The performance of the paragon stock price, driven in turn by the positive performance of the business, was significantly removed from the subdued sentiment reflected in the DAX. From a closing price of EUR 10.40 at the end of 2013, the stock first hit a low of EUR 10.13 on February 4 in line with general weakness in the market but then rose steadily reaching a high for the year to date of EUR 15.93 on July 7. In the third quarter, even paragon stock was unable to escape the general market turmoil and closed on September 30, 2014 at just EUR 13.96. Compared with the closing price at the 2013 year-end, this still equated to a substantial gain of 34%.

ISIN:	DE0005558696
WKN:	555869
Ticker symbol:	PGN
Market segment:	Regulated Market
Transparency level:	Prime Standard
Sector:	Technology
Industry:	Automotive suppliers
Stock exchange:	Frankfurt (XETRA)
Also traded in:	Berlin, Düsseldorf, Hamburg, Munich, Stuttgart
Number of shares:	4,114,788
Share price as of Sept. 30, 2014:	EUR 13.96 (XETRA)
Market capitalization as of Sept. 30, 2014:	EUR 57.4 million
Average trading volume (52 weeks) as of Sept. 30, 2014:	12,165 shares a day
Designated Sponsor:	Close Brothers Seydler Bank AG



Given that good growth prospects have been sustained, particularly in the Electromobility business segment, Dr. Kalliwoda Research GmbH, Frankfurt am Main, raised its target price for paragon stock to EUR 22.70 in a report published on September 21, 2014. Close Brothers Seydler Research AG, Frankfurt am Main, (June 17 target price: EUR 21.00) have also continued to recommend the stock as a 'buy'.

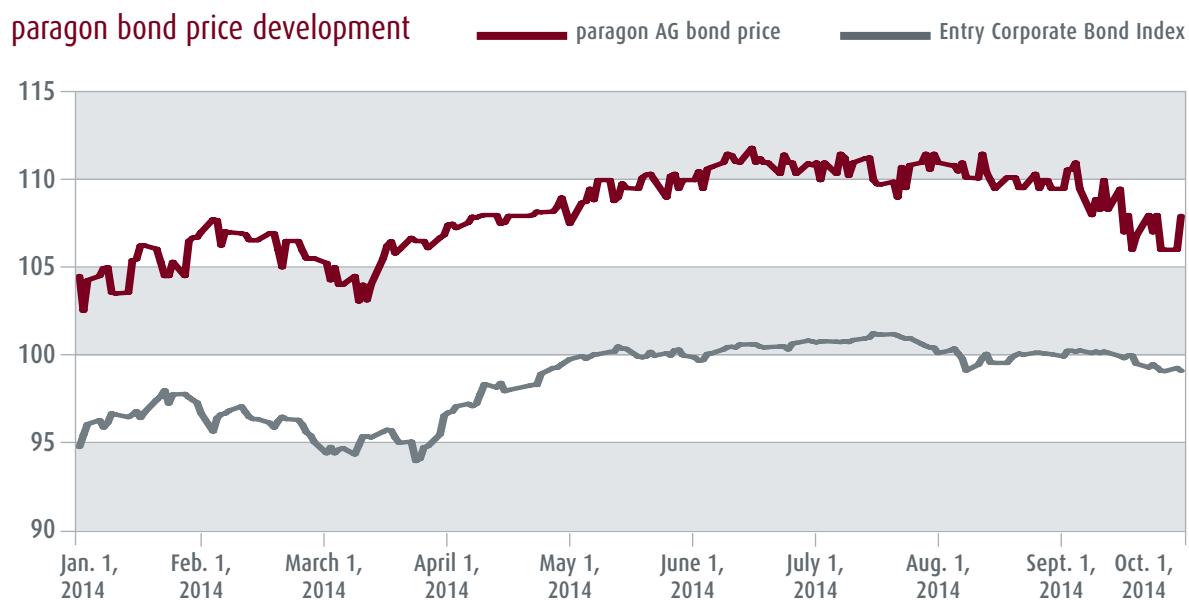
On May 27, 2014, Credit Reform Rating AG upgraded the company rating for paragon AG from BB+ to an investment-grade rating of BBB-. Credit Reform especially highlighted the good revenue and cash flow trends that the Company has maintained, the good level of profitability, sound equity-to-assets ratio, high liquidity buffer, and the strong market positioning enjoyed by many of the products.

