GROUNDBREAKING DECISIONS.

ANNUAL REPORT 2017

At a Glance

Highlights from Fiscal Year 2017

- Group sales increase 21.4% to € 124.8 million (prior year: € 102.8 million)
- EBITDA up 5.8% to € 17.0 million (prior year: € 16.1 million)
- EBIT[1] down 14.6% to € 7.6 million (prior year: € 8.9 million)
- Revenue growth to around € 175 million expected for 2018 with an EBIT margin of around 9%

Group Key Figures (IFRS)

In € thousands / as indicated	Jan. 1 to Dec. 31, 2017	Jan. 1 to Dec. 31, 2016	Change in %	Oct. 1 to Dec. 31, 2017	Oct. 1 to Dec. 31, 2016	Change in %
Revenue	124,823	102,790	21.4	40,078	29,091	37.8
EBITDA	17,028	16,092	5.8	4,433	5,929	-25.2
EBITDA margin in %	*13.6*	*15.7*	*n. a.*	*11.1*	*20.4*	*n. a.*
EBIT[1]	7,633	8,929	-14.5	1,501	3,831	-60.8
EBIT margin[2] in %	*6.1*	*8.7*	*n. a.*	*3.7*	*13.2*	*n. a.*
Group result	-657	3,561	-118.4	-2,798	2,746	-201.9
Earnings per share in €	-0.15	0.84	-117.2	-0.62	0.61	-201.9
Investments[3]	37,747	23,262	61.6	24,269	6,548	270.6
Operating cash flow	-8,370	16,798	-184.7	-11,055	8,355	-232.3

In € thousands / as indicated	Dec. 31, 2017	Dec. 31, 2016	Change in %	Dec. 31, 2017	Sep. 30, 2017	Change in %
Total assets	311,847	115,553	169.9	311,847	152,146	105.0
Equity	177,062	34,674	410.6	177,062	35,043	405.3
Equity ratio in %	*56.8*	*30.0*	*n. a.*	*56.8*	*23.0*	*n. a.*
Free liquidity	166,826	17,324	863.0	166,826	52,272	219.1
Interest bearing liabilities	86,336	49,181	75.5	86,336	85,473	1.0
Net debt[4]	-80,490	31,857	-352.7	-80,490	20,118	-342.4
Employees[5]	678	519	30.6	678	495	37.0

Share

	Dec. 31, 2017	Dec. 31, 2016	Change	Dec. 31, 2017	Sep. 30, 2017	Change
Xetra closing price in €	78.68	41.53	89.5 %	78.68	88.55	-11.1 %
Number of shares outstanding	4,526,266	4,526,266	0.0 %	4,526,266	4,526,266	0.0 %
Market capitalization in € million	356.1	188.0	168.1	356.1	400.8	-44.7

1 Excluding € 3.553 extraordinary items of the Mechanics segment (unadjusted)
2 Adjusted EBIT margin: 9.0%
3 Thereof € 15.158 million cash payments for the acquisition of consolidated companies
4 Net debt = interest bearing liabilities – free liquidity
5 Plus 130 temporary employees (December 31, 2016: 107)

Letter From the Management Board

DEAR SHAREHOLDERS, CUSTOMERS, BUSINESS PARTNERS AND EMPLOYEES,

against the backdrop of our 30-year company history, we are particularly pleased that the 2017 fiscal year was the most successful to date. Once again, we grew faster than the market. The more than 20 percent increase in sales speaks for itself.

Our strategy addresses the major megatrends in the automotive sector with growing success: increasing convenience, urbanization, CO_2 reduction and digitization. With our innovations, we are increasingly moving from being a direct supplier of electronic components to an integrated system provider. Our internal project “PUSH 2018” is aimed precisely at the market opportunities arising from the changing mobility requirements of end customers.

In our industry, the forthcoming transformational changes in the automotive value chain are now being discussed more and more openly. It is evident that these changes have already begun, in part through the very substantial structural considerations of major manufacturers and suppliers. We placed the cornerstone for our current success with our entry into e-mobility in 2011, which initially focused on industrial applications.

With the successful IPO of our e-mobility subsidiary Voltabox AG in October 2017, we established the framework for rapidly expanding our position in this fast-growing market. Of the more than € 150 million we raised with the IPO, Voltabox has a large share available for acquisitions. paragon AG received around € 27 million from the sale of Voltabox shares and the repayment of shareholder loans.

In addition, we issued a new € 50 million paragon corporate bond in the summer. It was named the most successful SME bond issue of 2017 by Bond Magazine. With the takeover of HS Genion GmbH in December and the merger of our Body Kinematics unit under the umbrella of paragon movasys GmbH, we are now writing another success story as a leading global supplier of active mobile aerodynamic systems.

The chances are therefore good that we will again grow significantly faster than the automotive sector in this anniversary year. paragon movasys GmbH in the Mechanics operating segment and Voltabox AG in the Electromobility operating segment are expected to be the main contributors to this growth. We are also forecasting a further jump in Group sales of more than 40 percent to around € 175 million with a consolidated EBIT margin of around 9 percent. From fiscal year 2019 onward, the Electronics operating segment is also expected to make a stronger contribution to Group growth with new products.

We would like to take this opportunity to thank all our 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 (Electronics)

Groundbreaking Decisions – Interview With the Management Board

Chief Executive Officer Klaus Dieter Frers and Chief Technology Officer (Electronics) Dr. Stefan Schwehr

Mr. Frers, Dr. Schwehr, you have just completed one of the best fiscal years in your 30-year company history and, with over 20 percent organic growth, you have created a solid basis for achieving your ambitious medium-term growth targets.

Frers: It's true – this year really was something special. It was a year full of crucial decisions for the future and one where we established a solid foundation for growth well beyond 2017.

After the capital increase in October 2016, we started the new year with momentum and were able to initiate important product initiatives. The bond issue in July 2017 was another highlight: We had planned for a volume of € 30 million, but we were pleasantly surprised by the interest from the capital market. In the end, we increased the volume to € 50 million – and could have achieved significantly more. But the highlight was undoubtedly the IPO of Voltabox. The response, both in Germany and abroad, was indescribable. The shares were oversubscribed ten times. This shows that the future belongs to electromobility – and Voltabox is part of it. It was truly a huge success. And, at the end of the year, we also succeeded in acquiring HS Genion GmbH. The merger with our Body Kinematics unit created the world market leader in this sector.

It was a full year, and yet we managed to stay true to the "paragon principle": dynamism, agility, courage for innovation and change. We can honestly say that we are in excellent position for the future.

It sounds as if you and your management team are interpreting the classic image of the entrepreneur in a modern way.

Frers: We combine a lot of things that might make us unique. For instance, the sustainability and stability of a family-owned company paired with the transparency and dynamism of a listed company. Our company is now a good 30 years old, but we have retained the mentality of a start-up.

Of course, this is only possible if you have employees at all management levels who share these values and really embody them. Not only achieving strong growth, but also harnessing it for constant change requires strong managers with passion – and we have them. I am also very pleased that we were able to attract additional talents over the last year.

Voltabox is a good example of this start-up mentality. What distinguishes this company from its competitors?

Frers: Long before e-mobility was on everyone's lips, we were focusing on highly developed battery systems for industrial applications. That is now paying off. We supply battery systems for forklifts, mining vehicles, public transportation trolleybuses and automated guided vehicles. We also manufacture lithium-ion batteries for selected mass market applications, with the current focus being on high-performance motorcycles. In a fast-growing market, we have established ourselves as a leading provider in our market segments and have doubled our revenue each year to date. Due to the complexity of Voltabox's products, their margins will always be higher than those in mass-produced, price-competitive applications. In fact, we are aiming for an EBIT margin of around ten percent at Voltabox for 2018.

That is sure to be received well by the capital market. What battery solutions do you offer that others don't have?

Frers: It is always about special applications: Our systems are tailored for the application the customer needs. Here, we benefit from the modularization and scalability of our individual components. A current example is a prototype that we are developing for a large, newly designed vehicle for underground mining. This battery system is based on innovative pouch cells and weighs around 8.5 tons. The energy content is around 800 kWh, which is many times that of a "normal" electric car.

Will Voltabox be the growth driver for paragon over the next few years?

Frers: Voltabox has tremendous growth prospects, but paragon has much more to offer. Just last year, we made several groundbreaking decisions that will accelerate paragon's growth in the Electronics operating segment over the coming years as well. With our latest developments, we are increasingly becoming a system provider with core competencies in the series production of high-quality electronic components. Here, we are strictly following the major megatrends in the sector. I am firmly convinced that we will benefit particularly strongly from the changes in the automotive value chain in the medium term.

Can you give a few examples of this?

Dr. Schwehr: Today, around half of the world's population lives in major cities. A negative side effect of the megatrend of urbanization is increasing air pollution. With our DustDetect particle sensors, we struck a chord with vehicle manufacturers, especially in Asia. Our particle sensors determine how high the concentration of respirable particulate matter is in the passenger compartment and in the air surrounding the vehicle with great accuracy. The driver and passengers can see at a glance how quickly the filtered air in the passenger compartment reaches non-critical levels of particulate matter pollution.

Or just think of the growing need for people to be "online" at all times and in all places. Our technology platform MirrorPilot offers trend-setting integration of the smartphone into the vehicle via Apple CarPlay and Google Android Auto, so that popular and necessary apps such as navigation, calling, contacts or music streaming can be seamlessly used in the car, with a familiar interface. Especially for vehicles in the shared mobility sector, MirrorPilot offers a standard that enables a universal infotainment experience with almost all common smartphones. Additional functions, such as convenient user authentication and secure vehicle access, can be integrated here.

Our Acoustics activities are also fully involved here. Until now, paragon has been known for its high-quality and highly innovative microphone solutions, such as the belt microphone. With the resulting expertise in interior acoustics and our competence in electronics and vehicle networking, we have now developed a system that opens up numerous functionalities that are not available anywhere else in the market today. The 3D+ high-end sound system offers an unrivaled three-dimensional sound experience that is identical for every passenger and can be coupled with in-car communication functions, additional sound generation for electric vehicles and counter-noise control to suppress vehicle noise, which is particularly noticeable in electric vehicles.

And what about the trend toward autonomous driving? Will paragon also benefit from this?

Dr. Schwehr: We are working on different approaches here. I can say this much: Due to the legislation regarding autonomous driving, among other things, assessing the driver's condition will become a very important aspect – particularly in the context of retaking control from the autonomous system. This transition is expected to take several seconds. This time is calculated using a large number of recorded data, including the driver's vital state, using concrete models and self-learning algorithms. We are taking an innovative approach here, which I will be able to report more on later this year.

That sounds very futuristic. When will we be able to expect initial revenues from these new products?

Frers: This depends very much on the innovation cycles of the individual manufacturers. Traditionally, it takes up to 24 months for a new product to make it onto the road. New systems in particular must always be taken into account when designing new models or generations of models. However, we see increasing manufacturer interest in innovative system solutions from proven direct suppliers. Consumer expectations are growing. The more mobile and demanding consumers become, the greater the pressure on manufacturers to innovate. We are uniquely positioned here. The first revenue contributions will come from a pilot application of the MirrorPilot mentioned by Dr. Schwehr this year. It involves a shared mobility business model operated by a German premium manufacturer.

What about the data that will be generated with your systems in the future?

Dr. Schwehr: Of course, there is unbelievable potential here, if you just look at the data that our sensors process. With our particulate matter sensor and a sufficient penetration of the market, it is possible to create local resolution maps for particulate matter pollution essentially in real time. Combined with past values and the daily weather forecast, the software allows you to predict the concentration of particulate matter around the corner, near the kindergarten or at the sports field nearby. The driver monitoring we just mentioned is well suited for determining values for the stress and well-being of the driver – particularly in the context of autonomous driving. Programs to increase well-being can then be derived from this data. I'm thinking here of targeted music selection, suitable ambient lighting or even fragrancing in the vehicle.

So is paragon increasingly developing into a software company?

Dr. Schwehr: Given our high level of expertise in the electronics and mechanics sectors, I wouldn't go that far. But the applications I just mentioned show that software represents an additional pillar for paragon with enormous possibilities. Speaking more generally, we are already within the value chains of the new and future ecosystems with the traditional paragon products. I've already mentioned data fusion in the cloud. It is therefore only logical that we should also offer new services, from air quality information inside and outside the vehicle to health monitoring and changing mobility services, which we are helping to shape. The breakthrough of artificial intelligence methods also opens up completely new applications in terms of operation and infotainment.

Back to hardware. At the end of the year, you once again strengthened the area of Body Kinematics. What do you expect from this move?

Frers: The subsidiary paragon movasys GmbH, with its headquarters and plant in Delbrück and additional site in Landsberg am Lech, has emerged from the merger of HS Genion GmbH and our former Body Kinematics unit as a new world market leader. We want to utilize the potential synergy quickly and offer our customers integrated systems by relying on the expertise of the units in the Mechanics operating segment. The strategic potential for active mobile aerodynamics is enormous. We will be the only supplier worldwide that can offer ready-to-install systems from a single source.

With the new forecast for the current year, you are continuing your growth momentum unabated. What can we expect from paragon in the medium term? What is your vision for the paragon Group at the beginning of the new decade?

Frers: paragon will be a recognized systems supplier with products and services that address the megatrends of urbanization, digitization, CO_2 reduction and comfort. We will be the world market leader in our sectors and a partner on equal footing with our customers, helping to shape and guide changing mobility. We will be a magnet for customers, investors and new employees, who appreciate our ambition, our passion, our innovative spirit and our reliability.

Mr. Frers, Dr. Schwehr, thank you very much for the insightful conversation. We wish you and your employees at paragon all the best and much success in this new phase of the company's development.

Investor Relations at paragon

Capital Market Environment

Against the backdrop of an overall positive economic environment, the capital market was subject to various currency and geopolitical influences at the international level in the past year, which resulted in varying adjustments to the expectations of market participants. The US Federal Reserve raised key interest rates in March and June, while the European Central Bank's main refinancing rate remained unchanged at 0.0%.

In a positive economic environment, the capital market showed a mixed trend in the first quarter with initially low trading volumes. While the course of trade in January was dominated by a consolidation phase with sideways movement due to a lack of momentum, increased profit expectations among predominantly foreign institutional investors led to an improved mood starting in February. This resulted in the magic threshold of 12,000 points being exceed on the DAX in March. However, profit-taking and increasing uncertainty among institutional investors about the current risk situation slowed further development. By mid-March, pessimism among institutional DAX investors reached its highest level since March 2015.

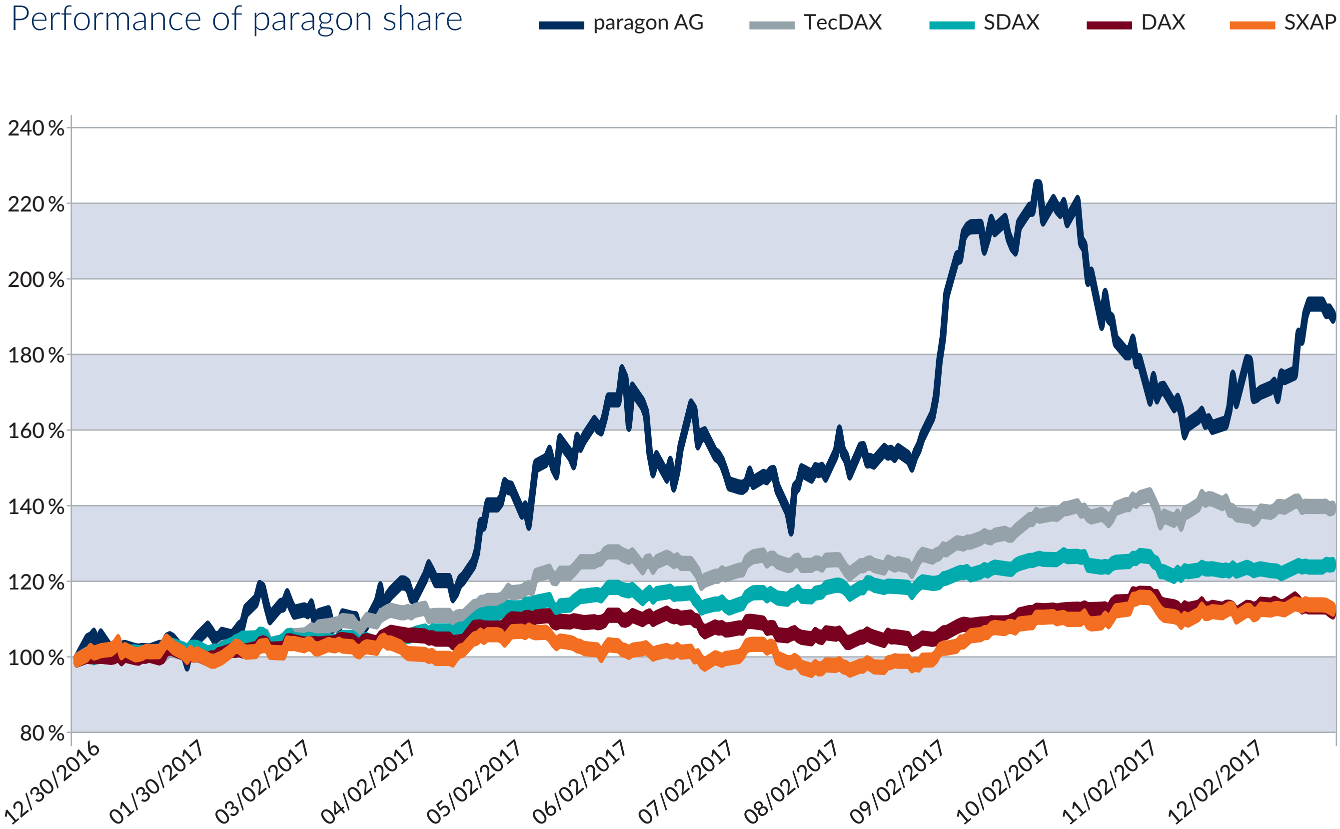
As a result of the strong economic growth in the first quarter, the utilization of overall economic capacities continued to increase – thanks in particular to the industrial sector and exports. Once again, China played a prominent role. The political risks prevailing at the beginning of the second quarter with regard to the French presidential election and the uncertainties associated with the announced US tax reform initially led to a lot of skepticism on the capital markets. Nonetheless, foreign investors significantly increased their European stockholding, which led to the largest shift away from American stocks since 1999. This process ultimately led to new record levels for the DAX. After a correction in May, however, the market then performed unevenly.

The beginning of the third quarter was marked by profit-taking on the stock exchange due to a general uncertainty surrounding the possible end to the European Central Bank's loose monetary policy. By the beginning of August, this was overshadowed by geopolitical risks – particularly the intensifying dispute between the U.S. and North Korean governments. As a result, August was neutral on the German stock market. Investor sentiment brightened somewhat in September, and this was increasingly supported by private investors. The outcome of the Bundestag elections had no notable effect.

The focus of the final quarter was initially on the psychologically important 13,000-point mark on the DAX. In October, professional investors responded by retreating from this hurdle and building up short positions, while private investors were on the buying side. Sentiment then brightened considerably over the course of the year, though profit-taking outweighed positive fundamentals in November. In the end, December was also dominated by a skeptical attitude on the part of market participants.

Interest rates remain at a very low level, despite the first key interest rate hikes by the US Federal Reserve Bank and the tax reform announced by the US government at the end of the year. As a result, the yield curve remained flat as investors increasingly invested in longer-term government bonds, thereby squeezing yields.

Performance of paragon share



Share: Share Price Performance and Trading Volumes

The price development of the paragon share was again carried by positive dynamics in the past fiscal year. With a Xetra closing price of € 78.68 as of the reporting date (prior year: € 41.53), the share achieved a price increase of 89.5%. This corresponds to a growth in stock market value for the company of about € 168.1 million.

In the first quarter, the most important German share indices recorded an increase (DAX 7%, SDAX 6% and TecDAX 13%). The STOXX Europe 600 Automobiles & Parts (SXAP) index, which lists the most important European automotive industry stocks, posted a gain of nearly 5%. In this market environment, the paragon stock outperformed the market in the first quarter – posting a 17% increase in its share price. Starting from an initial price of € 43.61, which was near the low of € 41.10 from January, the share price reached its high of € 49.39 in the second half of February. After profit-taking in March, the share price ended the quarter at € 48.77. This corresponds to a stock market value of approximately € 220.7 million for paragon AG as of the end of the period and represents an increase of around € 32.8 million in the company's market capitalization for the first quarter.

The second quarter was mixed for the share indices (DAX 0%, SDAX just under 8% and TecDAX 7%). By contrast, the STOXX Europe 600 Automobiles & Parts (SXAP) recorded a decline of more than 5%. In this market environment, the paragon stock once more outperformed the market – posting a 35% increase in its share price. Starting from an initial price of € 49.88, which was near the low of € 48.30 from April, the share price reached its high of € 72.70 at the start of June. After profit-taking in June, the share price ended the second quarter at € 66.00. This corresponds to a stock market value of approximately € 298.7 million for paragon AG as of the end of the reporting period and represents an increase of around € 110.7 million in the company's market capitalization for the first half of 2017.

In the third quarter, the share indices again performed well overall (DAX 4%, SDAX 10% and TecDAX 11%). The STOXX Europe 600 Automobiles & Parts (SXAP) recorded growth of almost 11%. In this market environment, the paragon share was again able to achieve a disproportionately high increase in value of 34%. Starting from an initial price of € 63.78, the share reached a short-term low of € 55.69 at the end of July, while a new high of € 89.05 was reached at the end of September. The third quarter ended at € 88.55. This corresponds to a market capitalization of approximately € 400.8 million for paragon AG as of the end of the reporting period, which represents an increase of around € 212.9 million over the first nine months of 2017.

The share indices closed the final quarter with mixed results (DAX 0.7%, SDAX -0.2% and TecDAX 3.9%). The STOXX Europe 600 Automobiles & Parts (SXAP) was slightly more robust at 3.5%. In this market environment, the paragon share price was initially marked by profit-taking. From an initial price of € 90.25, close to the high of € 92.69, the share price moved sideways in October, while the lowest price of € 66.08 was reached in mid-November. This was followed by a technical recovery, which led to a closing price of € 78.68 at the end of the quarter. This corresponds to a stock market value of approximately € 356.1 million for the company as of the end of the year and represents an increase of around € 168.2 million in the company's market capitalization over the course of 2017.

The trading volume developed largely stably over the course of the year and was in line with the overall market. While the summer months traditionally show reduced trading volumes, September showed a particularly strong increase in activity. For the year, an average of roughly ten thousand shares were traded daily via the trading platforms of the Deutsche Börse AG, and this accounted for an average of 70% of all trading activities. Trading via dark pools (i.e., internal bank and stock exchange trading) therefore remained relatively low in the past fiscal year. The number of brokers actively trading paragon continued to rise.

Corporate Bond 2013/18

In July 2013, paragon AG issued a corporate bond denominated in euros with a term lasting until July 2, 2018, and an annual interest coupon of 7.25%. It is tradable under WKN A1TND9 or ISIN DE000A1TND93. The bond 2013/18 was traded at an average of 3.4% above its initial issue price throughout 2017. It closed the year trading at 102.75% of the issue price. The rating of BB+ for paragon AG by Creditreform Rating AG expired on May 29, 2016. An extension was not requested. The repayment of the outstanding € 13 million will be made from the inflow of funds from the corporate bond 2017/22 issued in July.