paragon corporate bond

The corporate bond issued in July 2013 continued to perform steadily, hovering significantly above the issue price of 100%. At the end of the third quarter of 2014, the bond price was 107.95% of face value, offering new investors a yield of 5.14%. The paragon bond has therefore also been performing substantially better than the Entry Corporate Bond Index, which has mostly been significantly below the 100% mark over the year to date. In March 2014, paragon AG placed an additional tranche of the corporate bond with a value of EUR 3.0 million with institutional investors on a private basis,

raising the total issue volume of the bond to EUR 13 million (prospectus: up to EUR 20 million).

ISIN:	DE000A1TND93
WKN:	A1TND9
Ticker symbol:	PGNA
Market segment:	Open Market
Transparency level:	Entry Standard for corporate bonds
Stock exchange:	Frankfurt
Also traded in:	Berlin, Hamburg, Hannover
Issue volume:	Up to EUR 20 million
Volume placed:	EUR 13 million
Coupon:	7.25 % p.a. (paid annually)
Issue date:	July 2, 2013
Maturity:	July 2, 2018
Rating (May 27, 2014):	BBB- (Creditreform Rating AG)
Bond price as of Sept. 30, 2014:	107.95 %
Average trading volume (52 weeks) as of Sept. 30, 2014:	EUR 22,735 (nominal) per day



Financial market communications

The key event in our investor relations activities in the first nine months of 2014 was the 13th shareholders' meeting of paragon AG, held on May 14, 2014 in Delbrück. All relevant agenda items were approved by a clear majority of the shareholders present. In particular, the meeting elected Professor Dr.-Ing. Lutz Eckstein as a new member of the Supervisory Board to succeed Hans J. Zimmermann, who was also the Chairman of the Supervisory Board. At the subsequent meeting of the Supervisory Board, Professor Dr.-Ing. Lutz Eckstein was then elected as the new Chairman of the Supervisory Board.

Risk report

Detailed information on the individual risks to which paragon AG is exposed was presented in the opportunities and risks section of the Annual Report for the fiscal year ended December 31, 2013. The statements in the Annual Report relating to the overall risk continue to apply. The Managing Board has not identified any material additions or changes to those risks during the course of the first nine months of 2014.

At the time this report was published, there were no identifiable risks that could jeopardize the continued existence of the Company as a going concern.

Outlook

Overall economic and industry-specific trends

In its autumn forecast³, the Kiel Institute for the World Economy (IfW) has again scaled back its predictions for global economic growth in 2014, this time to 3.2% (summer forecast: 3.5%), in view of the weak performance in the first half of the year, major regional imbalances, underlying slackening in the pace of growth in emerging markets, and the uncertain impact from current geopolitical conflicts. GDP growth of just 0.7% is forecast for the eurozone (summer forecast: 1.0%).

IfW has also significantly lowered its forecasts for Germany but still expects GDP to rise by 1.4% (spring forecast: 2.0%). Given a continuation in expansionary monetary policy, the main drivers remain consumer spending and a strong level of investing activity. However, there has also been a further heightening of the risks arising from the political and economic situation in Europe. Despite the more muted economic prospects, paragon AG is not currently expecting the macroeconomic situation to have any adverse impact on business performance.

A study published in August 2014 by experts at the CAR Center Automotive Research at the University of Duisburg-Essen predicts that global new vehicle sales will only rise to just over 73.4 million vehicles as a result of the weaker sales

³ IfW, Weltkonjunktur im Herbst 2014 [Global economy in autumn 2014], September 11, 2014

trends in Russia and South America. In July, the VDA was still forecasting a figure of 75.9 million⁴. According to Moody's Investors Service, market growth in 2015 is again predicted to be around 3%, driven by the Chinese market. Global new vehicle sales are expected to rise to more than 107 million vehicles by 2025. These market forecasts indicate that paragon AG has a sound foundation for further growth.