Corporate Bond 2017/22

paragon AG successfully placed its new corporate bond (ISIN DE000A2GSB86; WKN A2GSB8) with a total volume of € 50 million on the first day of the subscription period: June 27, 2017. Due to oversubscription of the offer, the subscription period was ended prematurely. The final annual interest rate has been set at 4.5% p.a. The first trading day for the bonds on the open market (free trade) of the Frankfurt Stock Exchange in Deutsche Börse AG's Scale segment for corporate bonds was June 28, 2017. The issue date and the beginning of the interest term is July 5, 2017. The bond matures on July 5, 2022.

It closed the year trading at 105.5% of the issue price. A company rating is not planned for this bond either. Bankhaus Lampe KG accompanied the issue as sole global coordinator and joint bookrunner together with Hauck & Aufhäuser Privatbankiers AG.

IPO of Voltabox AG

On September 11, the Management Board of paragon AG approved the IPO of the wholly owned subsidiary Voltabox AG. On September 25, it approved the price range for a public offering of Voltabox shares. In the period from September 26 to October 10, a total of up to 6.325 million Voltabox shares were offered at a price of € 20.00 to € 24.00 per share. The offer comprised five million new shares plus a greenshoe option of 0.825 million additional new shares from a capital increase by Voltabox AG as well as a sale of 0.5 million shares by paragon AG.

The placement volume amounted to € 151.8 million, of which Voltabox AG received € 139.8 million and paragon AG € 12.0 million in gross proceeds from the issue. In addition to the targeted further development of its products, the increase in production capacity and the repayment of a shareholder loan from paragon AG, the issue proceeds are primarily intended to increase the flexibility of Voltabox AG as it also seeks to grow through value-enhancing acquisitions.

Voltabox AG was listed on the Frankfurt Stock Exchange (Prime Standard) on October 13 with the symbol VBX, the ISIN DE000A2E4LE9 and the WKN A2E4LE at an initial listing price of € 30.00 per share. Voltabox AG's market capitalization at that time was therefore € 474.75 million. paragon AG now holds 60 percent of Voltabox AG, while the remaining share capital is in free float. paragon AG also intends to remain the majority shareholder of Voltabox in the long term.

Bankhaus Lampe KG accompanied the IPO as sole global coordinator and joint bookrunner together with Hauck & Aufhäuser Privatbankiers AG.

Financial Communications

In the past fiscal year, the company continued to build up internal resources in the area of Investor Relations. This allowed the company to solidify and further expand its ongoing communications with institutional and private investors. Particularly in connection with the issue of the corporate bond 2017/22 and the IPO of Voltabox AG, existing and new shareholders made extensive use of the company's offer for direct dialogue at the Management Board and Investor Relations level.

More than 200 individual meetings were held with institutional investors from Germany, the U.K., France, Finland, Sweden, Denmark, Luxembourg, the Netherlands, Switzerland, Austria, Italy, Spain, Poland and the U.S. Over the course of the year, five research firms (prior year: five) published a total of 21 studies (prior year: 21) on paragon AG.

The company sees effective financial communication as the targeted reduction in the asymmetric flow of information between management and shareholders on the current economic situation and specific future potential of paragon AG. Accordingly, the ongoing dialog with capital market participants is given a high priority. Furthermore, the company aims to provide the broader public with up-to-date and relevant information via diverse media channels.

In the current fiscal year, the expanded group of institutional investors will be accounted for with increased participation in investor and analyst conferences and road shows. Additionally, the company actively invites new studies and evaluations from research firms.

Supervisory Board Report

Prof. Dr.-Ing. Lutz Eckstein, Supervisory Board Chairman

Monitoring and Consulting in Continuous Dialogue With the Management Board

The Management Board and Supervisory Board of paragon AG uphold the obligation highlighted in the German Corporate Governance Code (GCGC) of ensuring the continued viability of the company and its sustained value creation (corporate interests) in conformity with the principles of the “social market economy.” There were no conflicts of interest among the Management Board or Supervisory Board members in fiscal year 2017. The mandates of the Supervisory Board members are listed in the notes (note 44).

The Supervisory Board of paragon AG fulfilled the consulting and monitoring obligations incumbent upon it according to law, the Articles of Association, German Corporate Governance Code and rules of procedure with great care in fiscal year 2017. Here, the Supervisory Board supervised the company’s management on an ongoing basis and made sure of its legal and regulatory compliance, appropriateness and effectiveness. Furthermore, the Supervisory Board was available to the Management Board for consultation and was involved in discussions and decisions regarding issues of material importance. Thanks to the good cooperation between the Supervisory Board members, even time-sensitive decisions were resolved quickly.

In March 2018, the Management Board and Supervisory Board updated the company’s Declaration of Compliance according to Section 161 of the German Stock Corporation Act (AktG) and made it publicly available on the paragon AG website. The deviations from the recommendations of the GCGC and additional information on corporate governance at paragon AG are also provided here.

The Management Board comprehensively informed the Supervisory Board in written and oral form in the Supervisory Board meetings on all proceedings of material importance, the company’s general performance and its current situation. Here, it gave particular priority to the topics of strategy, planning, business development, risk situation and risk management. The Supervisory Board intensively reviewed the Management Board’s reports and discussed them at its meetings. In addition to the Supervisory Board meetings and conference calls involving all members of the Management Board and Supervisory Board, the Supervisory Board Chairman and the Management Board discussed important matters when necessary. The Supervisory Board was fully informed about exceptional instances that were of material importance for assessing the year’s results.

Supervisory Board Meetings

In fiscal year 2017, the Supervisory Board convened at four ordinary plenary meetings and held four conference calls. All Supervisory Board meetings were held with the participation of the Management Board. All of the Supervisory Board’s conference calls were held with the participation of the CEO. The entire Supervisory Board was present for every meeting.

The focus of the first ordinary meeting of the Supervisory Board in Delbrück on March 17, 2017, was the assessment and verification of the annual financial statements for fiscal year 2016 as well as the assessment and approval of the consolidated financial statements for fiscal year 2016. The Supervisory Board also dealt with the nomination of the auditor for fiscal year 2017 and recommended Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Düsseldorf, as the auditor. During this meeting, the Supervisory Board also discussed the agenda of the Annual General Meeting and approved the invitation proposed by the Management Board. Finally, the Supervisory Board was informed about current business developments.

In its second meeting in Hövelhof on May 9, 2017, the Supervisory Board was informed about the company’s performance in the first quarter and its current prospects. Further preparations for the Annual General Meeting were also on the agenda.

In the first conference call on August 15, 2017, the Supervisory Board dealt with the approval of the forwarding of planning data.

In its third meeting in Suhl on August 31, 2017, the Supervisory Board discussed the company's current performance and the status of capital strengthening measures.

In the second conference call on September 25, 2017, the Supervisory Board dealt addressed the IPO of Voltabox AG.

In the third conference call on October 10, 2017, the Supervisory Board dealt with the placement price of the Voltabox shares.

In the fourth conference call on November 22, 2017, the Supervisory Board discussed the acquisition of HS Genion GmbH.

In its fourth meeting in San Jose (USA) on December 2, 2017, the Supervisory Board focused on the business developments from the first nine months and the company's current prospects. It also discussed the planning for fiscal year 2018 presented by the Management Board as well as the scheduling of the financial calendar for 2018.

Forming Committees

As in the past, the three-member Supervisory Board did not form any committees in fiscal year 2017 and dealt with all issues as a single body.

Audit of the Annual Financial Statements and Consolidated Financial Statements for Fiscal Year 2017

Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Düsseldorf, was appointed by resolution of the Annual General Meeting on May 10, 2017 as auditor for the fiscal year from January 1 to December 31, 2017, and accordingly commissioned by the Supervisory Board Chairman. The Supervisory Board was provided a statement of independence from the auditor pursuant to No. 7.2.1 of the German Corporate Governance Code.

The scope of the audit included the annual financial statements of paragon AG prepared by the Management Board pursuant to the provisions of the German Commercial Code (HGB) for the fiscal year from January 1 to December 31, 2017, the consolidated financial statements prepared by the Management Board pursuant to Section 315a HGB and on the basis of the International Financial Reporting Standards (IFRS) for the fiscal year from January 1 to December 31, 2017, and the combined management report of the paragon Group and paragon AG.

Upon completion of the audit, Baker Tilly GmbH & Co. KG Wirtschaftsprüfungsgesellschaft, Düsseldorf, provided an unqualified audit certificate for the annual financial statements, the consolidated financial statements and the combined management report of the paragon Group and paragon AG.

The auditor also determined that the information and monitoring system established by the Management Board meets the statutory requirements and is suitable for recognizing developments that could endanger the continued existence of the company at an early stage.

The auditor made the documents submitted for auditing the annual financial statements, the consolidated financial statements, the combined management report of the paragon Group and paragon AG and the report on the audit available to every member of the Supervisory Board. The audit was reported on and discussed at the Supervisory Board meeting on March 12, 2018. The auditors participated in the discussions on the annual and consolidated financial statements. They reported on the key audit results and were available to the Supervisory Board to answer any questions and provide additional information. Based on the final outcome of its examinations, the Supervisory Board approved the annual and consolidated financial statements. The annual financial statements are thereby approved.

The Supervisory Board also assessed the proposal from the Management Board on the appropriation of the balance sheet profits at its meeting on March 12, 2018, and discussed this with the auditor. The Supervisory Board subsequently agreed with the Management Board's proposal.

The Supervisory Board did not exercise its right to inspect the company's accounts and correspondence in the past fiscal year.

The Supervisory Board expresses its gratitude and appreciation to the members of the Management Board and all of the Group's employees for their hard work and personal commitment in 2017.

Delbrück, Germany, March 12, 2018

For the Supervisory Board,

Prof. Dr.-Ing. Lutz Eckstein

Supervisory Board Chairman

Group Management Report

Combined Management Report for the paragon Group and paragon AG

Key Facts About the Group

Business Model

According to its Articles of Association, the business purpose of paragon AG (hereinafter also "company") is the research and development of microelectronics, the manufacture and sale of electronic devices, their corresponding peripherals and component groups as well as the management of patents, licenses and utility models. The company can found or purchase other companies, hold interests in companies, establish branches and implement all other measures and legal transactions that are necessary or serve to achieve or promote the company's aims.

The business model of the paragon Group (hereinafter also simply "paragon") is based on the independent development of product innovations at its own expense. To achieve this, a proven innovation system is used to keep the current product portfolio at a very high level of innovation. With the overall vehicle expertise that has been built up over the last three decades in the paragon Group, developments and prototypes are characterized by a deep understanding of the entire automotive manufacturing process.

The basic inspiration for the company's product innovation is influenced by the core idea of enhancing the driving experience for passengers of modern cars (end customers). The global megatrends of increased comfort, urbanization, CO_2 reduction and digitization are used to systematically derive the relevant innovation drivers for the Sensors, Cockpit, Acoustics, Electromobility and Body Kinematics units. This allows paragon to accurately anticipate the demands of end customers for modern features and characteristics in future models.

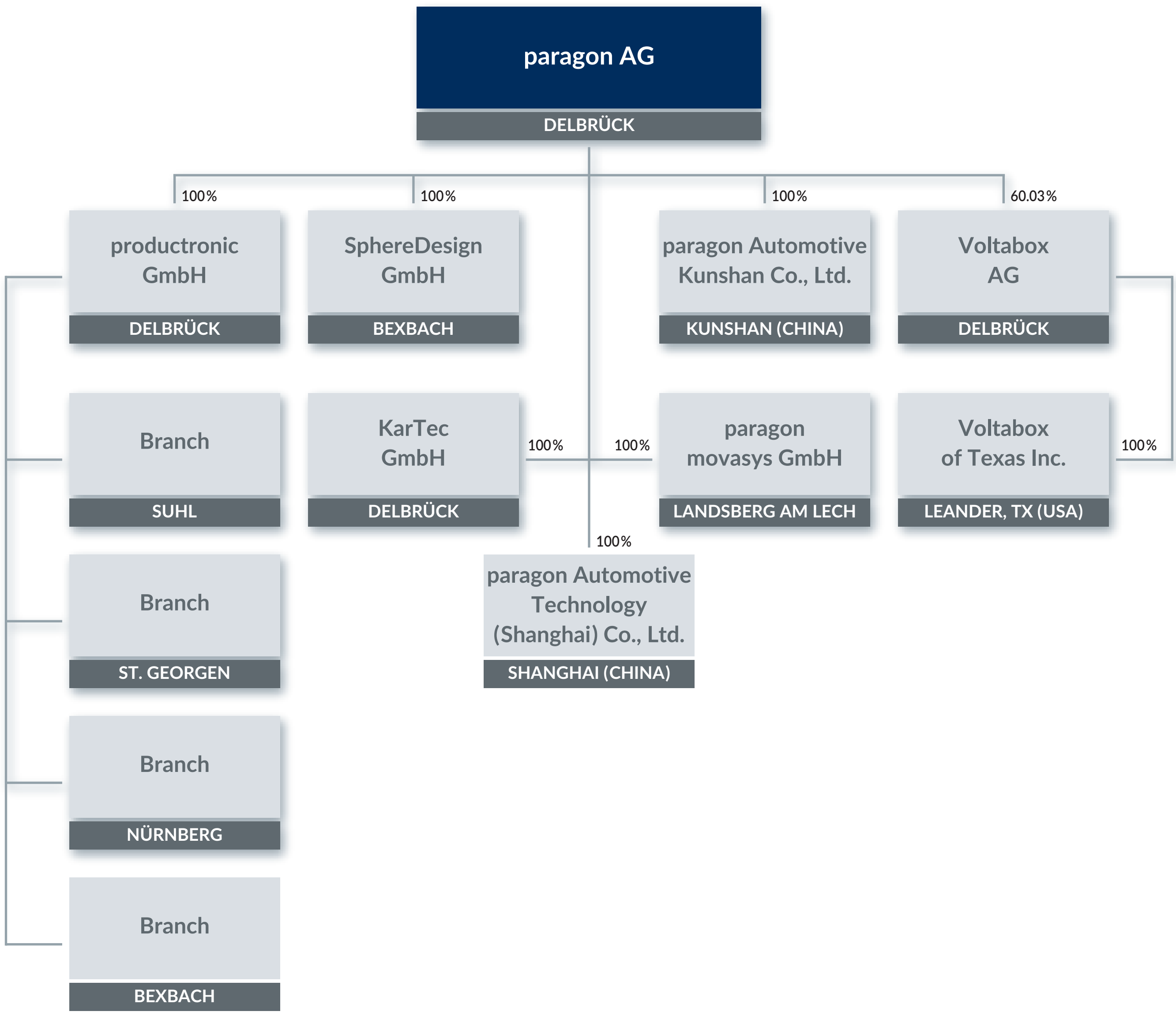
The market launch of product innovations follows the "push principle," where specific marketing with automotive manufacturers as direct customers only begins once functional prototypes (A-samples) and the corresponding patent applications have been established. This allows paragon to maintain a time advantage over its competitors even in shorter innovation cycles. With an optimized vertical range of manufacturing, paragon has also established itself as a reliable partner for automotive manufacturers.

The level of automation in series production is constantly being increased to improve the cost structure over the life cycle of the individual product series. In this way, the series production of a wide range of product variations represents its own field of innovation within the company. At the end of the past fiscal year, 26 industrial robots (prior year: 21) were being used across the Group for manufacturing tasks.

Group Structure

paragon Aktiengesellschaft (hereinafter "paragon AG") is a joint stock corporation incorporated under German law. The company's headquarters are at Artegastrasse 1, Delbrück, Germany (Commercial register district court of Paderborn HRB 6726). paragon AG's shares are traded on the Frankfurt Stock Exchange in the Prime Standard segment. paragon AG has its administrative headquarters in Delbrück and central production facilities in Suhl, St. Georgen and Bexbach. It also has a location in Nuremberg.

The scope of consolidation for the paragon Group includes the wholly owned subsidiaries paragon Automotive Kunshan Co., Ltd. (Kunshan, China), paragon Automotive Technology (Shanghai) Co., Ltd. (Shanghai,



China), Voltabox AG (Delbrück), which is also listed in the Prime Standard segment of the Frankfurt Stock Exchange since October 13, 2016, Voltabox of Texas Inc. (Leander, Texas, U.S.) as well as SphereDesign GmbH (Bexbach), paragon movasys GmbH (Landsberg am Lech) and KarTec GmbH (Delbrück).

Corporate Strategy

paragon's corporate strategy is developed as part of a revolving process. This process involves the Management Board, the management of the operating segments Electronics, Electromobility and Mechanics.

The strategic planning is based on the corporate mission statement of occupying lucrative market niches in the premium segment at an early stage. To accomplish this, technological innovations are developed based on existing megatrends in an institutionalized process. The growth potential that results from automotive manufacturers adapting to these megatrends in future model generations is addressed by the individual operating segments in a targeted manner.

From the global megatrends of increased comfort, urbanization, CO_2 reduction and digitization, paragon has derived priorities that are of central importance for R&D activities. As a result of global climate change, consumers are showing an increasing awareness for sustainability and health. Furthermore, the reduction of CO_2 emissions is supported by weight reductions and improved aerodynamics. Urbanization has led to a fundamental change in consumer behavior in terms of individual mobility and therefore to alternative mobility concepts, such as shared mobility and autonomous driving. In connection with the increasingly connected lifestyle due to advancing digitization, themes such as security, comfort and connectivity are playing an ever-growing role for car owners.

The rise of these megatrends is resulting in a dynamic shift in the automotive value chain. In this context, the importance of innovative product solutions from automotive suppliers is also rising on a system level. With increasingly shorter innovation cycles, new ecosystems are developing in the automotive industry that require horizontal integration and cooperation. Here, particularly in the Electronics operating segment, paragon addresses the fields for action that result from the changing demands of end customers.

In the Electromobility operating segment, which is represented by the 60 percent-owned subsidiary Voltabox AG (hereinafter also referred to as “Voltabox”), the strategic focus of the past fiscal year was on certain industrial submarkets. In addition to local public transportation (trolleybuses), intralogistics (forklift trucks and automated guided vehicles) and mining applications (underground mining vehicles), these submarkets include vehicles in the agricultural and construction sectors (compact-, wheel- and teleloaders) as well as starter batteries (motorcycles).

Characteristic for these submarkets is the substitution of lead-acid batteries or diesel generators with modern lithium-ion battery systems. Voltabox benefits directly from these substitution effects resulting from users’ rational, economical investment decisions. Global market access in these submarkets is generally achieved through cooperation with leading manufacturers in the respective submarkets.

In the future, Voltabox will also deal with other submarkets such as the electrification of vehicles for municipal services, airport service vehicles, etc. As part of the global mass market for cars, Voltabox will also address the segment for modern 48V lithium-ion battery systems for hybrid cars. Finally, Voltabox will continue to offer powertrain components such as electric motors and power electronics such as DC/DC converters in the future.

Through Voltabox, paragon has strategically positioned itself as a pioneer in the e-mobility sector for high-performance battery systems. The market position is based on four strengths:

- Technology: technological edge over the competition
- Modularization: quick and cost-efficient development based on a modular principle
- Specialized applications: optimal system adaptation for each customer’s needs through customized applications
- Automation: cost-effective and reliable serial production

In summary, the paragon Group’s growth strategy comprises the following aspects:

- Constant development of product innovations based on megatrends (product development)
- Gaining new automotive manufacturers as customers (market penetration)
- Tapping into new sales areas (market development)
- Tapping into new submarkets with new product offers (diversification)

The competitive strategy of paragon can therefore largely be described as a niche strategy without focusing on small quantities. This focus results in a high differentiation within the product portfolio. At the same time, the constant optimization of the company's automated mass production processes ensures cost leadership.

Control System

Alongside a high level of innovation, the organizational structure at paragon is characterized by flat hierarchies, fast decision-making and continual optimization of process management as part of the "paragon process ideal" (ppi) project. The Group has the character of an owner-operated, medium-sized company while combining a long-term strategic orientation with the integration abilities of a publicly traded company. Thanks to this unique organizational orientation, paragon is in position to successfully compete with substantially larger corporations and expand its position as a direct supplier to renowned automotive manufacturers.

The Management Board of paragon AG regularly compares its strategy with the actual results achieved by the company. In review meetings, follow-up activities and optimization measures are determined at the management level as well as fundamental changes in direction when necessary.

The domestic production of paragon AG at the plants in Delbrück, Suhl, St. Georgen and Bexbach is uniformly controlled by productronic GmbH. The aim is to increase efficiency by reducing production costs. In addition to the automation of production processes, the main focus here is on reducing quality costs.

To provide the Group with a better overview of the economic situation as well as improved planning and management of operational processes, the ERP system Microsoft Dynamics AX will be used across the Group.

paragon AG has a comprehensive planning and control system for implementing its strategic planning into its operations. This includes constant monitoring of weekly, monthly and annual plans. The Management Board of paragon AG receives a detailed report as part of a monthly review on business development. These reports document possible deviations from the planned figures in a target/actual comparison and provide the basis for decisions. Another important control instrument is the regular manager meetings, where the current developments in the individual segments and medium to long-term outlooks are discussed in addition to regular interdisciplinary and segment-related project status meetings.

Financial Performance Indicators

The Management Board 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 segments Electromobility and Mechanics (Body Kinematics). 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 rolling 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.

Group Revenue

The established range of electronic components offered on the market includes a broad portfolio of sensors, microphones and display instruments that are in various phases of their product life cycles. This is contrasted by the most recent product innovations, which represent future revenue drivers that are dependent on the launch of new car models or model generations by automotive manufacturers. A product's revenue contribution varies principally during the various phases of its life cycle. The take-rates of the products, which change over time, are another influencing factor.

In contrast, paragon's business activities in the fields of e-mobility, which are represented by the publicly traded subsidiary Voltabox AG, and adjustable body components, which are represented by the subsidiaries KarTec GmbH and paragon movasys GmbH, are aimed at young submarkets that are growing at different rates. In its development of drive controls for movable body components, paragon has initially focused on premium sports cars. These technologically challenging, safety-related products are currently being produced in relatively small quantities and their impact on revenue is correspondingly low. The development of revenue is mainly attributable to the start of serial production for the latest generation of adaptively extendible rear spoilers. However, the significance of movable body components will continue to increase as auto aerodynamics – and thus their CO_2 emissions – also continue to grow in importance.

The business activity in the field of e-mobility, which is represented by the publicly traded subsidiary Voltabox AG, already accounts for a significant share of Group sales in the year under review. The future annual growth rates of revenue depend on the mix of the respective application areas. While large and complex battery systems with many battery modules are used for trolleybuses and especially for mining vehicles as part of project business, the serial production of battery modules for forklifts and automated guided vehicles as well as starter batteries for motorcycles comes closer to being definable as mass production.

As such, Group revenue is subject to a series of influences relating to type, scope and direction, which are all regularly evaluated. This fact is accounted for with the provision of a target corridor when providing forecasts.

Group EBIT Margin

EBIT represents Group earnings before interest and taxes and provides a general snapshot of a company's operative profitability or efficiency. Profitability can be compared over time and internationally – irrespective of varying financial structures and income taxes.