Business trends

In the first nine months of 2014, paragon AG managed to exceed all its internal revenue and earnings forecasts. This was primarily attributable to very strong operating performance in the established business segments. One notable point is that the development and tooling costs that could be billed on to customers in 2013 were approximately EUR 4.6 million greater than those likely to be billed on in the current year because the additional costs in 2013 were one-off items incurred in connection with establishing the new business segments. The expected growth in total revenue demonstrates that the Company has been able not only to replace these one-off items, but also achieve further growth through paragon products. In view of current performance, the Managing Board can assume that the forecast revenue growth of 8% for the whole of the year will be achieved, generating an adjusted EBIT margin of around 10%. The additional expenses compared with 2013 incurred in connection with investing in future areas of business are expected to amount to around EUR 4.0 million for the whole of the year.

As of September 30, paragon had already received 99.1% of the customer orders needed to achieve the total revenue budgeted for the current fiscal year. All business segments are forecast to make a contribution to the revenue growth for the full year. The Acoustics, Cockpit, and Sensors business segments have already performed very well to date and these segments are predicted to maintain their high unit sales in the fourth quarter. From the beginning of 2015, sales of steering wheel gearshift paddles in the Body Works Kinematics business segment are expected to see a further significant rise, with unit sales in the coming year forecasted to climb by approximately 50%. The Electromobility business segment also continues to enjoy extremely strong demand. Back in the second quarter, firm orders were received from Vossloh Kiepe for a further 200 battery packs for the years

2014 to 2016. This customer alone has notified a requirement for approximately 1,000 battery packs over the next few years. When the half-yearly figures were presented, it was not yet possible at that stage to predict the timing of the revenue. As a consequence of delays at the end customer, most of the production activity will only be started in 2015 and will thus not result in significant revenue in the fourth quarter of 2014 as originally expected. Whereas the delayed revenue growth in this case can be compensated by the excellent performance in the established business segments, this gap cannot be recouped at the earnings level. As already explained with the results published for the first half of the year, the investment in additional personnel over the whole of 2014 – as a consequence of the significant rise in demand for products from the new Electromobility and Body Works Kinematics business segments – will lead to a substantial increase in personnel expenses and in the cost of materials.

At the end of 2013, the Electromobility business segment generated its first significant revenue, primarily from development costs that could be billed to customers. In 2014, the segment has to date produced prototypes and serviced smaller projects in Europe. Following the investment phase in 2013 and 2014, paragon now expects Electromobility to generate significant revenue in 2015 – for example from its customer Vossloh Kiepe for the use of battery packs in buses. In addition, paragon is in discussions with further potential partners in other industries. Substantial orders are expected as a result over the next six months. The aim is thus to continue using strategic partnerships – an approach already successfully exploited by the Company – to develop other avenues and further enhance the potential revenue that can be generated by the Electromobility business segment. To this end, paragon has initiated appropriate additional capital investment. The potential offered by the Electromobility business segment and the Voltabox subsidiaries is not limited simply to revenue; the segment is also of considerable strategic importance because conscious diversification in the product portfolio will stabilize paragon's revenue significantly over the long term and will enable the Company to become increasingly independent from the upturns and downturns in the automotive sector. By returning capital investment to normal levels and at the same time achieving a sharp rise in revenue, paragon expects the

⁴ VDA press conference on July 2, 2014: 'Wissmann: Automotive year 2014 will bring growth in production, exports and employment'

Electromobility business segment to make a substantial contribution to earnings in 2015 and thereafter.

Another key strategic focus is the accelerated international expansion of the paragon Group. Following the start of production at the Voltabox plant in Texas in September, the first battery packs will be assembled and delivered during the fourth quarter. Accordingly, revenue generated by the US subsidiary will make a substantial contribution to the overall revenue of the Group from spring 2015 onward. In October 2014, the US Voltabox subsidiary also succeeded in obtaining a certificate of compliance with the Buy American Act, certifying that more than 60% of the value in large batteries is created in the US. This certification means that Voltabox can also win contracts from public-sector customers in the US, opening up further significant revenue potential in both the short and medium term, given the numerous application possibilities afforded by battery packs.

At the same time, paragon will continue to develop its joint venture in China in order to achieve a further level of penetration in this key automotive market. In Jiangsu Riying Electronics Co. Ltd., paragon has a local partner with many years of experience in the Chinese automotive industry and believes that such a partnership meets the prerequisite for successful engagement in the Chinese market. Alongside the US, China is currently one of the most lucrative growth markets, and more importantly will also continue to be so in the future, particularly for Germany's premium manufacturers. Given this background, and as paragon is a supplier with a sharp focus on these premium manufacturers, it is naturally one of the Company's key objectives to be present in this booming market. As the planning stands at the moment, the joint venture is scheduled to start production in summer 2015 and the process of winning orders is already producing highly promising results.

Overall, the paragon growth strategy aims to consolidate the very good market position of the established Cockpit, Sensors, and Acoustics business segments and also achieve further growth in the Body Works Kinematics and Electromobility business segments. It is already clear that the Sensors and Electromobility business segments will be the principal growth drivers. Over the next few years, paragon also intends to use its high-quality systems as the basis for gain-

ing further shares in the market at various points in the automotive engineering value chain.

For 2015, paragon anticipates double-digit growth rates in both revenue and earnings. The Managing Board will announce detailed forecasts following the Supervisory Board's approval of its planning in December.

Figures for the period from January 1 to September 30, 2014

Consolidated Balance Sheet of paragon AG, Delbrück, as of June 30, 2014

in EUR thousands	Sept. 30, 2014	Sept. 30, 2013
Assets		
Non-current assets		
Intangible assets	6,246	5,812
Property, plant and equipment	17,684	13,205
Financial assets	120	0
Other assets	89	128
Deferred taxes	0	0
Total non-current assets	24,139	19,145
Current assets		
Inventories	10,794	7,750
Trade receivables	6,572	3,851
Income tax assets	1,014	1,271
Other assets	1,767	1,410
Cash and cash equivalents	11,782	17,487
Total current assets	31,929	31,769
Total assets	56,068	50,914

in EUR thousands	Sept. 30, 2014	Sept. 30, 2013
Equity and liabilities		
Equity		
Subscribed capital	4,115	4,115
Capital reserve	2,450	2,450
Revaluation deficit	- 446	- 803
Profit carried forward	8,746	5,826
Net income	156	1,757
Currency translation differences	- 30	- 1
Total equity	14,991	13,344
Non-current provisions and liabilities		
Non-current lease obligations	861	107
Non-current borrowings	11,368	11,409
Non-current bonds	12,602	9,558
Special item for investment grants	1,291	1,644
Deferred taxes	1,055	481
Pension provisions	1,224	2,833
Total non-current provisions and liabilities	28,401	26,032
Current provisions and liabilities		
Current portion of finance lease obligations	341	204
Current borrowings and current portion of non-current borrowings	2,681	2,155
Trade payables	4,852	3,547
Other provisions	46	203
Income tax liabilities	13	0
Other current liabilities	4,743	5,429
Total current provisions and liabilities	12,676	11,538
Total equity and liabilities	56,068	50,914

Figures are rounded

Figures for the period from January 1 to September 30, 2014

**Consolidated Income Statement of paragon AG, Delbrück,
for the period January 1, to September 30, 2014**

in EUR thousands	Jan. 1 - Sept. 30, 2014	Jan. 1 - Sept. 30, 2013	Q3 2014 April 1 - Sept. 30, 2014	Q3 2013 April 1 - Sept. 30, 2013
Sales revenue	55,971	52,214	18,218	16,558
Other operating income	634	804	95	275
Increase or decrease in inventory of finished goods and work in progress	1,103	817	572	1,199
Other own work capitalized	2,021	1,286	522	361
Total operating performance	59,729	55,121	19,407	18,393
Cost of materials	- 30,744	- 27,177	- 9,906	- 9,263
Gross profit	28,985	27,944	9,501	9,130
Personnel expenses	- 16,289	- 14,488	- 5,494	- 4,910
Depreciation of property, plant and equipment and amortization of intangible assets	- 3,329	- 3,102	- 1,082	- 1,048
Impairment of property, plant and equipment and intangible assets	- 16	- 142	1	- 55
Other operating expenses	- 7,341	- 6,586	- 2,419	- 2,435
Earnings before interest and taxes (EBIT)	2,010	3,626	507	682
Financial income	9	29	1	5
Finance costs	- 1,442	- 924	- 500	- 426
Financial result	- 1,433	- 895	- 499	- 421
Earnings before taxes (EBT)	577	2,731	8	261
Income taxes	- 421	- 974	- 215	- 259
Net income (loss)	156	1,757	- 207	2
Earnings per share (basic)	0.04	0.43	- 0.05	0.00
Earnings per share (diluted)	0.04	0.43	- 0.05	0.00
Average number of shares outstanding (basic)	4,114,788	4,114,788	4,114,788	4,114,788
Average number of shares outstanding (diluted)	4,114,788	4,114,788	4,114,788	4,114,788