In terms of corporate management, however, EBIT is not defined by the Management Board as a stand-alone corporate monetary target (in absolute terms). Instead, the development of operative earnings is managed in such a way that the strategically defined growth course can be implemented with appropriate profitability. Taking into account the development of revenue, all relevant expenses are therefore included in the company's forward-looking management. This fact is accounted for with the provision of the EBIT margin as a relative key figure when providing forecasts. This means that medium-term planning also accounts for the dynamic effects that arise over time in expenditure and income positions.

Investments

For paragon, investments are a key factor for managing the dynamic growth strategy as part of medium-term planning. Since this involves the long-term commitment of financial resources in property, plant and equipment and intangible assets, the investment decisions of the Management Board are made as a result of a structured and careful decision-making process. This process takes into particular account the impact of investment decisions on the non-monetary corporate objectives stemming from the corporate strategy. In addition to an early expansion into profitable market niches with independently developed product innovations that aim to take advantage of megatrends, the high technological and quality requirements in the serial production of large quantities is particularly relevant.

Furthermore, investment decisions are used to react to market developments within the framework of the dynamic growth strategy, thereby making the most of the potential for growth in the short and medium term. Finally, the investment decisions account for the Group's R&D activities. The forecast therefore shows the all planned investments to highlight the medium-term dynamics in the operational implementation of the growth strategy.

In the past fiscal year, paragon once again invested heavily in the further expansion of its business activities. Investments of the Group in intangible assets amounted to about € 17.1 million (prior year: € 14.4 million). Of the development work capitalized of € 16.4 million (prior year: € 15.3 million), € 15.8 million related to own work pursuant to IAS 38 (prior year: € 14.3 million), about 37% which can be attributed to the Electronics operating segment, 33% to the Electromobility operating segment and about 30% the Mechanics operating segment.

Investments of the Group in property, plant and equipment amounted to roughly € 4.7 million (prior year: € 7.7 million). These related to the building expansion of Artegastraße 1 (€ 0.4 million), testing equipment (€ 0.3 million) and various technical machines and plants for the ongoing production process (€ 4.0 million).

Nonfinancial Performance Indicators

As the company is strategically positioned as an innovative provider of technologically sophisticated and high-quality products and systems that are based on current megatrends, the Management Board also uses nonfinancial performance indicators as part of its corporate management. Employees and the area of quality and environment are critical success factors for paragon in this respect.

Employees

The current megatrends are leading to a fundamental change in the value chain of the automotive sector. This also has an influence on the future qualification requirements of employees. The operational implementation of the growth strategy also necessitates an ongoing review and adaptation of both procedural organization and processes. At the same time, the business model of independently developing product innovations requires the targeted further development of the existing innovation culture within the company. Essential elements for this are the anchoring of entrepreneurial thinking and responsible, independent action along with barrier-free internal communication. Development processes are being converted to conform with the principles of agile project management in order to better meet the ever-shorter model generation and maintenance cycles of automotive manufacturers. Creativity, self-confidence and inspiration play a special role here. The creation of efficient project teams – also across different locations and business units – is becoming increasingly important.

The successful sourcing, development and retention of qualified employees are therefore particularly important for the successful implementation of the growth strategy. In the fiscal year 2017, 133 new employees were hired across the Group (prior year: 95). Of these, 47 were hired by the Voltabox subsidiaries (prior year: 20) and 86 were added to the other Group companies (prior year: 75). In this context, 62 new positions were created within the Group (prior year: 55). Another 102 employees were added in December via the acquisition of HS Genion GmbH (now paragon movasys GmbH). The turnover rate was 5.1% (prior year: 11.8%). The share of female employees in the Group was down slightly at 25.7% (prior year: 34.5%). At 28.3%, the number of employees with university degrees, however, was down slightly (prior year: 31.8%). The average employee age increased minimally to 43.1 years (prior year: 42.8).

The number of employees in the paragon Group broke down as of the respective reporting date as follows:

	2017	2016
Number of employees	678	519
Number of temporary employees	130	107

As of December 31, 2017, the paragon Group employed a total of 678 permanent staff members (prior year: 519) and 130 temporary employees (prior year: 107). With 30 employees (prior year: 21) at paragon Automotive Kunshan Co., Ltd., 2 employees (prior year: 2) at paragon Automotive Technology (Shanghai) Co., Ltd. and 18 employees (prior year: 14) at Voltabox of Texas, Inc., a total of 50 (prior year: 37) were employed abroad.

At the end of the year, 230 employees (prior year: 190) and 39 temporary workers (prior year: 35) were employed at the Delbrück site. Another 3 employees (prior year: 0) were on staff at the Aachen site. The Suhl production plant had 207 employees (prior year: 212) and 81 temporary workers (prior year: 65), the St. Georgen site had 36 employees (prior year: 37) and 1 temporary worker (prior year: 0), the Nuremberg site had 28 employees (prior year: 23) and 2 temporary workers (prior year: 2). At the paragon movasys site in Landsberg am Lech 102 employees (prior year: n/a) and 7 temporary workers (prior year: n/a) were on staff 22 people were on staff full-time at the Bexbach site (prior year: 20) and 0 temporary workers (prior year: 5).

A total of 154 employees (prior year: 109) and 11 temporary workers (prior year: 11) were employed in development.

Personnel expenses totaled € 35.3 million in the reporting period (prior year: € 29.2 million). Of this, € 25.2 million (prior year: € 21.2 million) was attributable to wage and salary costs, € 4.3 million (prior year: € 3.7 million) to social contributions and pensions as well as € 5.8 million (prior year: € 4.3 million) to expenses for temporary workers.

Quality and the Environment

All locations are organized according to the international standard IATF 16949 and will be certified in March 2018. The established interactive and process-oriented management system provides continuous improvements while emphasizing error prevention and waste reduction.

Ongoing process optimization in production is ensured via smaller control loops. In conjunction with a consistent service and customer orientation, this results in a continuous improvement of internal quality standards.

A number of specific measures were in focus for fiscal year 2017. The establishment of a dynamic process management system ensures the Group's interface management in product development.

Defective goods and customer-related quality costs were once again reduced in this way by about 25% compared to the prior year.

Furthermore, environmental protection and occupational health and safety are an integral part of the corporate mission statement. paragon has integrated the requirements of DIN EN ISO 14001 into its management system. Its effectiveness is confirmed in annual audits. paragon also pursues sustainability through the use of state-of-the-art production technologies as well as the careful handling of raw materials and energy resources.

paragon is also trying to minimize the use of hazardous substances. The activities carried out in the 2016 fiscal year were further expanded during the past fiscal year.

New control systems for building and process technology (heating and cooling control) were introduced at the Suhl plant in the year under review. This project aims to reduce energy consumption in these areas over the next few years.

Despite higher product quantities, electricity consumption at the Suhl plant was roughly on a par with the prior year's level.

Other Control Benchmarks

In addition to the most important financial and nonfinancial performance indicators, further control benchmarks are used to manage the paragon Group. These other control benchmarks are of subordinate importance compared to the performance indicators. The Management Board pays particular attention to the activities in research and development and materials management in addition to the free liquidity and equity ratio benchmarks as indicators for control and further development.

Research and Development

Specialist expertise and sufficient capacities in research and development (R&D) are key success factors for a business model of active, independent product development. Therefore, paragon has defined this department as another control benchmark. The responsibility for the development of new products lies with the five segments (Sensors, Cockpit, Acoustics, Electromobility and Body Kinematics), which are managed and coordinated in operating segments.

In the fiscal year 2017, paragon spent € 16.8 million (prior year: € 15.2 million) on internal R&D activities. This corresponds to 13.5% of revenue (prior year: 14.8%). The ratio of capitalized development costs was approximately 93.7% (prior year: 94.1%) of overall research and development costs.

Across the period from 2011 to 2017, the ratio of cumulative capitalized development costs to total development costs was 75%. The Management Board views the corresponding capitalization of this internal work as appropriate compared to others in the industry. The number of employees in research and development increased during the reporting year by 37.3% to 165 (prior year: 120). That figure accounts for about 20.4% of all Group employees (prior year: 19.2%).

The orientation of research and development towards global megatrends was consistently pursued in 2017. Pressure is being felt across the entire automotive industry that is characterized by the megatrends of climate change/CO_2 reduction, global urbanization and increasingly accelerated digitization. The keywords connectivity, autonomous driving, shared mobility, electromobility and increased comfort are integral to these megatrends. It is impossible to overlook the fact that established and emerging OEMs are focusing their investments in these areas. paragon recognized this at an early stage and focused its research and development activities on these exact areas. Moreover, these megatrends lead to a further increase in vehicle complexity, resulting in the further outsourcing of entire systems to the supplier industry. paragon's systematic expansion at the system level in recent years has reached a new peak in all units as well as across the board.

The Acoustics unit presented the new 3D+ sound system in a demonstration vehicle at the High End in Munich –the world's leading trade fair for audio systems – with great interest from experts. The paragon 3D+ sound system sets new standards in sound quality and innovation and offers a perfectly balanced acoustic experience for every seat in the vehicle. A new audio system architecture was implemented in a Porsche Cayenne as part of the trend towards digitization. Decentralized, networked amplifier modules were developed for this purpose and installed together with 34 loudspeakers. This system architecture resolves all the previous disadvantages of analog cables and also brings significant cost and weight savings for the vehicle manufacturer. All development and implementation work was performed internally. A wide range of experts were already able to experience this unique sound system at various trade fairs and symposiums.

In addition to hardware implementation, the Acoustics unit continued to focus on the development of algorithms for future sound systems. By means of what is called a 3D-upmix algorithm, it is possible to transpose existing stereo files into the 3D format. Moreover, the algorithm was made ready for series production as part of in-car communications.

Digitization is also advancing in the development of microphones. Alongside of the digitization of the system architecture, the unit developed promising approaches for a digital microphone that enables signals to be converted at nearly zero-loss quality.

The development activities of the Sensors unit were also significantly influenced by new developments aimed at rounding out paragon's air-quality management system. This included the completion of the DUSTDETECT particle sensor and DUSTPROTECT – a new type of filter system for fine particulates. The DUSTDETECT particle sensor solidifies paragon's position as the market leader for innovative air-quality management in vehicle interiors. In addition to the typical fine particulate matter size of 2.5 µm, the sensor – developed entirely by paragon – can also detect the size classes PM1.0, PM5.0 and PM10. Serial production readiness was reached earlier than originally planned. Having secured an order from a German premium manufacturer, the foundation for a new paragon sensor success story is already being written, just as before with the AQS sensor. Serial production is slated for 2019. The fine particulate matter separator DUSTPROTECT is based on the development expertise from the AQI ionizer and its effectiveness is more than six times greater than modern HEPA air filters.

Along with finding solutions in air-quality management, the Sensors unit is also active in the megatrend field of autonomous driving in cooperation with other business units. By linking these two areas of expertise, paragon has created a completely new range of services at the system level. Here, we are focusing on reliably monitoring the driver's condition via sensors, as, due to legal stipulations, every automated system must be able to measure the driver's readiness to assume control. Determining vital signs through noncontact methods is a key competence that paragon has developed in 2017.

The megatrend of connectivity played a central role in the Cockpit unit. In this context, new concepts of wireless charging with 15W were developed to enable a harmonious integration into vehicle design concepts. The scalable paragon product MirrorPilot has added functions for electric vehicles and is therefore the right head unit solution for the future of urban mobility. To solve urban traffic problems, the connectivity module for car-sharing use also entered series production. The module allows smartphones to connect and control numerous car-sharing vehicle functions (vehicle access, vehicle status, etc.).

Another integral part of the Cockpit unit's activities is the development and integration of luxurious vehicle instruments. A new generation of instruments for a German sports car manufacturer has been brought into series production. At the same time, the first exemplars of the finest electronic serial clock available on the market were delivered to a customer.

The megatrends of connectivity and autonomous driving will continue to create interesting development possibilities for innovative interior control and display concepts in the coming year. For instance, paragon is developing new display applications for new installation locations in the vehicle cockpit. The expansion of the MirrorPilot head unit platform to include a combination display as well as concepts for a cloud-based head unit will be of central importance.

In the Electromobility operating segment, the expansion of the product portfolio and customer projects, which have since been completed, were among the main focuses of research and development. A 5 Ah and a 10 Ah motorcycle starter battery were transferred from development to series production for a German manufacturer. Furthermore, a battery kit was developed for a well-known manufacturer of automated guided vehicles and also entered serial production.

The following modules were added to the product portfolio:

- 4x9 LFP round cell module
- Pouch module for NMC and LTO chemistry
- Prismatic LFP module
- Finalization of the 25 Ah racing battery

At the U.S. site, initial prototypes and preseries batteries were delivered to a world market leader in mining vehicles. Using the brand-new 4x9 LFP round cell modules, a battery system for an underground tractor vehicle was developed and delivered as a prototype. A prototype battery system with the NMC chemistry pouch module was also developed and delivered for use in an underground loader.

Materials Management

Materials management plays a special role at paragon with its production-intensive plants and broad product portfolio. In the reporting year, the material input ratio was 57.1% (prior year: 56.2%). The operational implementation of the dynamic growth strategy, especially in the new units, requires the targeted enhancement of existing structures and processes. As a result, materials management has the function of an internal benchmark.

The close cooperation with select high-performance suppliers and a demand-oriented purchasing policy also formed the basis for procurement in fiscal year 2017. The aim of this approach was to be able to achieve ambitious production targets even in the case of short-term and large-volume orders by automobile manufacturers as well as individual project developments in e-mobility.

In particular, the integration of HS Genion GmbH (renamed paragon movasys GmbH), which was acquired at the end of 2017, has resulted in significant synergy effects in materials management for the Body Kinematics unit. In addition to pure quantity effects, this especially includes the pooling of the supplier base. The establishment and expansion of the supplier management system through the creation of a separate department in strategic purchasing is intended to open up further cost-cutting potentials with the suppliers via process optimization in procurement, production and logistics.

In addition, paragon's general make-or-buy strategy in the area of materials management will continue to be consistently implemented. This includes an expansion of the Plastics Center of Excellence with new machines and systems at the St. Georgen location as well as an expanded portfolio of technical plastic parts. Greater flexibility will be achieved by increasing the vertical range of manufacturing for technical plastic parts and assembly modules, welded assemblies and mechanical sub-assemblies. In-house production also offers additional cost reduction potential.

The organizational integration of sales and distribution for serial and inventory products into materials management creates additional potential for optimizing the entire supply chain – from raw material to finished product – for automobile manufacturers in terms of quantity and supplier pooling.

Free Liquidity

The business model of paragon AG requires the ongoing availability of sufficient liquid funds. Further, liquidity is considered an important economic indicator for third parties looking to comparatively assess the respective business situations of various companies. In addition, the medium and long-term liquidity planning for servicing interest payments and repayments is constantly being reviewed by creditors. Finally, the company's liquidity planning contributes to the internal management of the balance sheet structure.

Free liquidity includes all funding that is available within the paragon Group and is not intended to be used. According to the definition of the company, the current net debt is therefore to be determined by subtracting free liquidity from interest-bearing liabilities.

Free liquidity developed as of the reporting date as follows:

In € thousands	2017	2016
Free liquidity	166,826	17,324

Equity Ratio

The equity ratio is used by the Management Board as an internal indicator for the management of the capital structure. The capital-intensive growth strategy of the company requires a comparatively high proportion of leverage in the current development phase in order to ensure adequate profitability of the equity capital employed by the shareholders (leverage effect). The equity ratio reflects the respective current state of the investment cycle in the development of the new Body Kinematics and Electromobility units. In the long term, the Management Board sees an equity ratio of about 30% as optimal.

The equity ratio developed as of the reporting date as follows:

In Percent	2017	2016
Equity ratio	56.8	30.0

Financial Management

The financial management of the company does not include an independent target system. Rather, the Management Board uses internal financial management to plan and monitor the implementation of its growth strategy. In this context, comprehensive financial planning is carried out on the basis of revolving sales planning, from which investment and liquidity plans are then derived. In addition to the individual segments, the company's legal entities are viewed and consolidated at a Group level on a monthly basis. The introduction of Microsoft Dynamics AX as a uniform ERP system throughout the Group is intended to facilitate further expansion into integrated financial planning.

Dividend Policy

Over the last few years, the Management Board has developed a dividend policy that is designed to meet the company's strategic goal of profitable growth. On the one hand, this is intended to enable paragon shareholders to further increase the value of their shares through dividend payments and provide an incentive for long-term investment decisions. On the other hand, the company's equity base should not be excessively burdened during its capital-intensive growth phase. Corporate profits are therefore largely reinvested. In the medium term, the Management Board would consider a disbursement ratio in the range of 20 to 40 percent of paragon AG's balance sheet profit (as reported in the financial statements) as appropriate.

For the reporting year, the Management Board and Supervisory Board will propose a dividend of € 0.25 (prior year: € 0.25) per participating share to the Annual General Meeting. With a balance sheet profit of € 4,196,526,44 for paragon AG (prior year: € 1,379,069.79), this corresponds to a payout rate of 27% (prior year: about 82%).

Remuneration Report of the Management Board and Supervisory Board

The company is committed to a high degree of transparency in its reporting. This also applies to the remuneration of the Management Board, which is disclosed and explained in full in the remuneration report, together with all its components and on an individualized basis. The Management Board and Supervisory Board have therefore decided to use the Management Board remuneration sample tables provided by the German Corporate Governance Code (GCGC) in the remuneration report.

Management Board Remuneration

The remuneration of the members of the Management Board consists of an annual fixed remuneration, ancillary benefits and a one-year variable remuneration component. A cap (minimum/maximum) is not provided for the variable compensation component. A variable compensation component for multiple years has not been specified. Finally, the total remuneration still includes a service cost under IAS 19. This is recognized pursuant to the GCGC as part of total remuneration, even though this is not a newly granted contribution in the narrower sense, but a past decision of the Supervisory Board that continues to be effective.

The total remuneration of the Management Board contains salaries and short-term benefits of € 1,238 thousand (prior year: € 1,235 thousand) and includes fixed components of € 860 thousand (prior year: € 854 thousand) and variable components of € 376 thousand (prior year: € 380 thousand). The main ariable remuneration components are oriented on EBITDA as defined by IFRS and the economic situation of the company. Expenses relating to share-based remuneration were not incurred in the year under review (prior year: € 0). Service costs amounted to € 2 thousand (prior year: € 2 thousand).

The following table shows the contributions granted to the members of the Management Board in the reporting year:

Benefits granted in €	**Klaus Dieter Frers** **Chief Executive Officer** **Date joined: April 11, 1988**		**Dr. Stefan Schwehr** **Chief Technology Officer Electronics** **Date joined: April 1, 2014**	
	2017	2016	**2017**	2016
Fixed compensation	600,000.00	600,000.00	200,000.00	200,000.00
Fringe benefits	51,792.52	44,421.00	8,688.00	9,209.28
Total	**651,792.52**	**644,421.00**	**208,688.00**	**209,209.28**
One-year variable compensation*	332,000.00	334,663.53	44,000.00	45,336.47
Total	**983,792.52**	**979,084.53**	**252.680.00**	**254,545.75**
Service cost	1,789.56	1,789.56	0.00	0.00
Total compensation	985,582.08	980,874.09	252,688.00	254,545.75

* Uncapped (minimum/maximum)

The following table shows the contributions paid to the members of the Management Board in the reporting year:

Allocation in €	**Klaus Dieter Frers** **Chief Executive Officer** **Date joined: April 11, 1988**		**Dr. Stefan Schwehr** **Chief Technology Officer Electronics** **Date joined: April 1, 2014**	
	2017	2016	**2017**	2016
Fixed compensation	600,000.00	600,000.00	200,000.00	200,000.00
Fringe benefits	51,792.52	44,421.00	8,688.00	9,209.28
Total	**651,792.52**	**644,421.00**	**208,688.00**	**209,209.28**
One-year variable compensation*	482,760.00	426,360.00	65,230.00	60,530.00
Total	**1.134,552.52**	**1,070,781.00**	**273,918.00**	**269,217.67**
Service cost	1,789.56	1,789.56	0.00	0.00
Total compensation	1,136,552.52	1,072,570.56	273,918.00	269,217.67

* Uncapped (minimum/maximum)

paragon AG incurred expenses for the allocation of pension provisions to Klaus Dieter Frers amounting to € 364 thousand (prior year: € 232 thousand) in the financial statements of paragon AG according to the German Commercial Code (HGB).

paragon AG incurred expenses for the allocation of pension provisions to Klaus Dieter Frers amounting to € 251 thousand (prior year: € 429 thousand) in the consolidated financial statements of paragon Group (IFRS).

Supervisory Board Remuneration

In accordance with the Articles of Association, the remuneration of the members of the Supervisory Board is determined by the Annual General Meeting and consists of a fixed remuneration. The Supervisory Board Chairman receives € 60 thousand and the remaining members of the Supervisory Board each receive € 30 thousand per fiscal year.

The members of the Supervisory Board received fixed remuneration totaling of € 120 thousand in the year under review (prior year: € 120 thousand).

The following table shows the remuneration of the Supervisory Board members:

in €	**Prof. Dr. Lutz Eckstein** Chairman of the Supervisory Board		**Hermann Börnemeier** Dep. Chairman of the Supervisory Board		**Walter Schäfers**	
	2017	2016	**2017**	2016	**2017**	2016
Fixed compensation	60	60	30	30	30	30
Total compensation	**60**	**60**	**30**	**30**	**30**	**30**

Economic Report

Global Economic Conditions

In its global economic outlook in[6] October 2017, the International Monetary Fund (IMF) indicated a positive global economic situation with accelerated growth in the eurozone, Japan, China and the U.S. Global economic growth was estimated at 3.6% for 2017, the second-weakest year of growth (following 2016 at 3.2%) since the financial crisis. The unequal distribution of economic growth between the developed economies (2.2%) and the emerging countries (4.6%) remained unchanged. Overall, however, the global economy benefited from growth on a broad basis (approximately 75%). In particular, economic growth in the U.S. was estimated to have amounted to 2.2% in 2017, 2.1% in the eurozone, 2.0% in Germany and 6.8% in China.

In this good economic environment, the German economy proved to be very robust in the past fiscal year. According to data from the German Federal Statistical Office ("Destatis")[7], following price, seasonal and calendar adjustment, gross domestic product (GDP) rose 2.3% in the fourth quarter of 2017. This follows increases of 2.2% in the third quarter, 1.0% in the second quarter and 3.4% in the first quarter. Private consumer spending, which is important for the automotive industry, contributed strongly to the positive momentum in the fourth quarter. It posted an adjusted growth of 0.7% after 1.1% in the third quarter, 1.1% in the second quarter and 1.2% in the first quarter.

As a supplier to the automotive industry, paragon generated the lion's share of its revenue in fiscal year 2017 with automotive manufacturers – particularly those in the premium segment, headquartered in Germany and in the European Union. These, in turn, sell the vehicles they produce worldwide. Overall economic development is therefore important for paragon in that it affects the sales opportunities for the automotive manufacturers it supplies, and thus also indirectly affects the development of private consumer demand for paragon products.

Market Development 2017

In line with the general economic trend, the automotive industry also developed positively in the past fiscal year.

According to estimates from the German Association of the Automotive Industry[8] (hereinafter also referred to as VDA), the global passenger car market grew by 1.7% to 84.6 million new cars in 2017; China was the largest sales market, recording an increase of 2% to 24.1 million new cars.