Figures for the period from January 1 to September 30, 2014

**Consolidated Cash Flow Statement of paragon AG, Delbrück,
in accordance with IFRS**

in EUR thousands	Jan. 1 - Sept. 30, 2014	Jan. 1 - Sept. 30, 2013
Earnings before income taxes	578	2,730
Depreciation/amortization of non-current assets	3,329	3,102
Financial result	1,432	896
Profit (-), loss (+) from disposal of items of PPE and financial assets	150	2
Increase (+), decrease (-) in other provisions and pension provisions	- 9	9
Income from the reversal of the special item for investment grants	- 204	- 446
Other non-cash income and expense	- 27	0
Increase (-), decrease (+) in trade receivables, other receivables and other assets	- 816	- 1,758
Partial outsourcing of pension provisions	- 1,453	0
Impairment of intangible assets	16	142
Increase (-), decrease (+) in inventories	- 3,325	- 437
Increase (+), decrease (-) in trade payables and other liabilities	2,307	- 665
Interest paid	- 1,442	- 925
Income taxes	- 860	- 1,729
Cash flow from operating activities	- 324	921
Proceeds from the disposal of property, plant and equipment	134	0
Cash payments to acquire property, plant and equipment	- 7,252	- 1,792
Cash payments to acquire intangible assets	- 1,720	- 2,071
Interest received	7	29
Cash flow from investing activities	- 8,831	- 3,834
Dividends paid	- 1,029	- 1,440
Cash repayments of borrowings	- 3,184	- 1,159
Payments in connection with insolvency ratio	0	- 903
Cash proceeds from issuing loans	4,869	629
Cash repayments for liabilities from finance leases	- 265	- 159
Net cash proceeds from the issuance of bonds	2,900	9,349
Cash flow from financing activities		
Cash-effective change in liquidity	- 5,864	3,404
Cash and cash equivalents at beginning of period	17,647	14,083
Cash and cash equivalents at end of period	11,782	17,487

Figures for the period from January 1 to September 30, 2014

Consolidated Statement of Changes in Equity of paragon AG, Delbrück

in EUR thousands	Subscribed capital	Capital reserve	Revaluation deficit	Reserve from currency translation	Accumulated profit		Total
					Profit carried forward	Net income	
January 1, 2013	4,115	2,450	- 803	0	7,266	0	13,028
Net income	0	0	0	0	0	1,757	1,757
Other comprehensive income	0	0	0	- 1	0	0	- 1
Comprehensive income	0	0	0	- 1	0	1,757	1,756
Dividend payout	0	0	0	0	- 1,440	0	- 1,440
September 30, 2013	4,115	2,450	- 803	- 1	5,826	1,757	13,344
in EUR thousands	Subscribed capital	Capital reserve	Revaluation deficit	Reserve from currency translation	Accumulated profit		Total
					Profit carried forward	Net income	
January 1, 2014	4,115	2,450	- 446	- 1	9,775	0	15,893
Net income	0	0	0	0	0	156	156
Actuarial gains and losses							
Currency translation	0	0	0	- 29	0	0	- 29
Other comprehensive income	0	0	0	- 1	0	0	- 1
Comprehensive income	0	0	0	- 30	0	156	126
Dividend payout	0	0	0	0	- 1,029	0	- 1,029
September 30, 2014	4,115	2,450	- 446	- 31	8,746	156	14,990

Condensed notes to the interim consolidated financial statements

Basis of accounting and accounting policies

The interim consolidated financial statements of paragon AG for the nine months ended September 30, 2014 have been prepared in accordance with the uniform accounting policies established by the International Financial Reporting Standards (IFRS), which were also applied in the Annual Report for the year ended December 31, 2013. The Company has taken into account in its financial statements the standards published by the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) in force on the balance sheet date.