For the U.S. light vehicle market, the VDA expects a slight contraction for the first time in seven years, declining by 1.7% to 17.2 million units. Europe, however, continued its growth course in 2017 with an increase of 3.3% to 15.6 million units. Of the TOP 5 in Europe (Germany, France, the U.K., Italy, Spain), only the United Kingdom showed a decline, which stemmed from the Brexit decision.

New registrations/sales of passenger cars developed in the most important sales markets as follows:

million units	2017	2016	Change
USA	17.2	17.5	1.7%
Europe	15.6	15.1	3.3%
China	24.1	23.7	1.7%

On the whole, the VDA sees the German automotive industry as being well-positioned in 2017, with a global market share of almost 20% and a global premium market share of more than 70%.

paragon's five largest customers, Audi, Volkswagen, Porsche, Daimler and BMW, sold around 13.2 million passenger cars worldwide in the past fiscal year (prior year: 12.3 million).[9] This corresponds to growth for this customer group of around 7.4%.

In the e-mobility market, 2017 continued to be marked by dynamic market growth in the industrial

6 https://www.imf.org/en/Publications/WEO/Issues/2017/09/19/world-economic-outlook-october-2017
7 Federal Office of Statistics, press release from February 23, 2018 – 058/18
8 VDA press release from December 06, 2017: German passenger car market reaches highest level this decade
9 Calculated from data provided in press releases by automotive manufacturers

submarkets relevant to Voltabox. This market dynamic was based on substitution effects in which diesel engines and lead-acid batteries were replaced with modern lithium-ion battery systems.

All in all, paragon also experienced a positive economic environment during the past fiscal year.

Business Performance of the Group

The excellent operative performance in the young operating segments Electromobility and Mechanics (Body Kinematics unit) was a key factor in the company's growth in the fiscal year 2017.

umes of the current version of the premium hands-free microphones. The EBIT for the operating segment amounted to € 9.7 million (prior year: € 12.7 million).

Segment revenue in the Electromobility operating segment rose to € 27.3 million (prior year: € 14.5 million), of which € 24.7 million was achieved with third parties. This operating segment is represented by the Voltabox subsidiaries in Germany and the U.S. With an increase of 73.0% in third party revenues, this operating segment posted disproportionately high growth dynamics. The largest growth driver was the serial production of battery modules for forklifts. EBIT for the operating segment amounted to € 0.6 million (prior year: € -3.7 million).

Segment revenue (third party) in € thousands	2017	Share in %	2016	Share in %	Change in %
Electronics (Sensors, Cockpit, Acoustics)	90,799	72.7	85,280	83.0	6.5
Electromobility	24,694	19.8	14,271	13.9	73.0
Mechanics (Body Kinematics)	9,330	7.5	3,239	3.1	188.0
Total	124,823	100.0	102,790	100.0	21.4

The largest operating segment, Electronics, dominated Group activities with revenue of € 94.9 million (prior year: € 89.5 million). Of this amount, € 90.8 million were attributable to third-party revenue in the Sensors, Cockpit and Acoustics units (prior year: € 85.3 million). At € 33.8 million, revenue in the Sensors unit declined from the prior year's level (prior year: € 34.6 million). This is primarily due to life-cycle effects with simultaneously increasing take-rates in the current vehicle models with the latest sensor generation from paragon. Revenue in the Cockpit unit increased by 5.8% to € 35.7 million (prior year: € 33.7 million), which was mainly due to a new generation of instrumentation. The Acoustics unit recorded revenue growth of 25.8% to € 21.4 million (prior year: € 17.0 million) as a result of increased vol-

Segment revenue in the Mechanics operating segment amounted to € 74.1 million (prior year: € 60.3 million). Of this figure, € 9.3 million was attributable to third-party revenue in the Body Kinematics unit (prior year: € 3.2 million). With an increase in growth of 188.0%, this operating segment also achieved particularly strong growth. Segment revenue with third parties was mainly characterized by the parallel start of serial production for new generations of freely adjustable rear spoilers that optimize vehicle aerodynamics. EBIT for the operating segment amounted to € 1.2 million (prior year: € -0.1 million).

Breakdown of revenue in € thousands	2017	Share in %	2016	Share in %	Change in %
Sensors	33,760	27.0	34,597	33.7	-2.4
Cockpit	35,652	28.6	33,682	32.8	5.8
Acoustics	21,386	17.1	17,001	16.5	25.8
Electromobility	24,694	19.8	14,271	13.9	73.0
Thereof: Germany	21,369	17.1	10,585	10.3	101.9
Thereof: USA	3,325	2.7	3,686	3.6	-9.8
Body Kinematics	9,330	7.5	3,239	3.1	188.0
Total	124,823	100.0	102,790	100.0	21.4

In the fiscal year 2017, the company made three major decisions that set the course for the future development of the Group.

To finance its growth course, paragon AG placed a new corporate bond with a total volume of € 50 million on June 27, 2017. The final annual interest rate has been set at 4.5% p.a. The issue date and the beginning of the interest term is July 5, 2017. The bond matures on July 5, 2022.

On September 11, the Management Board of paragon AG approved the IPO of the wholly owned subsidiary Voltabox AG. On September 25, it approved the price range for a public offering of Voltabox shares. The offer comprised five million new shares plus a greenshoe option of 0.825 million additional new shares from a capital increase by Voltabox AG as well as a sale of 0.5 million shares by paragon AG. The placement volume amounted to € 151.8 million, of which Voltabox AG received € 139.8 million and paragon AG € 12.0 million in gross proceeds from the issue. paragon AG now holds 60 percent of Voltabox AG, while the remaining share capital is in free float.

With the signing of the share purchase and transfer agreement on November 24, 2017, the company acquired all shares in HS Genion GmbH, Landsberg am Lech, for a purchase price of € 15,158 thousand, including incidental costs. HS Genion GmbH was renamed paragon movasys GmbH on December 13, 2017. paragon movasys GmbH will be fully consolidated in the consolidated financial statements of paragon AG as of December 1, 2017, and is active in the Body Kinematics unit.

Business Performance of the Parent Company paragon AG

The business performance of paragon AG was mainly influenced by the Sensors, Cockpit and Acoustics units. At € 33.8 million, revenue in the Sensors unit declined from the prior year's level (prior year: € 34.6 million). This is primarily due to life-cycle effects with simultaneously increasing take-rates in the current vehicle models with the latest sensor generation from paragon. Revenue in the Cockpit unit increased by 5.8% to € 35.7 million (prior year: € 33.7 million), which was mainly due to a new generation of instrumentation. The Acoustics unit recorded revenue growth of 25.8% to € 21.4 million (prior year: € 17.0 million) as a result of increased volumes of the current version of the premium hands-free microphones.

The net income of paragon AG in the amount of € 3.9 million was significantly influenced by the extraordinary contributions to earnings resulting from the sale of Voltabox shares and fixed assets to KarTec GmbH (for further details, please refer to the Net Assets, Financial Position and Earnings section).

Key Factors of Business Performance

The business performance of the paragon Group during the past fiscal year was again mainly characterized by an increase in the take-rate for certain air quality sensors and an increase in the output volume of the latest generation of hands-free microphones as well as several production starts for display instruments and the latest generation of adjustable spoilers. At the same time, production volumes for older product generations fell as part of their life cycles.

Furthermore, the relative composition of the customer structure changed over the course of the year according to the successive implementation of the growth strategy. This was mainly attributable to the significant growth in the Electromobility operating segment, which fed off of the particularly dynamic development in the intralogistics market.

At the same time, the revenue share with the automobile manufacturers fell, while a further widening of the customer base was achieved by expanding activities with other customers. The different model cycles of the respective manufacturers and the time schedules for model maintenance and changes additionally influenced this development.

In the past fiscal year, the development and production of lithium-ion battery systems for industrial applications had a major impact on the course of business in the Electromobility operating segment, which is represented by the 60 percent-owned subsidiary Voltabox AG. These include, in particular, local public transportation (trolleybuses), intralogistics (forklift trucks and automated guided vehicles) as well as mining and agricultural vehicles. Business performance was increasingly dominated by the automated series production of ready-to-use battery modules for intralogistics for the customer Triathlon. In addition, serial production of 5Ah and 10Ah starter batteries for BMW motorcycles began in the third quarter. The first series-produced battery systems for the first application in mining were delivered in the fourth quarter. Moreover, business was characterized by the construction of a further prototype for a newly designed large underground mining vehicle from Komatsu and the development of power electronics.

Assets, Financial Position and Earnings

Earnings of the paragon Group

The paragon Group continued its growth dynamics in fiscal year 2017 with revenue growth of 21.4% to around € 124.8 million (prior year: € 102.8 million) and therefore reached the top of the expected corridor of its revenue forecast. With a Group EBIT margin of 9.0% (adjusted for one-time effects), the Management Board's profit forecast of approximately 9% was likewise achieved.

The cost of materials increased 23.4% to € 71.2 million (prior year: € 57.7 million). Apart from a modified product mix due to the establishment of new units, this development is particularly due to various one-time startup costs. The material input ratio was accordingly higher at 57.1% (prior year: 56.2%). Development work capitalized was up by 7.0% to € 16.4 million (prior year: € 15.3 million). This resulted in a gross profit for the fiscal year 2017 of € 70.2 million (prior year: € 60.5 million), which corresponds to a gross profit margin of 56.3% (prior year: 58.9%).

Personnel costs increased particularly strongly by 20.6% to € 35.3 million (prior year: € 29.2 million) mainly as a result of new hires in connection with operational growth in the new Electromobility and Mechanics operating segments as well as in central Group functions. The personnel expense ratio was accordingly slightly lower at 28.2% (prior year: 28.5%). Other operating expenses increased from € 15.2 million in the prior year to € 17.9 million. This is mainly attributable to the operative growth within the Group. Earnings before interest, taxes, depreciation and amortization (EBITDA) therefore rose 5.8% to € 17.0 million (prior year: € 16.1 million), which corresponds to an EBITDA margin of 13.6% (prior year: 15.7%).

After a planned significant increase to depreciation and amortization of € 9.4 million (prior year: € 7.1 million), earnings before interest and taxes (EBIT) decreased 14.5% to € 7.6 million (prior year: € 8.9 million) thanks largely to the € 2.7 million increase in other operating expenses. The EBIT margin therefore decreased to 6.1% (prior year: 8.7%). An adjusted EBIT margin of 9.0% results when one-time effects in the Mechanics operating segment are accounted for. These consist of start-up costs and an increased cost of materials due to the construction of prototypes amounting to € 1.4 million as well as one-time expenses not yet passed on to customers in the past fiscal year amounting to € 2.2 million.

As a result of a slight increase in financial income and significantly higher financial expenses, the net finance costs increased to € -4.4 million (prior year: € -3.2 million). As a result, earnings before taxes (EBT) fell to € 3.2 million (prior year: € 5.8 million). Taking into account higher income taxes (deferred tax assets) of € 3.9 million (prior year: € 2.2 million), the paragon Group generated a loss for the year (prior year: Group net income) of € -0.7 million (prior year: € 3.6 million). This corresponds to earnings per share of € -0.15 (prior year: € 0.84).

The portion of net income attributable to minority interests is € 3,873 thousand. The portion of other comprehensive income attributable to minority interests is € -407 thousand. The balance of net income and other income and expenses of € 3,466 thousand was allocated to minority interests.

Net Assets of the paragon Group

As of the end of the reporting period, the assets of paragon AG increased significantly to € 311.8 million (December 31, 2016: € 115.6 million) mainly as a result of the capitalization of development costs, the issue of the 2017/2022 bond with a volume of € 50 million at the end of the first half of 2017, the IPO of the subsidiary Voltabox AG in the fourth quarter, the acquisition of HS Genion GmbH (now paragon movasys GmbH) as well as the increase in receivables in the Electromobility operating segment.

Noncurrent assets increased to € 111.8 million (December 31, 2016: € 75.9 million). The reason for this increase is the continued high capitalized development costs of € 16.4 million (prior year: € 15.3 million) due to a large number of new projects in the year under review. The remaining increase is mainly due to the acquisition of paragon movasys GmbH on November 24, 2017, and its initial consolidation. Intangible assets of € 10.4 million and goodwill of € 6.6 million were allocated as part of the initial consolidation. Please refer to section 6 in the notes for details. In the year under review, the Management Board issued an investment forecast of around € 27.0 million, which, adjusted for transaction investments of € 22.5 million, was fulfilled.

Current assets increased to € 200.1 million (December 31, 2016: € 39.7 million). This is mainly attributable to the increase in cash and cash equivalents due to the bond issue with a volume of € 50.0 million and the IPO of the subsidiary Voltabox AG, which resulted in a cash inflow of € 150.0 million. The acquisition of paragon movasys GmbH represents a significant outgoing payment in the area of cash and cash equivalents. Overall, this resulted in significantly higher cash and cash equivalents of € 145.8 million (December 31, 2016: € 14.3 million). In addition, inventories increased to € 17.3 million (December 31, 2016: € 13.7 million) as a result of the expansion of business activities and an increase in trade receivables to € 32.7 million (December 31, 2016: € 8.4 million). This is attributable to changes in the terms and conditions of contracts in the Electromobility unit.

Noncurrent provisions and liabilities increased significantly by € 43.5 million to € 88.4 million (December 31, 2016: € 44.9 million), which was mainly due to higher deferred taxes and the increase in noncurrent bonds related to the issue of the 2017/22 bond with a volume of € 50 million. By contrast, noncurrent loans decreased to € 16.4 million (December 31, 2016: € 20.4 million) as a result of repayments. Current provisions and liabilities increased to € 46.4 million (December 31, 2016: € 36.0 million). In addition to the decline in current loan liabilities to € 4.6 million (December 31, 2016: € 12.4 million) due to reductions in current account lines, this development is particularly attributable to the 2013/18 corporate bond maturing in 2018 with a total volume of € 13.0 million. The slightly higher trade payables of € 17.5 million (December 31, 2016: € 16.4 million) are due to the expansion of business activities.

paragon AG's equity increased by € 142.4 million to € 177.1 million (December 31, 2016: € 34.7 million). The profit carried forward increased to € 106.0 million (December 31, 2016: € 12.9 million) as a consequence of Voltabox AG's IPO. Furthermore, the share of other shareholders (39.97%) in Voltabox AG of € 57.9 million was reported for the first time.

Given the sharp rise in total assets, the equity ratio increased to 56.8% as of the reporting date (December 31, 2016: 30.0%).

Financial Position of the paragon Group

Cash flow from operating activities decreased in the period under review to € -8.4 million (prior year: € 16.8 million). In addition to the lower earnings before taxes (EBT), this is primarily due to a significant increase in trade receivables and an increase in inventories.

Adjusted for transaction investments, cash flow from investment activity decreased in the period under review by 3.2% to € 21.3 million (prior year: € 22.0 million). This development is the result of the sharp decrease of 39.0% in payments for investments in property, plant and equipment, which amounted to € 4.7 million (prior year: € 7.7 million), while payments for investments in intangible assets were up 18.7% to € 17.1 million (prior year: € 14.4 million). The increased transaction investments of € 15.9 million in the year under relate to the acquisition of HS Genion GmbH and the last purchase price installment for SphereDesign GmbH

Cash and cash equivalents increased to € 145.8 million as of the end of the reporting period (prior year: € 14.3 million), which is mainly attributable to the issue of the 2017/22 bond and the IPO of Voltabox AG in the fourth quarter 2017.

General Statement on the Net Assets, Financial Position and Earnings of the paragon Group

The company's assets, financial position and earnings developed as planned during the past fiscal year.

The earnings situation benefited mainly from the growth in revenue in the Electromobility operating segment but was significantly burdened by one-time effects of € 1.4 million in the Mechanics operating segment as well as start-up costs and increased cost of materials of € 2.2 million due to prototype construction in the fiscal year.

The capitalization of development costs, the issue of the 2017/2022 bond, the IPO of the subsidiary Voltabox AG in the fourth quarter and the acquisition of paragon movasys GmbH resulted in significantly higher net assets compared to the prior year.

The significantly more positive financial situation compared to the prior year was positively influenced by the issue of the 2017/2022 bond with a volume of € 50 million in the first half of 2017 and the IPO of the subsidiary Voltabox AG.

Earnings of paragon AG

paragon AG recorded a 13.5% decline in revenue in its financial statements to € 108.7 million (prior year: € 125.7 million). This development is attributable to a one-time internal material cost allocation of € 24.3 million from the prior year. If only the external revenue of paragon AG is taken into account, there was an increase in revenue to € 94.1 million (prior year: € 84.3 million).

The EBIT margin rose to 15.0% (prior year: 4.2%). The reason for the increase in EBIT is the sale of assets and development work to the subsidiary KarTec GmbH with effect as of December 28, 2017, and the sale of shares in Voltabox AG in the course of the IPO in the fourth quarter.

Other operating income amounted to € 21.2 million in the year under review (prior year: € 0.9 million). The increase is due to proceeds from the sale of shares in Voltabox AG (€ 11.5 million) on the one hand and the sale of assets and development work to the subsidiary KarTec GmbH (€ 9.2 million) on the other.

The cost of materials ratio was 73.1% in the year under review (prior year: 73.0%). As a result of the service cost allocation agreement between paragon AG and paragon productronic GmbH valid for the whole year in 2017, there is a significant reduction in raw materials, consumables and supplies in the year under review, as the complete production and the input of materials associated with the products are entirely borne by paragon productronic GmbH.

The personnel costs increased 10.4% to € 14.1 million (prior year: € 12.7 million). The reason for this increase is the strong operational growth in the units and the resulting need to increase personnel capacity.

Other operating expenses amounted to € 14.8 million in the year under review (prior year: € 13.9 million). The increase in other operating expenses mainly results from higher consulting expenses as a result of the bond issue and the IPO of Voltabox AG

paragon AG's net finance costs decreased to € -12.4 million (prior year: € -5.0 million). The increase is attributable to the higher loss assumption of € 5.4 million. In total, a loss assumption of € 9.9 million was made in the fiscal year (prior year: € 4.5 million). The transfer of profit or loss from the Voltabox AG subsidiary is made up of the transferred profit of productronic GmbH of € 0.3 million, the transferred profit of SphereDesign GmbH of € 0.1 million and the assumption of loss for Voltabox Deutschland GmbH of € 9.9 million combined.

In the period under review, paragon AG generated net income of € 3.9 million (prior year: net loss of € 43 thousand).

Net Assets of paragon AG

The assets of paragon AG increased significantly to € 266.0 million as of the end of the reporting period (December 31, 2016: € 145.2 million), mainly as a result of internal cost allocations to the subsidiaries and the acquisition of companies.

Fixed assets increased € 24.1 million to € 69.6 million (prior year: € 45.5 million). The main reason for this increase are the investment activities in financial assets. Investments in financial assets amounted to € 26.0 million and relate mainly to the purchase of paragon movasys GmbH with a carrying amount of € 15.2 million as of the end of the reporting period and the capital increase of € 9.4 million from the investment in Voltabox AG (formerly Voltabox Deutschland GmbH).

Current assets increased to € 196.1 million (December 31, 2016: € 99.5 million). This is mainly due to a significant increase in receivables from affiliated companies as part of the internal cost allocation with subsidiaries.

Cash and cash equivalents increased to € 37.1 million (December 31, 2016: € 11.5 million). This is mainly due to the issue of the 2017/22 bond with a volume of € 50.0 million.

Equity increased by € 2.9 million from € 22.7 million to € 25.6 million.

The provisions of paragon AG amounted to € 4.5 million as of the end of the reporting period (December 31, 2016: € 3.6 million). This increase is particularly due to the higher warranty provision and personnel provisions.

Liabilities increased to € 234.9 million (December 31, 2016: € 117.7 million). This is mainly due to the internal cost allocation between the subsidiaries as well as the 2017/22 bond issue.

Financial Position of paragon AG

Cash flow from operating activities decreased in the period under review to € 6.7 million (prior year: € 9.8 million). This is primarily due to the significantly higher interest charges and lower inventories.

Cash flow from investment activity increased in the period under review to € 17.6 million (prior year: € 16.9 million). This development resulted from the significant increase in payments for investments in financial assets to € 26.0 million (prior year: € 10.3 million).

Cash and cash equivalents increased to € 37.1 million as of the end of the reporting period (prior year: € 11.5 million), mainly as a result of the issue of the 2017/2022 bond and the pro rata sale of shareholdings in Voltabox AG.

General Statement on the Net Assets, Financial Position and Earnings of paragon AG

The net assets, financial position and results of operations developed as planned in the past fiscal year,and the Management Board considers the operative performance favorable. The earnings situation benefited mainly from the proceeds from the internal sale of development work and the partial sale of shares in Voltabox AG. The balance sheet volume increased significantly as a result of the increase in receivables from and payables to affiliated companies as a result of internal cost allocation and the issue of the 2017/2022 bond. The financial position in the period under review was characterized in particular by the inflow of funds from the bond issue.

Opportunity and Risk Report

paragon has established a comprehensive risk management system to identify opportunities and risks in corporate development. All the operating segments regularly issue risk reports, from which management is informed about the probability of occurrence and possible damages resulting from the risks identified. The risk reports contain an assessment of the risks as well as suggestions for appropriate countermeasures. For information on the risk management objectives and methods with regard to the use of derivative financial instruments, please refer to the notes (note 38).

Opportunity Report

Opportunities

The German Association of the Automotive Industry expects a further increase in sales for German automotive manufacturers in fiscal year 2018. There are opportunities associated with this for paragon in the Electronics and Mechanics operating segments. For years, the Management Board has pursued the goal of increasing the share of sales per vehicle by increasing take-rates with existing customers, winning new customers for existing products internationally and developing innovative products and systems with a higher added value, for instance. Examples of this from fiscal year 2017 include the development of the DUSTPROTECT filter system for fine particulate matter and the launch of the software-controlled 3D+ audio system.

In addition, numerous new product innovations from the Electronics operating segment are currently being intensively marketed. Due to its strategic positioning, paragon AG will be able to profit from changes in the automotive value chain that will arise from the megatrends digitization, electrification, shared mobility, CO2 reduction and autonomous driving. The investment bank Lazard and the consulting firm Roland Berger quantified these changes in the joint "Global Automotive Supplier Study,"[10] published in December 2017. It asserts that the connectivity of vehicles will become available as a standard feature – at least in developed markets – which, together with the steady rise of artificial intelligence, opens up almost limitless possibilities. The authors also estimate that the proportion of new vehicles sold in 2018 attributable to new mobility concepts will account for 10–15 percent in the U.S. and up to 35 percent in China. At the same time, they forecast the share of new vehicles with more advanced autonomous systems to be between 5 and 26 percent in 15 to 20 years' time. After all, the momentum for increasing electrification is steadily growing, so that the share of electric vehicles is forecast to amount to 8–20 percent in the U.S., 20–32 percent in Europe and 29–47 percent in China by 2025. In its September 2017 report "Industrial and Commercial Electric Vehicles on Land 2017-2027,"[11] the market research institute IDTechEx Ltd assumes that the markets currently occupied by Voltabox AG will grow at an average annual growth rate (CAGR) of 17 percent over the next 10 years (basis: 2017).

As a result, paragon has the following opportunities, particularly in the medium term:

- Thanks to the business model focused on the independent development of product innovations, paragon can tap into strategic business advantages (pioneering advantages) in the Electronics operating segment due to the dynamic technology shift surrounding current megatrends.
- The focus on the development of product innovations is increasingly shifting from the component level to the system level in the Electronics and Mechanics operating segments. As a result, paragon can successively increase its value added per vehicle.
- Due to the globally high levels of air pollution in heavily frequented, urbanized areas, in the future, paragon will be able to benefit from potentially higher take-rates for air quality sensors in passenger cars, particularly with the DUSTPROTECT particle filter system currently in development. When breathed in, fine particulate matter (PM2.5) can reach the alveoli and have

10 https://www.lazard.com/perspective/global-automotive-supplier-study-2018/
11 https://www.idtechex.com/research/reports/industrial-and-commercial-electric-vehicles-on-land-2017-2027-000505.asp

negative health impacts. Its small size allows it to remain in the atmosphere longer and be carried further distances. As a result, political strategies to reduce the health impacts of air pollution are gaining in importance internationally.

- The increasing relevance of increased comfort, modern infotainment and artificial intelligence is accounted for in a special way by the 3D+ sound system presented by paragon in the year under review. It not only enables future augmented audio applications to be realized, but also allows for a noise reduction function, for instance, by eliminating unwanted driving noises through counter signals. At the same time, it is also possible for car manufacturers and mobility providers to stream seat/passenger-specific content on a subscription basis.

- In the past fiscal year, the Chinese automotive market further underscored its significance as the largest regional sales market with some 24.1 million new registrations. Further sales growth of around 2% is expected here for fiscal year 2018. With paragon Automotive Kunshan Co., Ltd., paragon is present in China with its own production site, which currently has 30 employees and a production area of around 2,600 square meters. The Chinese government's five-year plan (2016–2020) provides concrete targets for the significant reduction of air pollution. The Chinese automotive industry is now one of the world's largest growth drivers for the rapid spread of resource-conserving technologies. This means there is particularly high sales potential in the Chinese automotive market for paragon in the medium term if it can acquire Chinese automotive manufacturers as new customers for the DUSTPROTECT particle filter system with high take-rates and sales figures.

paragon's Electromobility operating segment also offers great opportunities for further applications for the lithium-ion battery systems developed by the publicly traded 60 percent-owned subsidiary Voltabox AG. The megatrend electromobility has already led to the first applications in individual capital goods submarkets such as trolleybuses for public transport, intralogistics forklifts and automated guided vehicles in networked production as well as underground mining vehicles. With the help of strong cooperation partners, paragon is able to benefit from substitution effects here that result from the economic advantages its battery technologies offer compared to the lead-acid batteries or diesel generators used to date. In these fast-growing submarkets, paragon has the opportunity to significantly increase Voltabox's relative market share within a short period of time and thus occupy a leading market position.

The niche strategy of diversification also offers large sales opportunities in further submarkets in the medium term as soon as similar substitution effects come into play there. In the year under review, this includes the company's entry into the market segment of agricultural and construction vehicles and the start of series production of starter batteries for motorcycles. Often it is the complex requirements regarding the performance, safety and reliability of the lithium-ion battery systems developed by Voltabox AG that play a decisive role.

As part of its presence in the global mass market for cars, paragon will also be able to occupy the segment for modern 48V lithium-ion battery systems for hybrid cars.

Overall Assessment of Opportunities

Through the regular and structured monitoring of opportunities within the paragon Group and the relevant sales markets as well as the internal, barrier-free communication at the various levels of management, the Management Board is in a good position to identify opportunities for the Group. The consistent utilization of business opportunities in the form of planning adjustments can make a significant positive contribution to the company's strategic and operational success. At the end of fiscal year 2017, both external and internal opportunities were identified that are basically unchanged compared to the prior year.

The significance of the listed opportunities as well as the resulting positive effects on the financial performance indicators projected for fiscal year 2018, and thus on the short-term development of the paragon Group as a whole, is classified as low. The Management Board therefore expects the positive development of business described in the forecast.

Risk Report

Risk Management

paragon uses a comprehensive risk management system as part of its risk-oriented corporate governance.

Risks are defined in the paragon Group not only as activities, events and developments endangering the company's existence, but also those affecting its business success. Particular attention is paid to risk concentrations, e.g. dependencies on individual customers, suppliers, products or countries. In the case of material risks, mutual dependencies and impacts are taken into account, since individual risks can mutually reinforce each other or cause compensation effects between them. In addition, opportunities are also subsumed under the risk concept. We understand business success in terms of measurable values, e.g. revenue and EBIT. Risks are therefore represented in these figures in the evaluations from the respective process owners. Risk assessment is always based on the risk outcome. A risk is the possibility that a threat exposes a vulnerability and causes damage to or the loss of an object and thereby directly or indirectly results in a negative impact. The aim is also to identify and evaluate these risks in order to be able to select suitable and appropriate countermeasures on this basis.

Risks are determined in terms of the following parameters:

- The value of the affected objects (extent of damage)
- The possibility of a threat exploiting a vulnerability
- The probability that a threat occurs
- Existing or planned measures that could reduce this risk

Strategic Governance and Risk Management

The aim of risk management is to secure the company's continued existence, i.e., securing its future development and profitability as well as reducing the risks of breaching the confidentiality, integrity and availability of the information or data used or contained in the performance of activities. The task of risk management is also to report deviations from the corporate objectives at an early stage and thereby enable timely countermeasures. Risk guidelines are defined in the risk manual.

Group-wide responsibility for risk management lies with the Management Board. Risk management at the respective sites is adequately covered and secured in regular (video and telephone) meetings with the respective senior management. This means that the Management Board is directly informed of the situation and the corresponding risks are continuously monitored and managed by the Management Board. In risk fields where quantification is not possible or useful, work is done to identify risk factors.

Central Risk Management

An important role in the risk management and control process belongs to central risk management. Within its responsibility for the risk situation of the company, the Management Board transfers the task of implementing permanent risk management activities to the central risk management team. Responsibility for central risk management lies with the Head of Controlling. paragon's central risk management team is responsible for coordinating all decentralized risk management functions, evaluating risk analyses and consolidating them into risk reporting as well as improving and enhancing the risk management system. Working with the Management Board, the central risk management team determines the reporting cycles and defines the thresholds for the risks which, when exceeded, require a risk control report to be prepared outside the obligatory reporting requirements. Both the threshold values and the reporting cycles are based on the relevance of the risks.

Central risk management supports the decentralized risk managers in the preparation of risk analyses and checks their returns and plausibility. It summarizes the individual risk profiles in a joint document. This means that interactions between the risks can be analyzed and the overall risk situation of the paragon Group can be recorded, evaluated and commented on. This summary is referred to as risk reporting. This task is of particular importance because the objective of an integrated risk management system is the holistic consideration of a company's risk situation. Risk reporting acts as the basis for the statements on the paragon Group's risk situation in the combined management report.

The decentralized risk managers are consulted whenever new risk management measures are established or existing measures are adapted.

Decentralized Risk Management

Decentralized risk management in the paragon Group is located within the company's individual segments and sites. The area and process managers are responsible for risk management in their respective areas of work as decentralized risk managers. The decentralized risk management team reports on the development of risks in these areas as part of risk control measures. For each reporting cycle, the decentralized risk managers write up a report on the risks for which they are responsible. The focus here is on the description of the expected development of the risk. With this, measures for future risk management or the improvement of existing measures are developed and included in the risk control report as proposed measures for implementation. The decision on implementation is the responsibility of the Management Board. In addition, the Management Board must be informed without delay of any risks incurred throughout the year (ad-hoc risk reporting). According to a resolution by the Management Board, regular meetings with all decentralized risk managers are no longer held. Instead, individual discussions are held with the decentralized risk managers.

Risk Monitoring

Risk monitoring is the task of decentralized and central risk management. Early warning indicators for critical success factors are defined by the decentralized risk managers. The task of central risk management is to monitor the defined early warning indicators. As soon as the defined thresholds are reached, a risk report is prepared by the decentralized risk manager, i.e., a forecast of the expected effects of the risk event for paragon. These forecasts are to be supplemented by scenario analyses, which take into account different data constellations. Risk monitoring thus serves as a form of knowledge enhancement to assist with management decisions, as attempts are made to reduce uncertainty regarding the future development of the company or the risk situation.

Based on this information and the recommendations made by the decentralized risk managers and central risk management, the Management Board decides whether and to what extent measures are to be implemented or whether an adjustment of the company's objectives is necessary. The monitoring of the early warning indicators and their associated threshold values as well as the creation of scenario analyses is the responsibility of decentralized risk management.

Risk Reporting

The monthly report to the Management Board contains all new risks identified in the reporting month as well as risks that have changed by a degree greater than or equal to 50% from the prior month.

Central risk management is required to provide an ad hoc report to the Management Board in the case of risks with a change of 100% or more as compared to the previous month. The Management Board, in turn, is then obliged to provide a report to the Supervisory Board within 24 hours of being informed about the risk.

The risks continually analyzed by paragon as part of risk monitoring can be assigned to the following risk categories, each of which is divided into individual risks:

- Strategic and Environmental Risks
- Market Risks
- Operating Risks
- Financial Risks
- Management and Organizational Risks

At the end of the reporting year, 25 individual risks were recorded in the paragon Group, which equally affect paragon AG. In the opinion of paragon AG, none of these individual risks endangered the company's continued existence.

Risks

Strategic and Environmental Risks

Overall economic development is observed in the risk management system due to its possible influence on end customer behavior within the automotive industry. This can lead to fundamental changes to supply and demand behavior in the procurement and sales markets for paragon. For example, a longer-term economic downturn, possibly triggered by the economic policy measures of individual submarkets such as the U.S. or China, could have a negative impact on the company's assets, financial position and earnings. A politically motivated move away from the rule-based international trade system or its disturbance through isolated protectionist measures could lead to distortions in the global automotive value-added chain. As the paragon Group has its own production facilities in China and the U.S., and as it has a specific customer/product structure, the Management Board views the overall risk of protectionist influence on earnings as low.

Market Risks

For years, paragon has held a strong market position as a proven and innovative direct supplier of premium German manufacturers in the automotive industry – and this is increasingly true for large customers in the area of e-mobility as well. As expected, the three largest sales markets of Western Europe, the U.S. and China continued to grow in 2017. In fiscal year 2018, growth in the major submarkets, and as a result in the global sales market, is expected to slow to about 1 percent.

Due to its specific customer/product structure, paragon was able to grow significantly faster than the market in organic terms in the past fiscal year, and further potential is available through its M&A strategy. The acquisition of 100 percent of the shares in HS Genion GmbH, headquartered in Landsberg am Lech, Germany, which sees itself as the number one in the German market for "movable body components," significantly strengthened the Body Kinematics unit in November 2017. One month is consolidated in the figures for 2017, and the growth effects will intensify accordingly in 2018.

All in all, paragon grew by approximately 20 percent in 2017 compared to the prior year, and therefore expanded significantly faster than the market. The Management Board attributes this development to the fact that paragon's largest customers are among the leaders within the sector, who continue to have very good prospects for the future. Apart from that, the strategy of delivering complete systems is increasingly paying off. The globally active premium German manufacturers Audi, Daimler, BMW and Porsche were again able to achieve sales increases in fiscal year 2017 and are well-positioned to continue this development in the current fiscal year with a number of new models and favorable general economic conditions.

paragon's close ties to these key customers and its concentration on specific market niches shape the company's strategic positioning. Sales opportunities and risks are assessed through a comprehensive operative sales management system. Key components of this system are the analysis of market and competition data, rolling planning for the short and medium term and regular coordination between sales, production and development. The comparatively broad portfolio with around 200 individual products highlights the comparatively high independence of individual product groups and customers.

Nevertheless, the loss of a major customer could have a significant impact on the company's assets, financial position and earnings in the medium term. However, due to the multi-year contract periods for the various series, the loss of a key customer would be known at an early stage. This risk is counteracted by comprehensive development work on product innovations as well as detailed permanent order backlog analyses focusing on early risk identification.

The paragon innovation process is characterized by independent product development that takes the interests and wishes of car owners into consideration. In contrast to many other automotive suppliers, paragon does not wait for automotive manufacturers to make certain demands or specify requirements, but rather develops its own, innovative solutions, which are implemented in cooperation with pilot customers and subsequently offered to a wider customer base. As a growing number of automotive innovations are electronic in nature, paragon sees a wide range of market opportunities for its Electronics operating segment. However, it cannot be ruled out that a product development may not achieve its expected quantities or that its economic success may be lower or later than originally planned.

Operating Risks

In terms of operating risks, paragon is currently focusing on its research and development, materials management, production and information technology activities.

The market for automotive electrics, electronics and mechatronics is subject to increasingly dynamic, technological change. The future economic success of paragon will therefore depend on the ability to continuously develop new and innovative products on time and successfully introduce them to the market. Recognizing new technological developments at an early stage and implementing them in partnership with customers is key here. Should paragon not be able to, or not quickly enough, recognize and implement new trends, changing customer requirements or future technological advances or to develop new products and adapt existing products in accordance with business principles, this may have a detrimental effect on the company's assets, financial position and earnings.

In addition, development costs may not be recoverable if paragon's customers subsequently do not issue serial production orders or if the quantities paragon sells are significantly lower than expected. Given the high proportion of capitalized development activities on the balance sheet, a corresponding valuation allowance for intangible assets could have a negative impact on the company's assets, financial position and earnings.

In close cooperation with the development departments of key customers, paragon contributes to automotive product innovations with its wide range of development projects and innovative solutions. Significant deviations from the project objectives in terms of time and money may result in cost and legal risks (e.g., contractual penalties). Ongoing development and project monitoring is undertaken to limit associated risks.

Past experience has shown that, through the use of the existing sales channels, paragon can generate additional business with new products. The company was also able to gain new customers, such as Komatsu and Schäffer, with its own product developments during the past fiscal year. With continuous investments in machinery and plants, paragon ensures that the production facilities at all of the Group's sites meet the high requirements of the automotive industry.

The past fiscal year was characterized by a sharp rise in prices for aluminum, which is used in the production of battery modules and is also the basic material for the production of printed circuit boards. paragon took advantage of the global price competition on all relevant procurement markets and secured a substantial portion of its procurement prices through framework contracts, annual agreements and long-term supplier relationships. The Group continues to purchase more than 80 percent of its purchasing volumes from European contract partners, while the rest is purchased directly in Asia and the U.S. The payment terms are regarded as above-average by the Management Board as compared with the industry. The major purchasing currency is the euro. The volume of purchases in U.S. dollars will continue to rise significantly as a result of the expected sales growth in the Electromobility operating segment. Currency risks arise primarily for purchases in U.S. dollars that are intended for the European currency area. These risks are minimized by sliding-price clauses and other appropriate measures.

With the rapid spread of information technology (IT) and the ubiquitous connectivity provided by the internet, IT risks, such as hardware failures and unauthorized access to company data and information, are also on the rise. In order to avert possible dangers, paragon, in cooperation with specialized service companies, has established modern security solutions that protect its data and IT infrastructure. In the fiscal year 2017, the company continued to modernize its IT infrastructure and converted its first subsidiaries to a new, integrated ERP software and connected new locations to the IT landscape. This involved use of the servers and systems that have been assembled in recent years. This resulted in significant synergies in various processes and collaborations. Finally, various security measures have been established to protect the company from internet threats (cyber attacks).

Financial Risks

In addition to interest rate, liquidity and currency risks, paragon also monitors risks associated with the loss of receivables, balance sheet risks and tax risks in the financial risks category.

Interest rate risks are virtually meaningless for paragon, as fixed interest rates are currently agreed upon for most of its long-term liabilities. Financial covenants do not exist with any credit institutions.

The company's ability to pay is ensured by comprehensive planning and monitoring of liquidity. These plans are prepared on a short, medium and long-term basis. In addition, paragon has a rigorous receivables management system to ensure timely cash inflows. A substantial portion of the receivables is also hedged by means of a commercial credit insurance. An additional possibility for short-term financing exists in the form of factoring agreements.

The successful issuance of a € 50 million bond with a term of five years, carried out in June, has resulted in a cash inflow of around € 48 million. The refinancing of the bond issued in 2013 slated for mid-2018 will be covered by free cash inflows and the bond. In addition, the subsidiary Voltabox AG was successfully floated on the stock exchange in October 2017, generating a further € 142 million in cash inflow for the Group. paragon therefore significantly strengthened the Group's liquidity and financial strength in 2017.

The company monitors possible currency risks on the procurement and sales side by continuously tracking foreign currency exchange rates. At present, paragon does not use financial instruments to hedge currency risks.

Management and Organizational Risks

In this risk category, paragon is primarily observing risk factors resulting from the growth strategy. This includes personnel and organizational risks in particular, as well as management and communication risks. Clear assignments and demarcations in the respective areas of responsibility within the system of owner-oriented governance have been laid out in order to prevent cases of lacking interfaces and functional overlaps. Currently, the Management Board does not consider there to be any material risks to paragon in this area.

However, the company is fundamentally dependent on the retention of qualified personnel and persons in key positions. The future economic success of paragon depends to a considerable extent on the continued involvement of its executives, senior employees and employees in key positions. This is particularly the case for its founder, primary shareholder and CEO Klaus Dieter Frers, who is the company's engine and an important source of ideas. In addition, paragon also relies on qualified employees in the areas of management, research and development, and sales. The company cannot guarantee that it will be able to hold key executives, senior executives and employees in key positions or attract new executives and employees with appropriate qualifications. There is increasing competition for such qualified employees and the personnel market, particularly in regions outside major German cities, is comparatively small. This means that individual experts can only be replaced with difficulty or not at all. If paragon is unable to provide sufficient personnel in the future, the strategic and economic objectives of the company may not be achievable or only achievable at a later date. This could have a detrimental impact on the company's assets, financial position and earnings.

Overall Assessment of the Risk Situation

The company's risk management was further adapted to the dynamic development of the paragon Group over the past year. Here, the new organizational structure with the operating segments Electronics, Mechanics and Electromobility – which contains the now publicly traded subsidiary Voltabox AG – was taken into account in accordance with the internal management system. The Management Board currently expects that the ongoing Group-wide monitoring of operating risks will become increasingly important as business activities expand.

In the future, paragon will also protect itself against general market risks in the automotive industry. The company's strategic positioning as a direct supplier to premium German manufacturers and its long-standing, successful business relationships with these companies continually reduces these risks. Therefore, the relative dependence on economic fluctuations in the automotive industry's global sales markets will also be reduced in the future. Existing customer contacts also offer considerable opportunities to position new product innovations within the Electronics and Mechanics operating segments. The increasing diversification of the business model, particularly via the high-growth Electromobility operating segment, also secures a second pillar and is already noticeably reducing dependence on the economic development of the automotive industry.

The consolidation of the paragon Group's medium-term financing structure, through the bond issued in the summer of 2017 and the successful IPO of its subsidiary Voltabox AG in the fall, significantly reduced the overall financial risk in the fiscal year 2017. With paragon's capital-intensive growth strategy, the company's overall economic development remains linked to the economic development of the automotive industry and, particularly, its key customers.

As of the publication date of this report, no risks have been identified that could jeopardize the company's continued existence. A differentiated view on the development of the automotive industry shows that the company is positioned in forward-looking market segments or submarkets, has promising customer relationships and offers diverse niche products that are often without true competition on the market.

The potential impact from the various risks on the overall future performance of the paragon Group, as well as its financial and nonfinancial performance indicators for fiscal year 2018, are regarded as low by the Management Board as a whole. Accordingly, the Management Board expects that the business development described in the forecast will not be significantly impacted by the disclosed risks.

Description of the Key Characteristics of the Internal Control and Risk Management System with Regard to Group Accounting Processes (Section 315 (2) no. 5 HGB)

Since the internal control and risk management system is not legally defined, paragon based its definition on that of the Institut der Wirtschaftsprüfer in Deutschland e.V., Düsseldorf, Germany, regarding accounting-related internal control systems (IDW PS 261).

An internal control system is therefore understood as the principles, procedures and measures enacted by management that are aimed at the organizational implementation of management's decisions. The objectives are as follows:

a) Ensure the effectiveness and profitability of the business (including the protection of assets and the prevention and detection of asset damages)

b) Ensure the regularity and reliability of internal and external accounting

c) Comply with the legal and statutory regulations applicable to the company

The Group's risk management system includes all organizational regulations and measures for risk identification and handling risks related to entrepreneurial activity.

The Management Board of paragon AG bears the overall responsibility for the internal control and risk management system with regard to the accounting process. The principles, procedural instructions, procedural organization and processes of the accounting-related internal control and risk management system are laid down in organizational instructions that are adapted at regular intervals to current external and internal developments.

In view of the size and complexity of the accounting process, management has determined the scope and design of the control activities and implemented them in this process. Independent controls have also been established. The control activities address those control risks which, in terms of their probability of occurrence and their impact, could have a significant influence on the accounting and overall statement of the consolidated financial statements, including the combined management report. Key principles, procedures, measures and control activities include:

- Identification of the key control risks relevant to the accounting process
- Process-independent controls for monitoring the accounting process and its results at the level of the Management Board of paragon AG
- Control activities in the accounting and controlling departments of paragon AG, which provide essential information for the preparation of the annual financial statements and combined management report, including the required separation of functions and approval procedures
- Measures that ensure the proper computerized processing of accounting-related information

Risk reporting on the use of financial instruments (Section 315 (2) no. 1 HGB)

The use of financial instruments gives the following risks to the paragon Group:

The company counters liquidity risk by means of comprehensive liquidity planning and control. These plans are prepared on a short, medium and long term basis. The successful issue of a € 50 million bond with a term of five years in June resulted in a cash inflow of around € 48 million. The refinancing of the bond issued in 2013 in the middle of 2018 will be possible from free cash inflows and out of the bond. In addition, the subsidiary Voltabox AG was floated on the stock exchange in October 2017, which resulted in a further cash inflow of € 142 million. In 2017, paragon significantly strengthened the Group's liquidity and financial strength.

Interest rate risks are virtually irrelevant for paragon, as fixed interest rates are currently agreed for the majority of long-term liabilities. Financial covenants do not exist with any of the financing credit institutions.

In addition, paragon has a consistent debtor management system to ensure a timely cash inflow and to counter the default risk of financial instruments. A substantial part of the receivables is additionally secured by trade credit insurance. An additional option for short-term financing is giving in the form of factoring agreements.

The Company monitors potential currency risks on the procurement and sales side on the basis of continuously revised exchange rate expectations. At present, paragon does not use any financial instruments to hedge currency risks.

The company counteracts the annual cash flow fluctuations by exploiting existing credit facilities and an existing factoring agreement.

Forecast

Market Development 2018

The International Monetary Fund (IMF) published its forecast[12] for the global economy in October 2017. Accordingly, it expects global growth to further accelerate to 3.7%. Economic policy risks are seen in particular in the disproportionately low increases in nominal wages and the effects of increasing automation on the labor market. In addition, the IMF notes geopolitical risks and the economic adjustment costs of climate change. As a result of global economic convergence, medium- and long-term economic growth will eventually decline.

The IMF again expects an uneven distribution of economic growth between developed economies (2.0%) and emerging economies (4.9%) in 2018. In particular, economic growth of 2.3% is being forecast for the U.S., 1.9% for the eurozone, 1.8% for Germany and 6.5% for China.