The format and content of the consolidated interim report comply with the reporting requirements of Deutsche Börse. The report for the nine months ended September 30, 2014 represents an update of the Annual Report. It focuses on the current reporting period and should be read in conjunction with the Annual Report and the supplementary information concerning the Company contained in the Annual Report. The Annual Report can be accessed on the internet at www.paragon.ag.

In the first nine months of 2014, Voltabox of Texas, Inc., and Voltabox Deutschland GmbH were fully consolidated for the first time in addition to the existing entities KarTec GmbH and paragon Automotive Technology (Shanghai) Co., Ltd that were included in the consolidated financial statements for the year ended December 31, 2013.

Income statement, balance sheet, cash flow statement

The sections headed 'Financial position and net assets' and 'Results of operations' provide a detailed overview and include specific disclosures concerning the consolidated income statement, consolidated balance sheet, and consolidated cash flow statement of paragon AG.

Managing Board and Supervisory Board

As of September 30, 2014, the following changes had been made to the composition of the Managing Board and Supervisory Board compared with December 31, 2013:

The Chairman of the Supervisory Board of paragon AG, Hans J. Zimmermann, resigned from the Supervisory Board for personal reasons with effect from the end of the shareholders' meeting held on May 14, 2014.

The shareholders' meeting of May 14, 2014 elected Professor Dr.-Ing. Lutz Eckstein as the successor to Hans Zimmerman as a member of the Supervisory Board of paragon AG. The Supervisory Board elected Lutz Eckstein as the new Chairman of the Supervisory Board at its subsequent constituent meeting.

Professor Dr.-Ing. Lutz Eckstein has many years of experience in the automotive industry. After completing his studies and a doctorate in mechanical engineering at the University of Stuttgart, Professor Eckstein worked for ten years in research and development at Daimler AG, followed by five years as a manager in the Electrics/Electronics division of the BMW Group. Since 2010, he has headed the Institute of Automotive Engineering (ika) at RWTH Aachen University, whose main research areas currently include electromobility, lightweight construction, and the networking of driver assistance and chassis control systems. Professor Eckstein is also a member of the National Platform for Electromobility (NPE) and is involved as an inventor in more than 80 national and international patents.

Effective April 1, 2014, Dr.-Ing. Stefan Schwehr (50) was appointed as a member of the Managing Board. Dr. Schwehr has taken over responsibility for technology from the Chairman of the Managing Board, Klaus D. Frers, who was previously jointly responsible for that area of activity.

Klaus Frers will now focus on corporate strategy and development, production, finance, and personnel. As Chief Technology Officer, Dr. Schwehr will be responsible for development, marketing, sales, and customer management.

Dr. Schwehr has come to paragon from Daimler AG, where he accumulated around 20 years of management experience in the preliminary and full development of electronics components. Most recently, he was responsible for the preliminary development of vehicle instrumentation and control systems. He had previously headed up various departments, including instrumentation and mechatronics, and therefore has experience in many fields of fundamental importance to paragon.

Events after the balance sheet date

The Managing Board is not aware of any events after the balance sheet date of September 30, 2014 that are of particular significance or that could have a substantial impact on the results of operations, financial position or net assets of the Company.

Information concerning the preparation of the interim financial statements

The interim consolidated financial statements have not been audited or reviewed by an auditor.

Forward-looking statements entail risks. This interim report for the nine months ended September 30, 2014 includes statements that also concern the future performance of paragon AG. These statements are based both on assumptions and on estimates. Although the Managing Board is confident that the forward-looking statements are realistic, it does not make any warranty in this regard. The assumptions involve risks and uncertainties that could result in differences between anticipated and actual results.

Delbrück, November 19, 2014

The Managing Board

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