Accordingly, the most important global markets for the automotive industry will continue to be characterized by a positive economic outlook in the current fiscal year. Correspondingly, the German Association of the Automotive Industry (VDA) expects global growth in passenger car sales[13] of around 1% to 85.7 million units (prior year: 84.6 million units) in a flat growth curve.

With sales of around 16.8 million units, the U.S. market is expected to contract by about 2%, while a slight decline of 1% to a volume of more than 14.2 million units is expected for Western Europe – primarily due to the decline in the United Kingdom as a result of the Brexit decision. By contrast, the Chinese passenger car market is expected to grow about 2% to 24.6 million passenger cars in 2018 according to the VDA.

In the Electromobility operating segment, paragon is mainly active in selected industrial submarkets through the Voltabox subsidiaries. These currently include:

- Trolleybuses used in public transportation
- Forklift trucks and automated industrial trucks in intralogistics or networked production environments
- Mining vehicles in underground mining

The development in these submarkets is essentially characterized by a substitution process for lead-acid batteries, or diesel generators in the case of trolleybuses, from which Voltabox benefits with its modular product portfolio. These are trends that have a period of several years and typically show a saturation curve with increasing market penetration.

In 2018, the market research institute IDTechEx[14] expects a market growth of about 11% for battery systems in the submarkets currently occupied by Voltabox. The average annual growth rate through 2027 is estimated at 17% in these submarkets (base year: 2017).

As a result, the following assumptions are particularly important for establishing the paragon Group's forecast:

- Positive economic environment with accelerated global economic growth
- Increase in global sales of passenger cars of around 1%
- Continuous substitution of lead-acid batteries and diesel generators with lithium-ion batteries in occupied submarkets
- Global market growth of around 11% for battery systems in Voltabox's submarkets

12 https://www.imf.org/en/Publications/WEO/Issues/2017/09/19/world-economic-outlook-october-2017
13 VDA press release from December 06, 2017: German passenger car market reaches highest level this decade
14 https://www.idtechex.com/research/reports/industrial-and-commercial-electric-vehicles-on-land-2017-2027-000505.asp

paragon Group

The Group's corporate planning is based on detailed sales and revenue planning and is broken down by customer to the product level. The main cost components are planned via individual planning models for a period of several years and are then updated in proportion to the development of revenue.

Significant parameters, such as price changes in purchasing or sales as well as possible cost increases in personnel or changes in the tax base, are integrated into the planning. The constantly updated risk management system allows the company to identify risks at an early stage and, if necessary, counter them accordingly.

Based on the good order situation for 2018, the Management Board once again expects to grow significantly faster than the automotive sector. In view of Voltabox AG's robust order backlog for 2018, the Management Board is expecting a significantly higher growth rate in the Electromobility operating segment. The Body Kinematics unit is also expected to contribute disproportionately to growth.

The Electromobility operating segment is expected to more than double its revenues to around € 60 million and make a sustained contribution to the Group's profitability with an EBIT margin of around 10 percent. Another growth driver will be the Mechanics operating segment. From the fiscal year 2019 onwards, the Electronics operating segment is expected to increasingly contribute to the Group's growth through new products.

Against this backdrop, the paragon Management Board is very optimistic about the current fiscal year. It is also forecasting a further jump in Group sales of more than 40 percent to around € 175 million with a consolidated EBIT margin of around 9 percent.

The Management Board expects to see an investment volume of around € 35 million in the current year.

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.

paragon AG

In the current fiscal year, the Management Board expects the revenue to increase slightly for the individual financial statement of paragon AG. An EBIT margin of around 5% of is expected. The body kinematics unit is considered the main growth driver.

Development of Key Performance Indicators

	2016	2017	Change in %	Forecast		
In € thousands / as indicated				2017		2018
Financial performance				As of Mar. 27, 2017	As of Aug. 15, 2017	
Group revenue	102,790	124,823	21.4	€ 120 million to € 125 million	€ 120 million to € 125 million	€ 175 million
EBIT margin	8.7%	6.1%[1]	n. a.	9.0% to 9.5%	9.0% to 9.5%	Approx. 9%
Investments	23,262	37,582[2]	61.6	Approx. € 27 million	Approx. € 21 million	Approx. € 35 million

1 Thereof € 15.159 million cash payments for the acquisition of consolidated companies
2 Excluding € 3.553 million one-time special effects of the Mechanics segment (adjusted EBIT margin: 9.0 %)

Takeover-Related Disclosures Pursuant to Section 315 (4) of the German Commercial Code (HGB)

Composition of the Share Capital

paragon AG's subscribed capital amounts to € 4,526,266.00 and is divided into 4,526,266 no-par-value shares with a nominal value of € 1.00 each. All shares are entitled to dividends. Each share grants one vote at the Annual General Meeting.

Stock Voting Right and Transfer Restrictions

The Management Board is not aware of any limitations affecting voting rights or the transfer of shares.

Holdings That Exceed 10 Percent of the Voting Rights

As of December 31, 2017, the CEO of the company held 50 percent plus 1 share of the company's share capital.

Shares With Special Rights of Control

There are no shares that confer special rights of control.

Voting Right Controls for Employees Participating in the Capital

Insofar as employees participate in the capital as shareholders, they cannot derive any special rights from them.

Appointment and Dismissal of Members of the Management Board and Amendments to the Articles of Association

Regarding the rules for appointing and dismissing the members of the Management Board, reference is made to the statutory provisions of Sections 84 and 85 of the German Stock Corporation Act (AktG).

Regarding the rules for amending the Articles of Association, please refer to the statutory provisions of Sections 133 and 179 AktG.

Authorization of the Management Board to Issue Shares

With the resolution of the Annual General Meeting on May 10, 2017, the Management Board is authorized, with the consent of the Supervisory Board, to increase the company's share capital once or several times by up to € 2,263,133.00 until May 9, 2022, inclusive, via the issue of up to 2,263,133 new no-par-value shares against contribution in cash and/or in kind (Authorized Capital 2017/I).

Shareholders are to be granted a subscription right. The statutory subscription right may also be granted by having the new shares taken over by a banking consortium with the obligation to offer the shares indirectly to shareholders for subscription pursuant to Section 186 (5) of the German Stock Corporation Act (AktG). The Management Board is, however, authorized (with the consent of the Supervisory Board) to exclude the statutory subscription rights of shareholders in the cases specified in Section 5 (6) of the Articles of Association as updated in May 2017.

A resolution at the Annual General Meeting from May 10, 2017, approved the conditional increase in the subscribed capital of up to € 2,263,133.00 by issuing 2,263,133 new no-par-value shares (Conditional Capital 2017/I).

The conditional capital was created exclusively to grant shares to holders or creditors of convertible bonds and/or bonds with options that are issued by the company (or by a Group company as defined in Section 18 of the German Stock Corporation Act (AktG), in which the company has a shareholding of at least 90%) pursuant to the authorization by the Annual General Meeting on May 10, 2017, against contributions in cash or in kind until May 9, 2022. In accordance with the respective terms and conditions for convertible bonds and bonds with options, the conditional capital increase also serves to issue shares to holders of convertible bonds and/or bonds with options subject to conversion or option obligations.

The conditional capital increase shall only be implemented to the extent that the holders of warrants from options or creditors of convertible bonds exercise their conversion or option rights, or the holders or creditors of convertible or warrant-linked bonds who are obligated to exercise or convert the option or warrant-linked bonds fulfill their obligation to exercise or convert the option or warrant-linked bonds, provided that the conversion or option rights are not serviced by granting treasury stock or other forms of settlement. These rights must have been issued by the company (or by a Group company as defined in Section 18 of the German Stock Corporation Act (AktG), in which the company has a direct or indirect shareholding of at least 90%) based on the authorization granted by the Annual General Meeting, which lasts from May 10, 2017, through May 9, 2022. The new shares shall be issued at the conversion/option prices in the bond or option conditions to be determined in accordance with the aforementioned authorizing resolution. The new shares may be granted a dividend entitlement starting in the fiscal years for which the Annual General Meeting has not yet passed a resolution on the appropriation of profits. The Management Board is authorized to determine the further details regarding the implementation of the conditional capital increase.

Change of Control and Compensation Agreements

There are no special provisions for a change of control nor are there any compensation agreements for possible takeover offers.

Corporate Governance Statement Pursuant to Section 315d in Conjunction With Section 289f (1) of the HGB.

The Management Board and the Supervisory Board of paragon AG are committed to the principles of a transparent and responsible corporate governance and control structure. They ascribe a high priority to the standards of good corporate governance. With the CEO as the majority shareholder, the working methods of the Management Board conform with the principles of the "honorable merchant" in terms of its entrepreneurial responsibilities. This includes the obligation to ensure the continued viability of the company and its sustained value creation (corporate interests) in conformity with the principles of the "social market economy."

The Corporate Governance Statement pursuant to Section 315d in conjunction with Section 289f (1) of the German Commercial Code (HGB) can be accessed at any time on the paragon website at http://www.paragon.ag/en/investors/corporate-governance.html. It contains the corporate governance declaration pursuant to Section 161 of the German Stock Corporation Act (AktG) and the corporate governance report pursuant to No. 3.10 of the German Corporate Governance Code (GCGC).

Delbrück, Germany, March 9, 2018

Klaus Dieter Frers
Chief Executive Officer

Dr. Stefan Schwehr
Chief Technology Officer (Electronics)

Consolidated Financial Statements 2017

Note: Rounding differences of +/- one unit (€ thousands) may occur in tables.

Consolidated income statement of paragon AG, Delbrück, for the period from January 1, to December 31, 2017 (IFRS)

In € thousands	Notes	Jan. 1 to Dec. 31, 2017	Jan. 1 to Dec. 31, 2016
Revenue	(10), (42)	**124,823**	**102,790**
Other operating income	(11)	1,379	1,086
Increase or decrease in inventory of finished goods and work in progress		-1,138	-924
Other own work capitalized	(12)	16,388	15,317
Total operating performance		141,452	118,269
Cost of materials	(13)	-71,226	-57,741
Gross profit		**70,226**	**60,528**
Personnel expenses	(14)	-35,262	-29,248
Depreciation of property, plant and equipment, and amortization of intangible assets	(16)	-9,390	-7,126
Impairment of property, plant and equipment and intangible assets	(20)	-5	-37
Other operating expenses	(15)	-17,936	-15,188
Earnings before interest and taxes (EBIT)		**7,633**	**8,929**
Financial income	(17)	13	2
Financial expenses	(17)	-4,396	-3,169
Financial result		**-4,383**	**-3,167**
Earnings before taxes (EBT)		**3,250**	**5,762**
Income taxes	(18)	-3,907	-2,201
Group result		**-657**	**3,561**
Earnings per share in € (basic)	(19)	-0.15	0.84
Earnings per share in € (diluted)	(19)	-0.15	0.84
Average number of outstanding shares (basic)	(19)	4,526,266	4,217,658
Average number of outstanding shares (diluted)	(19)	4,526,266	4,217,658

Consolidated statement of comprehensive income of paragon AG, Delbrück, for the period from January 1, to December 31, 2017 (IFRS)

In € thousands	Notes	Jan. 1 to Dec. 31, 2017	Jan. 1 to Dec. 31, 2016
Group result		**-657**	**3,561**
Actuarial gains and losses	(32)	-7	-142
Currency translation reserve		-613	-245
Total comprehensive income		**-1,277**	**3,174**

Group result attributable to minority interests

Shareholder paragon Group	- 4,531
Non-controlling interests	3,874

Total comprehensive income attributable to minority interests

Shareholder paragon Group	- 4,743
Non-controlling interests	3,466

Consolidated balance sheet of paragon AG, Delbrück, as of December 31, 2017 (IFRS)

In € thousands	Notes	Dec. 31, 2017	Dec. 31, 2016
ASSETS			
Noncurrent assets			
Intangible assets	(20)	60,027	37,188
Goodwill	(21)	7,410	843
Property, plant and equipment	(22)	36,360	37,378
Financial assets	(23)	326	326
Other assets		90	88
Deferred taxes		7,574	0
		111,787	**75,823**
Current assets			
Inventories	(24)	17,344	13,716
Trade receivables	(25)	32,662	8,377
Income tax assets		22	1,210
Other assets	(26)	4,206	2,149
Liquid funds	(27)	145,826	14,278
		200,060	**39,730**
Total assets		**311,847**	**115,553**

In € thousands	Notes	Dec. 31, 2017	Dec. 31, 2016
EQUITY AND LIABILITIES			
Equity			
Subscribed capital	(28)	4,526	4,526
Capital reserve	(28)	15,165	15,165
Minority interests		57,918	0
Revaluation reserve	(28)	-915	-908
Profit/loss carried forward		106,048	12,867
Group result		-4,530	3,561
Currency translation differences		-1,150	-537
		177,062	**34,674**
Noncurrent provisions and liabilities			
Noncurrent liabilities from finance lease	(29)	1,402	2,215
Noncurrent loans	(30)	16,350	20,369
Noncurrent bonds	(31)	49,566	13,186
Special item for investment grants	(34)	1,005	1,092
Deferred income tax liabilities	(18)	17,054	5,475
Pension provisions	(32)	3,001	2,516
Other noncurrent liabilities		0	0
		88,378	**44,853**
Current provisions and liabilities			
Curent portion of liabilities from finance lease	(29)	1,067	998
Current loans and current portion of noncurrent loans	(30)	4,588	12,413
Current bonds	(31)	13,363	0
Trade payables		17,492	16,383
Other provisions	(35)	220	18
Income tax liabilities	(36)	34	82
Other current liabilities	(33)	9,643	6,132
		46,407	**36,026**
Total equity and liabilities		**311,847**	**115,553**

Consolidated cash flow statement of paragon AG, Delbrück, for the period of January 1 to December 31, 2017 (IFRS)

In € thousands	Notes	Jan. 1 – Dec. 31. 2017		Jan. 1 – Dec. 31. 2016	
Earnings before taxes (EBT)		3,250		5,762	
Depreciation/amortization of noncurrent fixed assets		-9,390		7,126	
Financial result		4,383		3,167	
Gains (-), losses (+) from the disposal of property, plant and equipment and financial assets		1,420		198	
Increase (+), decrease (-) in other provisions and pension provisions		1,541		312	
Income from the reversal of the special item for investment grants		-88		-88	
Other non-cash income and expenses		48		-1,425	
Increase (-), decrease (+) in trade receivables, other receivables, and other assets		-26,343		1,379	
Impairment of intangible assets		5		37	
Increase (-), decrease (+) in inventories		-3,628		-2,499	
Increase (+), decrease (-) in trade payables and other liabilities		4,809		6,169	
Interest paid		-4,396		-3,169	
Income taxes		1,239		-171	
Cash flow from operating activities	(42)		-8,370		16,798
Cash receipts from the disposal of property, plant and equipment		496		110	
Cash payments for investments in property, plant and equipment		-4,705		-7,709	
Cash payments for investments in intangible assets		-17,097		-14,398	
Cash payments for investments in financial assets		0		0	
Cash payments for the acquisition of consolidated companies and other business units		-15,945		-1,155	
Interest received		13		2	
Cash flow from investment activities	(42)		-37,238		-23,150
Distribution to shareholders		-1,132		-1,029	
Loan repayments		-12,328		-3,796	
Proceeds from loans		959		4,757	
Repayments of liabilities from finance lease		-1,007		-883	
Proceeds from equity contributions		142,376		13,127	
Net proceeds from bond issue		48,287		0	
Cash flow from financing activities	(42)		177,155		12,176
Changes in cash and cash equivalents		131,547		5,824	
Cash and cash equivalents at the beginning of the period		14,278		8,454	
Cash and cash equivalents at the end of the period	(27), (42)	145,826		14,278	

Schedule of changes in equity of paragon AG, Delbrück, for the period of January 1 to December 31, 2017 (IFRS)

In € thousands	Sub-scribed capital	Capital reserve	Revalu-ation deficit	Reserve from currency translation	Retained earnings: Profit carried forward	Retained earnings: Group result	Minority interests	Total
Jan. 1, 2016	**4,115**	**2,450**	**-766**	**-292**	**13,896**	**0**	**0**	**19,402**
Group result	0	0	0	0	0	3,561	0	3,561
Actuarial gains and losses	0	0	-142	0	0	0	0	-142
Currency translation	0	0	0	-245	0	0	0	-245
Other result	0	0	-142	-245	0	0	0	-387
Total comprehensive income	**0**	**0**	**-142**	**-245**	**0**	**0**	**0**	**3,174**
Capital increase	411	12,715	0	0	0	0	0	13,126
Dividend payout	0	0	0	0	-1,029	0	0	-1,029
Dec. 31, 2016	**4,526**	**15,165**	**-908**	**-537**	**12,867**	**3,561**	**0**	**34,674**

In € thousands	Sub-scribed capital	Capital reserve	Revalu-ation deficit	Reserve from currency translation	Retained earnings: Profit carried forward	Retained earnings: Group result	Minority interests	Total
Jan. 1, 2017	**4,526**	**15,165**	**-908**	**-537**	**16,428**	**0**	**0**	**34,674**
Group result	0	0	0	0	0	-4,531	3,874	-657
Actuarial gains and losses	0	0	-7	0	0	0	0	-7
Currency translation	0	0	0	-613	0	0	-407	-1,020
Other result	0	0	-7	-613	0	0	-407	-1,027
Total comprehensive income	**0**	**0**	**-7**	**-613**	**0**	**-4,530**	**3,466**	**-1.684**
Capital increase	0	0	0	0	90,752	0	54,452	145,204
Dividend payout	0	0	0	0	-1,132	0	0	-1,132
Dec. 31, 2017	**4,526**	**15,165**	**-915**	**-1,150**	**106,048**	**-4,530**	**57,918**	**177,063**

Notes to the Consolidated Financial Statements 2017

Notes to the Consolidated Financial Statements 2017

(1) General Information

paragon Aktiengesellschaft (hereafter “paragon AG” or “paragon”) is a joint stock corporation incorporated under German law. The company’s headquarters are at Artegastrasse 1, Delbrück, Germany. paragon AG’s shares have been traded on the Frankfurt Stock Exchange in the Prime Standard segment of the regulated market since 2000. paragon AG is entered in the commercial register of the district court of Paderborn (HRB 6726). paragon develops and manufactures electronic components and sensors for the automotive industry.

The Management Board of paragon AG authorized the consolidated financial statements as of December 31, 2017, and the combined management report for the period from January 1 to December 31, 2017, for submission to the Supervisory Board on March 12, 2018.

The consolidated financial statements and combined management report of paragon AG for the period from January 1 to December 31, 2017, are published in the electronic Federal Gazette and are available as part of the Annual Report on the company’s website (www.paragon.ag).

(2) Application of International Financial Reporting Standards (IFRS)

The consolidated financial statements of paragon AG as of December 31, 2017, have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), London, as adopted by the European Union (EU) and applicable on the balance sheet date, and in accordance with the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRSIC).

(3) Going Concern

The financial statements for the reporting period from January 1 to December 31, 2017, have been prepared under the going concern assumption. The carrying amounts of assets and liabilities were therefore determined on the basis of going concern values.

(4) Events After the Balance Sheet Date

The consolidated financial statements are prepared on the basis of the circumstances existing as of the balance sheet date. In accordance with IAS 10.7, events after the reporting period include all events up to the date the consolidated financial statements are authorized for issue.The consolidated financial statements as of December 31, 2017, were authorized by the Management Board and submitted to the Supervisory Board for approval on March 12, 2018. Up to this date, the following significant events emerged:

On January 19, 2018, the company signed a purchase agreement for a property in Delbrück. A mortgage on this property was registered on January 22 of the year. The payment of the purchase price is subject to the approval of the city of Delbrück and the state of North Rhine-Westphalia to change the land-use plan.

(5) New Accounting Principles Due to New Standards

The following revised and new standards issued by the IASB, as well as interpretations from the IFRSIC, had been endorsed by the EU and required mandatory application for the first time as of December 31, 2017:

- On January 13, 2016, the IASB issued a new accounting standard, IFRS 16 Leases. The basic principle of the new standard is that lessees shall present all leases and the resulting contractual rights and obligations on the balance sheet. The obligation for the lessee to distinguish between finance leases and operating leases required to date under IAS 17 no longer applies. The lessee records a leasing liability in the balance sheet for the obligation to make lease payments in future periods in respect of all leases. At the same date, the lessee records a right of use in respect of the underlying asset, which shall represent the present value of the future lease payments plus any directly attributable costs. The lease payments include all fixed payments, variable payments that are index-based, expected payments based on residual value guarantees, and, where applicable, the exercise price for a purchase option and penalties for the early termination of lease agreements. During the term of the lease agreement, the leasing liability is carried forward in a manner similar to IAS 17 requirements for finance leases, while the right-of-use asset is amortized. This generally leads to higher expenses at the beginning of the contractual period of the lease. Simplified rules apply to short-term lease arrangements and to leased assets with a small value. For the lessor, however, the rules under the new standards are similar to those under the existing IAS 17 standard. Lease contracts will continue to be classified as either finance or operating leases. Leases that transfer all significant risks and rewards of ownership will be classified as finance leases, and all other leases will be classified as operating leases. The classification criteria under IAS 17 has been carried forward into IFRS 16. In addition, IFRS 16 includes a number of additional rules on disclosure requirements and requirements that apply to sale and leaseback transactions.

  The new requirements shall be applied to fiscal years beginning on or after January 1, 2019. Earlier application is permitted, provided that IFRS 15 is also applied. The amendments were endorsed by the European Union on October 31, 2017. The company will implement the new standard in the fiscal year 2019. At the present time, the company expects an increase in the balance sheet and insignificant effects on earnings from this.

- The IASB published amendments to IFRS 15 Clarifications to IFRS 15 on April 12, 2016. These are the result of the discussions of the Transition Resource Group for Revenue Recognition (TRG), which was jointly established by the IASB and the U.S. standards setter FASB to discuss application/implementation issues. Since the discussions themselves are not legally binding, they need to be implemented in the standard-setting process. In January 2016, the IASB announced its withdrawal from the TRG, which means that IFRS 15 will not be subject to any further changes (before coming into effect).

  The amendments to the requirements of IFRS 15 that have now been adopted include the following points:

  Identification of performance obligations

  The identification of an entity’s performance obligations should be based on independently definable commitments for goods or services. For the purpose of clarification, further examples are included to explain the independence of performance obligations.

Principal-Agent Relationships

Whether an entity acts as principal or agent in the supply of goods or services to third parties is determined by the new regulations in IFRS 15.B34ff.

The assessment of the question of whether an entity is acting as principal or agent is made based on the possibility of controlling the goods/services before their transfer to the customer. The indicators from IFRS 15.B37 for clarifying whether an entity is acting on its own behalf or as an agent are similar to the previous indicators from IAS 18.A21 and include, among other things, the question of whether it bears the inventory risk or can determine the sales price of the performance/goods prior to transport or upon return.

In addition, the existing implementation guidelines have been adjusted and the current examples have been amended or expanded.

Licensing Agreements

If a license is granted that can be independently distinguished from other goods or services, the contractual arrangement must specify whether the proceeds will be realized over time or at a certain point in time. New guidelines have been introduced in IFRS 15.B59A to clarify when an intangible asset is significantly changed. Substantial changes will then occur if the form or functionality or if the expected benefit is significantly changing.

The clarifications to IFRS 15 will require mandatory application analogous to the standard in fiscal years beginning on or after January 1, 2018. The amendments were endorsed by the European Union on October 31, 2017. The Company will implement the new standard in the fiscal year 2018. The Company does not expect any significant effects from its first application on the net assets and results of operations. The company carried out an analysis of the customer contracts during the financial year. The analysis showed that there are no significant combined customer contracts within the Group.

- On September 12, 2016, the IASB published amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts. The overlay and deferral approaches introduced by the amendments to IFRS 4 are to be applied for the first time at the same time as IFRS 9 (i.e., January 1, 2018); the deferral approach must be applied by 2021 at the latest.

The amendments to IFRS 4 are intended to address concerns arising from the variance in timing of the first-time application of IFRS 4 and IFRS 9. The following concerns were previously raised regarding the IASB:

The volatilities in the income statement resulting from the different application dates may be difficult for readers of the financial statements to understand or follow. Decisions regarding the application of the new classification and measurement rules in IFRS 9 depend on the final decisions of the insurance standard and are therefore difficult to make without prior knowledge.

The amendments to IFRS 4 published by the IASB in September 2016 include the following two optional approaches:

The deferral approach allows companies, insofar as their activities are predominantly related to the insurance business, to postpone the application of IFRS 9 until January 1, 2021, at the latest and continue to apply IAS 39 until then.

Alternatively, an entity may use the overlay approach when applying IFRS 9 for the first time. This allows companies to exclude temporary volatilities arising from the application of IFRS 9 prior to the application of IFRS 17 in the income statement and instead reclassify them to OCI. This applies to financial instruments that are measured at fair value through profit or loss in accordance with IFRS 9 but not IAS 39.

The overlay and deferral approaches introduced by the amendments to IFRS 4 are to be applied for the first time at the same time that IFRS 9 is applied for the first time from January 1, 2018, while the deferral approach must be applied by 2021 at the latest. The amendments were endorsed by the European Union on November 03, 2017. The changes had no effect on the consolidated financial statements.

- On January 29, 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows as part of its Disclosure Initiative. The amendments are intended to improve the information reported about an entity's financing activities. Following the amendments, an entity is required to provide disclosures about the changes in financial liabilities whose cash inflows and outflows are shown in the statement of cash flows within financing activities. The disclosure requirements also relate to changes in associated financial assets (e.g., assets used for hedging purposes).

Disclosure is required of changes from financing cash flows, changes arising from acquiring or disposing of businesses, the effect of changes in foreign exchange rates, changes in fair values and other changes.

The IASB proposes that the disclosures are made by providing a reconciliation between the opening and closing balances in the statement of financial position. Other forms of presentation are also permitted. These amendments require application in fiscal years beginning on or after January 1, 2017. Comparative figures are not required in the year of initial application. The amendments were endorsed by the European Union on November 6, 2017. The company has determined the necessary disclosures. The changes had no material effect on the consolidated financial statements.

- On January 19, 2016, the IASB published amendments to IAS 12 Income Taxes entitled Recognition of Deferred Tax Assets for Unrealized Losses. The aim of the project was to clarify various issues relating to the recognition of deferred tax assets for unrealized losses in other comprehensive income (OCI) arising from changes in the fair value of debt instruments.

  Specifically, the amendments to IAS 12 clarified the following aspects:

  An unrealized loss on a fixed-interest debt instrument will result in a deductible temporary difference if this debt instrument is measured at fair value and its tax value matches its acquisition costs.

  Insofar as the tax law distinguishes between the different types of taxable profits, an independent assessment must be made for each part of the taxable profit as to whether a deferred tax asset should be recognized.

  When estimating its future taxable profit, an entity can assume that it is possible to realize an asset in excess of its carrying amount, provided that such realization is probable.

  Insofar as the tax law distinguishes between the different types of taxable profits, an independent assessment must be made for each part of the taxable profit as to whether a deferred tax asset should be recognized.

  These amendments require application in fiscal years beginning on or after January 1, 2017. The amendments were endorsed by the European Union on November 6, 2017. The company has determined the necessary disclosures. The changes had no effect on the consolidated financial statements.

The following standards and interpretations had already been issued but did not yet require mandatory application and/or had not been endorsed by the European Union as of the date that the financial statements for the period from January 1 to December 31, 2017, were prepared:

- On September 11, 2014, the IASB issued amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures based on Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28). This is intended to eliminate the previous inconsistency between IFRS 10 and IAS 28 concerning the question of full (IFRS 10) or partial (IAS 28) gain or loss recognition upon the loss of control of a subsidiary. Within IAS 28, the requirements governing gains and losses from transactions between an enterprise and its associate or joint venture have been amended (IAS 28.28–30). The new requirements refer exclusively to assets that do not constitute a business as defined in IFRS 3.3 (in conjunction with IFRS 3.B7 et seq.). Gains and losses from transactions with associates and joint ventures in respect of assets that constitute a business must now be fully recognized in the financial statements of the investor (IAS 28.31A). Enterprises must further review whether assets sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction (IAS 28.31B). In IFRS 10, an exception to the complete recognition through profit or loss of any loss of control over a subsidiary has therefore been included in Paragraph B99A. This applies to the extent that the assets abandoned do not constitute a business, and in the event that the loss of control arises due to a transaction with an associate or joint venture recognized using the equity method. Guidelines have also been added that any gains or losses arising from such transactions may only be recognized in the income statement of the parent company in the amount of the share attributable to unrelated third-party investors in the associate or joint venture. The same applies to gains and losses resulting from the fair value measurement of interests in subsidiaries that now constitute associates or joint ventures and are measured using the equity method. The amendments originally required application in fiscal years beginning on or after January 1, 2016. On December 17, 2015, the IASB proposed postponing the date of first-time application indefinitely. The company is of the opinion that the amendments will have no material implications on the consolidated financial statements.

- On June 20, 2016, the IASB issued amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions. The amendments affect the following aspects:

  The effects of vesting conditions (service conditions, market conditions and other performance conditions) on the measurement of cash-settled share-based payment transactions. Following the amendments, market and non-vesting conditions are taken into account when estimating fair value. Service conditions and other performance conditions are taken into account by adjusting the number of awards.

  The classification of share-based payment transactions with net settlement features for withholding tax obligations: If an entity withholds shares that would have otherwise been issued because it is required to fund the payment to the tax authority in respect of the employee's tax obligation associated with the share-based payment, and this net arrangement is provided for in the contract, then the remuneration – despite the partial settlement in cash – is to be accounted for as equity-settled share-based remuneration.

  The accounting for a modification to the terms and conditions of a share-based payment transaction that changes its classification from cash-settled to equity-settled: The equity-settled share-based payment transaction is measured at the (pro rata temporis) fair value of the equity instruments granted at the modification date. Any difference to the derecognized liability is recorded in profit and loss.

  The amendments shall be applied to remuneration which is granted or modified in fiscal years beginning on or after January 1, 2018. Earlier application is permitted. A retrospective application is only permitted when the use of improved information obtained in hindsight is excluded. The European Union has not yet endorsed the amendments. The Group is currently of the opinion that the amendments will not have a significant effect on the presentation of the financial statements.

- The IASB issued an amendment to IAS 40 Investment Property on December 8, 2016. The amendment to IAS 40 is designed to clarify when the classification of a property as "investment property" begins and ends if the property is under construction or development. The complete list provided to date in IAS 40.57 did not provide sufficient clarification on the treatment of property under construction. The list is now explicitly described as not being exhaustive so that property under construction can be included in the definition. The amendment is effective from January 1, 2018. Earlier application is permitted. The European Union has not yet endorsed the amendments. The amendment will not have any effect on the consolidated financial statements.

- The IASB issued IFRIC 22 Foreign Currency Transactions and Advance Consideration on December 8, 2016. IFRIC 22 addresses an application question relating to IAS 21 The Effects of Changes in Foreign Exchange Rates. The interpretation clarifies the date on which the exchange rate used to convert a payment or receipt of advance consideration should be determined. The date to be used to determine the exchange rate for the underlying asset, income or expense is the date of initial recognition of the prepayment asset or deferred income liability. The interpretation is effective from January 1, 2018. Earlier application is permitted. The European Union has not yet endorsed the amendments. The company is of the opinion that the amendments will have no material implications on the consolidated financial statements.

- In July 2014, the IASB published IFRS 9, Financial Instruments. IFRS 9 introduces a uniform approach to the classification and measurement of financial assets. As a basis, the standard refers to the cash flow characteristics and the business model under which they are managed. It also provides for a new impairment model based on expected credit losses. IFRS 9 also includes new rules on the application of hedge accounting in order to better represent a company's risk management activities, in particular with regard to the management of non-financial risks. The new standard is effective for annual periods beginning on or after January 1, 2018. paragon AG will apply IFRS 9 for the first time for the financial year beginning on January 1, 2018; the adjustment of prior-year figures is waived in accordance with the transitional provisions of IFRS 9.

  We completed the analysis of the impact of IFRS 9 on the presentation of the net assets, financial position and results of operations. On the basis of current knowledge, the effects of the first application in relation to the allocation to valuation categories and the associated earnings effects are not considered as significant.

- The IASB issued the Annual Improvements to IFRSs (2014–2016) on December 8, 2016. Three standards were amended in the Annual Improvements to IFRSs (2014–2016). The amendments were as follows:

  - IFRS 1 First-time Adoption of International Financial Reporting Standards: deletion of the remaining exemptions in IFRS 1 which were limited to specific periods of time. Appendix E (IFRS 1.E3–E7) for first time adopters..

  - IFRS 12 Disclosure of Interests in Other Entities: clarification that the disclosure requirements in this standard – with the exception of IFRS 12.B10–B16 – also apply to investments which fall within the application of IFRS 5.

  - IAS 28 Investments in Associates and Joint Ventures: clarification that the option to measure an investment in an associate or joint venture that is held by a venture capital entity or another qualifying entity can be exercised individually on an investment-by-investment basis.

  - The amendments to IFRS 12 are effective from January 1, 2017, and the amendments to IFRS 1 and IAS 28 are effective from January 1, 2018. Earlier application is permitted. The European Union has not yet endorsed the amendments. The company is of the opinion that the amendments will have no material implications on the consolidated financial statements.

- On June 7, 2017, the IFRS Interpretations Committee (IFRIC) published IFRIC 23 Uncertainty over Income Tax Treatments. The tax treatment of certain items and transactions may depend on future recognition by the tax authorities or fiscal jurisdiction.

  IAS 12 Income Taxes regulates how actual and deferred taxes are to be recognized. IFRIC 23 supplements the provisions of IAS 12 with regard to the recognition of uncertainties relating to the income tax treatment of facts and transactions. IFRIC 23 thus stipulates that tax risks (e.g., in the event of a tax dispute) must be taken into account if it is probable that the tax authorities will not accept a certain tax-relevant circumstance as it has been included in the entity’s tax calculation. It is always assumed that the tax authorities are fully informed, i.e., a possible discovery risk is irrelevant for both recognition and measurement. The measurement shall be based on the most probable value or expected value, depending on the value that best reflects the existing risk. The interpretation does not deal with the interest on additional tax claims and refunds or possible penalties.

  IFRIC 23 is applicable to fiscal years beginning on or after January 1, 2019. Earlier application is permitted. The European Union has not yet endorsed the amendments. The company is of the opinion that the interpretation will have no material implications on the consolidated financial statements.

- On May 18, 2017, the IASB published IFRS 17 Insurance Contracts. After years of discussion, there is now a uniform international accounting standard for insurance transactions. The objective is to increase the transparency and comparability of insurance balance sheets. Current accounting in accordance with the previous IFRS 4 does not adequately ensure this.

  Key changes are:

  - Use of current assumptions, including discount rate used for tax purposes, in the measurement of insurance service provisions

  - Elimination of savings portions and financing components in the income from premiums and in

  - Expenses for insurance services

  - Strict separation of insurance service result and financial result in the income statement

  - Option to recognize interest-related measurement changes in other comprehensive income (OCI) instead of in the income statement

  - Simplification based on unearned premiums for short-term contracts

  - Allocation of initial profit in accordance with the provision of benefits by taking into account a contractual service margin (CSM) in the insurance service provisions

  - In the case of profit-sharing business, recording of the shareholder’s share of the gross profit in the CSM and corresponding allocation

  - Treatment of reinsurance liabilities irrespective of the underlying primary insurance business

  - Extensive disclosures in the notes, including on the profitability of new business.

- IFRS 17 does not prescribe accounting rules for policyholders. The standard is effective for fiscal years beginning on or after January 1, 2021. The European Union has not yet endorsed the amendments. The company is of the opinion that the standard will have no effects on the consolidated financial statements.

- The IASB issued the Annual Improvements 2015-2017 on December 12, 2017. This includes three amendments to IAS 12, IAS 23 and IFRS 3/IFRS 11. The originally proposed amendment to IAS 28 with regard to Long-term Interests in Associates and Joint Ventures was published as a separate amendment to IAS 28 or IFRS 9 in October 2017 as part of a narrow scope amendment. The amendments to IFRS 3 and IFRS 11 were previously dealt with in a separate amendment proposal but were included in the Annual Improvements as a final amendment after the Board's decision.

  The amendments were as follows:

  - IAS 12: The provisions of IAS 12.52B are to be applied to all income tax effects of dividends. This means that actual income taxes resulting from dividend payments must be recognized in profit or loss.

  - IAS 23: If an asset is ready for its intended use or sale, any remaining borrowings that have been expressly incurred for that asset must be treated as part of the general borrowings.

  - IFRS 3/IFRS 11: A clarification has been made on the acquisition of control over a joint operation that necessitates the remeasurement of previously held interests in the assets and liabilities of the joint operation at that time. Specifically with regard to IFRS 11, a clarification has been provided on shares held before gaining (possibly joint) control in a joint operation within the meaning of IFRS 11 or its assets and liabilities (previously held interests). However, previously held interests in the assets and liabilities of the joint operation are not remeasured.

The amendments are to become mandatory in fiscal years commencing on or after January 1, 2019. The European Union has not yet endorsed the amendments. The company is of the opinion that the amendments will have no effect on the consolidated financial statements.

(6) Scope of Consolidation

Name and registered office of the company	Shareholding	Consolidation	Currency	Revenue in local currency (prior to consolidation) in € thousands
Germany				
paragon AG, Delbrück	n. a.	n. a.	EUR	108,693
KarTec GmbH, Delbrück	100.00 %	Consolidated subsidiary	EUR	0,00
Voltabox AG, Delbrück	60.03 %	Consolidated subsidiary	EUR	24,619
productronic GmbH, Delbrück	100.00 %	Consolidated subsidiary	EUR	65,758
SphereDesign GmbH, Bexbach	100.00 %	Consolidated subsidiary	EUR	5,107
paragon movasys GmbH*, Landsberg am Lech	100.00 %	Consolidated subsidiary	EUR	1,723
China				
paragon Automotive Technology (Shanghai) Co., Ltd.	100.00 %	Consolidated subsidiary	RMB	1,428
paragon Automotive (Kunshan) Co., Ltd.	100.00 %	Consolidated subsidiary	RMB	15,364
USA				
Voltabox of Texas, Inc.	60.03 %	Consolidated subsidiary	USD	3,792

*The revenues of paragon movasys GmbH relate to December 2017 after first-time consolidation as of December 1, 2017.

In addition to the parent company, paragon AG, Delbrück, Germany, subsidiaries are fully consolidated. The reporting date for all companies is December 31. Voltabox Deutschland GmbH was incorporated into Voltabox. HS Genion GmbH, acquired with effect from November 24, 2017, was renamed paragon movasys GmbH. A list of companies included in the scope of consolidation and a list of shareholdings are set out in the table.

Account of the acquisition of paragon movasys GmbH with economic effect as of December 1, 2017:

In € thousands	Dec. 1, 2017 Carrying amount	Dec. 1, 2017 Fair value
Customer list	0	4,209
Technology	0	3,288
Development work	0	2,851
Other intangible assets	287	287
Property, plant and equipment	548	548
Financial assets	3	3
Inventories	4,936	4,936
Trade receivables	4,034	4,034
Other current assets	335	335
Liquid funds	601	601
Deferred tax liabilities	0	-2,822
Pension provisions	-56	-226
Other current provisions	-242	-242
Income tax provisions	-34	-34
Liabilities to banks	-2,400	-2,400
Trade payables	-6,472	-6,472
Other current liabilities	-305	-305
Acquired net assets	**1,235**	**8,590**
Goodwill		**6,568**
Purchase price		15,158
Of which paid by means of payment in 2017		15,158

By signing the share purchase and assignment agreement dated November 24, 2017, the company has acquired all of HS Genion GmbH's shares in Landsberg am Lech for a purchase price including ancillary costs of € 5,158 thousand. The seller was the Augenio AG in Dortmund. The company designs, develops and produces automotive products. It is mainly active in the field of adaptive aerodynamic systems. By shareholder resolution of December 7, 2017 HS Genion GmbH was renamed paragon movasys GmbH.

paragon movasys GmbH is assigned to the Body Kinematics business unit and generates full-year revenues of € 25.3 million and a net loss of € 1,951 thousand on the basis of the annual financial statements prepared in accordance with German commercial law (HGB). The company employs around 100 people.

The acquisition of HS Genion GmbH is based on the foundation, that the Body Kinematics business unit is becoming the leading systems provider for overall vehicle aerodynamics. The purchase sees tremendous growth potential in the global megatrend CO2 reduction.

Date of first consolidation is December 1, 2017. Since the acquisition took place shortly before the balance sheet date, the purchase price allocation can be adjusted on the basis of further information in the following financial year.

The purchase price agreed in the context of the transaction was paid in cash in the 2017 financial year and further earn-out payments and other contingent consideration are not contractually agreed.

The goodwill of € 6,568 thousand remaining after the purchase price allocation can be attributed to various factors. This mainly includes the development know-how in the field of kinematics acquired through paragon movasys GmbH. In addition, the acquisition will strengthen the market position of the paragon Group. In addition, the expertise of the employees and the synergies in the business value are recorded.

paragon movasys GmbH was acquired with effect as of November 24, 2017. The date of initial consolidation is December 1, 2017. The remaining goodwill of € 8,113 thousand subsequent to the purchase price allocation is attributable to various factors, primarily the development expertise in kinematics acquired via paragon movasys GmbH. The acquisition also strengthens the paragon Group's market position. Goodwill is not deductible for tax purposes.

Deferred tax liabilities totaling € 2,822 thousand were formed in total on the hidden reserves disclosed in the customer list, technology, development work and the hidden charges disclosed in the provision for pensions. These are amortized over the useful lives of the assets and provisions. No deferred tax liabilities are recognized on goodwill.

In December 2017, paragon movasys GmbH generated sales of € 1,723 and net income of € 743, which was included in the consolidated financial statements.

The hidden reserves disclosed in the purchase price allocation are amortized as follows:

- Customer list, 12 years
- Technology, 10 years
- Own work capitalized, 4 years

The depreciation expense in the financial year amounted to € 57 thousand.

Consolidation Methods

The consolidated financial statements are based on the separate financial statements of the companies included in the Group, which were prepared using uniform accounting policies under IFRS as of December 31, 2017. The financial statements are included in the consolidated financial statements from the date on which control is obtained until the end of control. Adjustments were made to the audited annual financial statements of paragon AG prepared in accordance with German commercial law as of December 31, 2017, in order to prepare the financial statements in compliance with IFRS.

The consolidation was performed using the acquisition method in accordance with IAS 27.22 and IFRS 3. The carrying amount for the investments in associates recorded by the parent companies is replaced by the fair value of the assets and liabilities of the associates included in the consolidation. As a result, the equity of the subsidiaries is compared with the carrying amount of the investment recorded by the parent company. Any remaining excess from consolidation is reported as goodwill under noncurrent assets and is tested annually for impairment in accordance with IFRS 3 in conjunction with IAS 36.

In addition, debt consolidation was carried out, as was consolidation of income and expenses. The differences arising from the consolidation of income and expenses were offset through profit or loss.

Assets from intercompany deliveries that are recognized in noncurrent assets and inventories have been adjusted for interim profit and loss.

(7) Currency Translation

In paragon's consolidated financial statements, receivables and liabilities denominated in foreign currencies are measured at the transaction rate in effect at the date they are initially recognized, and subsequently adjusted to the exchange rate applicable as of the balance sheet date. Exchange rate gains and losses are recognized in profit and loss within other operating income or other operating expenses.

Exchange rate losses arising on operating activities of € 66 thousand (prior year: € 136 thousand) and exchange rate gains of € 182 thousand (prior year: € 142 thousand) are recognized in the consolidated statement of comprehensive income. These exchange rate differences are reported within other operating expenses and other operating income, respectively.

The exchange rates of the currencies significant to the paragon Group were as follows:

Foreign currency for € 1	Balance sheet – mean rate as of Dec. 31, 2017	Profit & loss average rate 2017	Balance sheet – mean rate as of Dec. 31, 2016	Profit & loss average rate 2016
US-dollar (USD)	1.1980	1.1841	1.0520	1.0538
Chinesische renminbi yuan (RMB)	7.7956	7.8035	7.3062	7.3062

Due to new information in accordance with IAS 21, paragon AG, the parent company of Voltabox AG, has valued the loan provided in order to establish Voltabox of Texas, Inc. – as outlined in the half-year financial report as of June 30, 2017 – as a net investment in an overseas business. Since then, it has presented the unrealized currency movements directly in equity under the "currency translation differences" item. The currency loss from the valuation of the net investment amounts to € 2,040 thousand as of December 31, 2017.

In December 2017, the loan liabilities were transferred from paragon AG to Voltabox AG so that the unrealized currency movements as of December 31, 2017, are also shown in the equity of the Voltabox subgroup.

(8) Description of Accounting Polices and Measurement Methods

The consolidated financial statements were prepared in euros (€). The reporting currency as defined in IAS 21 "The Effects of Changes in Foreign Exchange Rates" is the euro. Unless stated otherwise, all amounts are stated in thousands of euros (€ thousand). The reporting period for paragon in these financial statements extends from January 1 to December 31, 2017. Individual items in the consolidated balance sheet and the consolidated statement of comprehensive income have been combined in order to provide better clarity and transparency. Where this has occurred, the items are explained individually in the notes to the financial statements. The consolidated statement of comprehensive income is presented using the nature of expense method, as in previous periods. Assets and liabilities are classified into noncurrent and current assets and liabilities in the balance sheet; further details on their maturity are presented in the notes. Assets and liabilities are recognized as current if they mature within twelve months.

The consolidated financial statements comprise the consolidated statement of financial position, the consolidated statement of comprehensive income, the notes to the consolidated financial statements, the consolidated cash flow statement and the consolidated statement of changes in equity. A combined management report has been prepared as a supplement to the above statements.

Recognition of Acquisitions

Goodwill is recognized in the Group's statement of financial position as a result of acquisitions. When an acquisition is initially consolidated, all identifiable assets, liabilities and contingent liabilities are recognized at fair value as of the acquisition date. One of the most significant estimates relates to determining the fair values of these assets and liabilities as of the acquisition date. Land, buildings and office equipment are generally valued on the basis of independent expert opinions, while marketable securities are valued at the stock exchange price. If intangible assets are identified, the fair value is determined internally using an appropriate measurement technique, which is usually based on the estimate of total expected future cash flows. These valuations are closely linked to the assumptions made by management regarding the future performance of the respective assets and to the assumed changes in the discount rate to be applied.

Intangible Assets

Intangible assets acquired for monetary consideration are recognized in the balance sheet at their acquisition cost, taking into account ancillary costs and any purchase price reductions.

Research costs are recognized as expenses in the period in which they are incurred. Costs incurred in connection with the development of patents and customer-specific solutions are only recognized as intangible assets at their production cost when the costs are clearly attributable to the asset as required by IAS 38 "Intangible Assets", the technical feasibility and marketability or use is assured, and when the anticipated realization of future economic benefits has been demonstrated.

The costs of production comprise all costs that are directly or indirectly attributable to the development process, as well as a proportionate share of necessary project-related overhead costs. If the asset recognition requirements are not fulfilled, development costs are directly expensed in profit or loss within other operating expenses in the year in which they are incurred. Subsequent to initial recognition, development costs are reported in the balance sheet at cost less cumulative amortization and cumulative impairment losses.

Intangible assets that have limited useful lives are amortized on a straight-line basis over their useful economic lifetimes. Amortization starts as soon as the asset is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Intangible assets with indefinite useful lives are subject to annual impairment tests. At each balance sheet date, the carrying amounts of such intangible assets are examined in order to determine whether there are indications that the value of the asset may be impaired. An impairment test pursuant to IAS 36 “Impairment of Assets“ was performed where there are such indicators. The residual values, useful lives and amortization methods are reviewed at the end of each fiscal year and amended as necessary.

The useful lives for internal development costs correspond to the expected product life cycles and amount to four years. The useful lives for licenses, patents and software range from three to ten years.

Goodwill is carried at acquisition cost and tested for impairment each year and, additionally, at other dates when there are any indications of potential impairment. Impairment losses are recognized under impairments of property, plant and equipment and intangible assets and reported as other operating expenses.

Property, Plant and Equipment

Additions to property, plant and equipment are measured at cost plus incidental acquisition costs and less any purchase price reductions received. If the cost of individual components of an item of property, plant and equipment is significant when measured against the item’s total purchase cost, then such components are recorded as separate assets and depreciated individually. Depreciation is recorded on a straight-line basis. The useful life for depreciation purposes ranges from 20 to 33 years for buildings, five to ten years for technical plants, and three to ten years for other plants, operating and office equipment.

Fully depreciated noncurrent assets are presented under cost and accumulated depreciation until the asset is retired. Amortized cost and accumulated depreciation are deducted from the sales proceeds generated on disposal. Gains and losses generated on disposal (disposal proceeds less residual carrying amounts) are shown in the consolidated statement of comprehensive income within other operating income or other operating expenses. All residual values, useful lives and depreciation methods are reviewed annually and amended as necessary.

At each balance sheet date, the carrying amounts of property, plant and equipment (which are depreciated in accordance with their useful lives) are examined in order to determine whether there are indications that the value of the asset may be impaired. If such indicators exist, an impairment test is performed.

Leases

Leases are classified as finance leases if all the risks and rewards associated with beneficial ownership of an asset are substantially transferred to paragon. Property, plant and equipment held under finance lease arrangements in accordance with IAS 17 “Leases“ are capitalized at the lower of their fair value and the present value of the minimum lease payments at the beginning of the usage period. A liability is recognized in the balance sheet for the same amount, and, subsequent to initial recognition, measured at amortized cost using the effective interest method. The amortization methods and useful lives correspond to those of similar assets acquired under purchase arrangements.

If beneficial ownership in a lease falls to the lessor (operating lease), the leased asset is recognized in the balance sheet of the lessor. Expenses arising from such leases are shown under other operating expenses.

The determination as to whether an agreement contains a lease is based on the economic nature of the agreement at its inception. Therefore, an estimate is made regarding every lease as to whether fulfilling the contractual agreement is dependent on using a specific asset or specific assets and whether the agreement grants a right to use the asset.

A sale and leaseback transaction involves the sale of an asset owned and already used by the future lessee to the lessor and the subsequent continued use of the asset by the lessee under a lease agreement. In this respect, two economically interdependent agreements are involved (purchase agreement and lease agreement). The transaction is accounted for as a single transaction, either as an operating lease or a finance lease, depending on the nature of the leaseback agreement.

Impairment of Nonfinancial Assets

At each balance sheet date, an assessment takes place to ascertain whether there are any indications that the value of nonfinancial assets (in particular intangible assets with definite useful lives) are impaired. If there are indications of impairment, an estimation of the recoverable amount of the relevant asset is made. In accordance with IAS 36.6 “Impairment of Assets“, the recoverable amount reflects the higher of fair value less cost to sell and value in use of the asset or an identifiable group of assets that represent a cash-generating unit (CGU). If the carrying amount of an asset or a CGU exceeds the recoverable amount, the asset is impaired and written down to its recoverable amount.

For property, plant and equipment and intangible assets other than goodwill, an assessment is made at each balance sheet date to establish whether there is any indication that a previously recognized impairment loss no longer exists or has decreased. If there are such indications, an estimate of the recoverable amount of the asset or the CGU is made. A previously recognized impairment loss is reversed only if the assumptions used in determining the recoverable amount have changed since the last impairment loss was recognized. The reversal of the impairment loss is limited in that the carrying amount of an asset may not exceed its recoverable amount or the carrying amount that would have resulted after taking depreciation and amortization into account if no impairment loss had been recorded for the asset in earlier years.

Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. A necessary requirement is that the rights or obligations are financial in nature, based on legal transactions in the form of agreements or contracts.

Financial assets primarily include cash and cash equivalents, trade receivables, loan receivables, other receivables, and primary and derivative financial assets held for trading. Financial assets are measured at either fair value or amortized cost depending on their classification. The fair values recorded in the balance sheet are generally measured using the market prices of the financial assets. Where no market prices are available, fair value is calculated using recognized valuation models and by referring to current market parameters.

Financial assets and derivative financial instruments held for trading are measured at fair value. Financial instruments classified as loans and receivables are accounted for at amortized cost. Amortized cost takes into account repayments and the amortization of any possible difference between the cost and the anticipated payment inflows at maturity, using the effective interest rate method, less any possible decreases from impairment due to uncollectability.

As a rule, financial liabilities are contractual obligations to deliver cash or another financial asset. Pursuant to IAS 39 “Financial Instruments: Recognition and Measurement“, at paragon these consist in particular of trade payables and other current liabilities as well as liabilities to banks. paragon classifies financial liabilities under the measurement category of loans and receivables and measures them at amortized cost, taking into account principal payments and the amortization of any difference between the acquisition cost and the payment obligation due on maturity using the effective interest rate method.

Financial assets are derecognized once the contractual right to obtain cash flows from these financial assets has expired, or once paragon has transferred its contractual rights to obtain cash flows from the financial asset to a third party or has taken on a contractual obligation for immediate payment of the cash flows to a third party as part of an agreement that fulfills the conditions in IAS 39.19 (pass-through arrangement). If financial assets are transferred, paragon examines whether it has either (1) transferred all substantial risks and rewards connected with a financial asset, or (2) neither transferred nor retained any substantial risks or rewards associated with the financial asset but has transferred the power to control the asset.

paragon recognizes a new asset if (1) all contractual rights to cash flows from the asset have been transferred to paragon, or (2) the substantial risks and rewards associated with the asset have neither been transferred nor retained, but paragon has received the power to control the asset.

Financial liabilities are derecognized if the underlying obligation has been fulfilled, canceled or has expired. If an existing financial liability is replaced by another financial liability to the same creditor with significantly new contract terms, or if the terms of an existing liability are fundamentally changed, this replacement or change is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the respective carrying amounts is recognized in profit or loss.

Financial assets and financial liabilities that are not denominated in euros are initially recognized at the average rate applicable on the transaction date and subsequently remeasured at each balance sheet date. Any currency translation differences that arise are recognized in profit or loss.

Financial assets and financial liabilities are shown as current in the balance sheet if they are either classified as held for trading or if they are expected to be settled within twelve months of the balance sheet date.

Income Taxes

Income taxes contain both taxes that are payable on income and deferred taxes.

Income taxes payable for current and earlier periods are measured at the amount at which a refund from or payment to fiscal authorities is anticipated. The calculation of that amount is based on the current status of tax legislation and therefore on the tax rates that are in effect or that have been announced as of the balance sheet date.

Deferred taxes are recognized using the balance sheet liability method in accordance with IAS 12 “Income Taxes“. Deferred tax assets and liabilities are recognized to reflect temporary differences between the carrying amount of a specific balance sheet item in the IFRS consolidated financial statements and its tax base (temporary concept). Deferred taxes are also recognized for future tax refund claims.

Deferred tax assets on deductible temporary differences and tax refund claims are recognized to the extent it can be assumed that they can be expected to be used in future periods, based on the availability of adequate taxable income.

The calculation of current and deferred taxes is based on judgments and estimates. If actual events deviate from these estimates, this could have a positive or negative impact on the assets, financial position and earnings. A deciding factor for the recoverability of deferred tax assets is the estimate of the probability of reversal of measurement differences or the usability of the tax loss carryforwards or tax benefits that led to recognition of the deferred tax assets. This is in turn dependent on the generation of future taxable profits during the period in which the tax loss carryforwards can be used. Deferred taxes are measured using the tax rates applicable at the time of realization based on the current legal situation as of the balance sheet date.

Current income tax assets and liabilities and deferred income tax assets and liabilities are only offset if it is legally permissible to do so and the deferred tax assets and liabilities relate to income taxes that have been levied by the same tax authority and if there is a legally enforceable right to offset current tax refund claims against current tax liabilities. Deferred taxes are reported as noncurrent in accordance with IAS 1.70.

Inventories

Inventories are measured at the lower of cost and net realizable value. In accordance with IAS 2 “Inventories“, the costs of conversion include all costs directly related to the units of production as well as a systematic allocation of fixed and variable production overheads. In addition to direct materials and direct labor, they therefore also contain proportional indirect materials and overheads. Administration and social welfare expenses are taken into account provided they can be attributed to production. Financing costs are not recognized as part of the cost of acquisition or conversion because the assets do not meet qualification criteria. Inventory risks resulting from the storage period and reduced usability are taken into account during the calculation of the net realizable value by applying appropriate write-downs. Lower values at year-end resulting from reduced selling prices are also taken into account. Raw materials, consumables and supplies as well as merchandise are primarily measured using the moving average method.

Trade Receivables and Other Current Assets

Trade receivables are classified as loans and receivables and measured at amortized cost less any necessary write-downs. Write-downs in the form of specific valuation allowances take sufficient account of the expected default risks. Specific defaults lead to the derecognition of the receivables concerned. The calculation of write-downs for doubtful receivables is primarily based on estimates and evaluations of the creditworthiness and solvency of the respective customer.

Other current assets are measured at amortized cost, taking into account necessary write-downs sufficient to cover the expected default risks. If recourse to the courts is made for the collection of these receivables, paragon firmly expects that the amounts recognized in the balance sheet will be fully enforceable. Where these represent financial assets (financial instruments), they are classified as loans and receivables.

Cash and Cash Equivalents

Cash and cash equivalents include cash and bank balances with original maturities of up to three months. They are measured at nominal value. Foreign currency positions are measured at fair value. The total of cash and cash equivalents reported in the cash flow statement corresponds to the cash and cash equivalents stated in the balance sheet (cash and bank balances). As of December 31, 2017, the Group reported receivables of € 408 thousand (prior year: € 734 thousand) relating to factoring agreements under cash and cash equivalents.

Provisions for Pensions

Provisions for pensions are calculated using the projected unit credit method in accordance with the revised requirements of IAS 19 “Employee Benefits“. The projected unit credit method not only takes into account the pension benefits and benefit entitlements known as of the balance sheet date, but also the increases in salaries and pension benefits to be expected in the future based on relevant estimation factors. The calculation is based on actuarial calculations, using biometric actuarial principles. Amounts not yet recorded in the balance sheet arise from actuarial gains and losses due to changes in inventory and differences between the assumptions made and actual developments. Actuarial gains and losses occurring in the reporting period are recognized in full directly in equity within other comprehensive income. The service cost is shown under personnel expenses. The interest cost included in pension expenses is recorded in the financial result.

Other Provisions

Other provisions are recognized in accordance with IAS 37 “Provisions, Contingent Liabilities and Contingent Assets“, when paragon has a legal or constructive present obligation to third parties as a result of a past event that is likely to lead to an outflow of resources. Provisions are measured based on a best estimate of the expenditure needed to discharge the liability. Reimbursement claims are not offset against these amounts. Each situation is evaluated separately to determine the probability that pending proceedings will be successful or to qualify the possible amount of the payment obligations. In each case, the most probable settlement amount has been taken into account. Noncurrent provisions have been measured at their discounted settlement amount as of the balance sheet date.

Due to the uncertainty associated with these evaluations, the actual settlement obligation or the actual outflow of resources may deviate from the original estimates and, accordingly, from the amounts of the provisions made. In addition, estimates may change based on subsequent new information, which may have a substantial impact on the future earnings position.

Government Grants

Government grants are recognized in accordance with IAS 20 “Accounting for Government Grants and Disclosure of Government Assistance“ and shown in the balance sheet under noncurrent liabilities. In accordance with IAS 20, government grants are recognized only if there is reasonable assurance that the conditions attached to them will be complied with and that the grants will be received. Government grants are accounted for as a deferred liability and released to income over the average useful life of the assets subsidized. The grants are released to income over the expected assumed useful life of the assets subsidized and credited to other operating income.

Financial Liabilities and Equity Instruments

Financial liabilities and equity instruments are classified in accordance with the economic substance of the underlying agreements. Equity instruments are recognized at the value of the funds or other assets received less directly attributable external transaction costs.

Trade Payables and Other Current Liabilities

Trade payables and other current liabilities do not bear interest and are recognized at their nominal amounts.

Recognition of Income and Expenses

Income is recognized when it is probable that economic benefits will flow to paragon and the amount of the income can be measured reliably. Income is measured at the fair value of the consideration received. Sales tax and other levies are not included. If transactions provide for a declaration of acceptance on the part of the purchaser, the related revenue is only recognized once such a declaration has been issued. If the sale of products and services includes multiple delivery and service components (multiple element arrangements), such as varying remuneration agreements in the form of prepayments, milestone payments and similar payments, a review takes place to ascertain whether revenue should be recognized separately for partial sales at different points in time. Contractually agreed prepayments and other nonrecurring payments are deferred reported in profit or loss over the period during which the contractually agreed service is performed.

Income from the sale of products is recognized once the significant risks and rewards associated with ownership of the products sold have been transferred to the purchaser. This normally occurs upon shipment of the products, consistent with the agreements entered into with customers. Revenue is shown after the deduction of discounts, rebates and returns.

Interest expenses from the issue of bonds are recognized according to the effective interest method. Operating expenses are recorded in profit and loss when the relevant services are rendered or when the expenses are incurred.

Borrowing Costs

Borrowing costs are recognized as an expense in the period in which they are incurred. They are capitalized if they fulfill the requirements of a qualifying asset in accordance with IAS 23 Borrowing Costs. No borrowing costs were capitalized in the financial year.

(9) Use of Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with IFRS requires assumptions and estimates to be made that impact the assets and liabilities recorded, the disclosure of contingent liabilities as of the balance sheet date and the presentation of income and expenses during the period under review. If actual events deviate from these estimates, this could have a positive or negative impact on the assets, financial position and earnings.

When applying the accounting policies, the following estimates and assumptions were made that significantly influenced the amounts contained in the financial statements:

Measurement of the Fair Values of the Assets Acquired and Liabilities Assumed in Business Combinations

The fair values as well as the allocation of acquisition costs to the assets acquired and liabilities assumed were determined on the basis of experience and estimates regarding future cash inflows. The actual cash inflows may differ from the estimated amounts. Please refer to the explanations in note 6 for the valuation of acquired intangible assets from the acquisition of paragon movasys GmbH (technology, customer list, development work).

Goodwill

As described in the accounting principles, the Group tests goodwill for impairment once a year and when there are any indications that the value of goodwill may be impaired. This involves estimating the recoverable amount of the cash generating unit. This corresponds to the higher of fair value less costs of disposal and value in use. When determining the value in use, adjustments and estimates have to be made concerning the forecast and discounting of future cash flows. Although the Management Board believes that the assumptions used to determine the recoverable amount are appropriate, unforeseeable changes in these assumptions could lead to an impairment loss that could have an adverse negative influence on the assets, financial position and earnings.

Capitalized Development Costs

In order to measure capitalized development costs, assumptions have been made about the amount of anticipated future cash flows from assets, about the discount rates to be used and about the period of time during which these assets will generate anticipated future cash flows. The assumptions made regarding the timing and amount of future cash flows are based on expectations of the future development of the order backlog from those customers with whom development projects are being conducted.

Inventories

In specific cases, inventories are measured based on anticipated revenue less the estimated costs to completion and the estimated selling costs required. Actual revenue and the actual costs to completion may deviate from anticipated amounts.

Information about the measurement discounts can be found in the comments on inventories in the previous section 8.

Estimates are required for the recognition of income from the provision of services on the basis of the percentage of completion as of the balance sheet date. The main measurement parameter is the percentage of completion which is determined on the basis of a careful estimate of the total contract costs, the costs to be incurred up to the time of completion, the total contract revenue, the contract risks, and other assumptions.

Other Assets and Liabilities

Assumptions and estimates are also necessarily made when calculating allowances for doubtful receivables, when estimating contingent liabilities and other provisions, and when determining the fair value of long-lived assets included in property, plant and equipment and intangible assets.

In individual cases, actual values may deviate from the assumptions and estimates made, requiring an adjustment of the carrying amounts of the assets or liabilities concerned.

Deferred Tax Assets

Deferred tax assets are only recorded if a positive tax result is expected in future periods and as a result their realization appears sufficiently assured. The actual taxable income situation in future periods may deviate from the estimate made at the time the deferred tax assets were recognized.

Domestic deferred taxes were calculated as of December 31, 2017, at a combined income tax rate of 30.0% (prior year: 30.0%). This includes a corporate tax rate of 15% and a solidarity surcharge of 5.5%. The income tax rate also reflects trade taxes, taking into account the breakdown of the trade tax assessment rates among the municipalities in which the company’s branches are located. The deferred taxes for Voltabox Inc. were calculated as of December 31, 2017, at a combined income tax rate of 27.6% (prior year: 34.6%). In China, a combined income tax rate of 34.6% (prior year: 34.6%) was applied.

In the purchase price allocation of paragon movasys GmbH, an income tax rate of 27.73% was expected.

Provisions for Pensions

Expenses arising from defined benefit plans are calculated using actuarial valuation reports. The actuarial valuation reports are based on assumptions concerning discount rates, expected revenue from plan assets, future wage and salary increases, mortality rates and future pension increases. These estimates are subject to significant uncertainty due to the long-term nature of these plans.

The valuation as of December 31, 2017, was discounted using the expected long-term market rate of interest of 1.50% (prior year: 1.50%). The valuation of provisions for pensions is based on the actuarial guideline tables “2005 G” by Prof. Dr. Klaus Heubeck.

The remaining assumptions used in the actuarial valuation were a salary growth rate of 0% from 2009 onwards and pension growth of 2.00%, as in the prior year.

Other Provisions

The recognition and measurement of other provisions was based on the estimated probability of the future outflow of benefits and on experience values, and on the facts and circumstances known as of the balance sheet date. The subsequent actual outflow of benefits may therefore differ from the amount recorded within other provisions as of the balance sheet date.

Legal Risks

From time to time, paragon Group companies may become parties to legal disputes. Management regularly analyzes the latest information available for these cases and, where necessary, recognizes provisions to cover probable obligations, including the estimated amount of associated legal costs. External attorneys are consulted in the process of making these assessments. In determining the need for provisions, the Management Board accounts for the probability of an unfavorable outcome and whether the obligation can be measured with sufficient reliability. The filing of a lawsuit, the formal assertion of a claim or the presence of a disclosure for legal dispute in the notes does not automatically mean that a provision for the respective risk is appropriate.

(10) Revenue

Revenue consists of the proceeds from sales of products and services less any sales reductions. The total revenue for the period under review amounted to € 124,823 thousand (prior year: € 102,790 thousand). Of this, € 90,189 thousand (prior year: € 70,251 thousand) were generated domestically, € 34,634 thousand (prior year: € 32,539 thousand) abroad.

Other revenue of € 8,768 thousand (prior year: € 7,815 thousand) was generated from development services and € 2,000 thousand (prior year: € 0 thousand) from the sale of sales rights in the reporting period.

The breakdown and classification of revenue by strategic business activities and regions are shown in the “Segment Report.”

(11) Other Operating Income

In € thousands	Jan. 1, to Dec. 31, 2017	Jan. 1, to Dec. 31, 2016
Disposal of fixed assets	143	347
Income from the use of company cars by employees	388	323
Gains on foreign currency exchange	182	88
Income from the release of deferred income for investment grants	88	88
Reversal of provisions	45	20
Investment subsidies	0	10
Rental income	38	0
Other	495	158
Total:	**1,379**	**1,086**

(12) Other Own Work Capitalized

For development projects that meet the requirements of IAS 38.21 and IAS 38.57 in the reporting period and for which project-related development costs have been capitalized, the capitalized development costs have been recognized in other own work capitalized. The amounts capitalized are recognized under intangible assets. Other own work capitalized also includes costs incurred in manufacturing test equipment.

In € thousands	Jan. 1, to Dec. 31, 2017	Jan. 1, to Dec. 31, 2016
Project-related development costs	15,772	14,313
Cost of test equipment	616	1,003
Other own work capitalized	**16,388**	**15,317**

(13) Cost of Materials

In € thousands	Jan. 1, to Dec. 31, 2017	Jan. 1, to Dec. 31, 2016
Raw materials and supplies	69,510	55,788
Cost of purchased services	1,716	1,953
Cost of material	**71,226**	**57,741**

(14) Personnel Expenses

Personnel expenses amounted to € 35,262 thousand in the reporting period (prior year: € 29,248 thousand) and consist of the following:

In € thousands	Jan. 1, to Dec. 31, 2017	Jan. 1, to Dec. 31, 2016
Wages and salaries	25,241	21,186
Social security contributions / pension expenses	4,323	3,689
Expenses for temporary emloyees	5,698	4,373
Personnel expenses	**35,262**	**29,248**

The number of employees, including temporary employees, has changed as follows in comparison to the prior year:

	Jan. 1, to Dec. 31, 2017	Jan. 1, to Dec. 31, 2016
Salaried employees	451	333
Wage-earning employees	357	293
Total number of employees	**808**	**626**

(15) Other Operating Expenses

Other operating expenses primarily include costs for building rental expenses and premises costs (€ 1,438 thousand, prior year: € 1,299 thousand), energy costs (€ 1,121 thousand, prior year: € 1,065 thousand), third-party development costs (€ 3,048 thousand, prior year: € 3,500 thousand), freight and packaging costs (€ 704 thousand, prior year: € 580 thousand), IT and telephone costs (€ 1,354 thousand prior year: € 1,347 thousand), vehicle costs (€ 959 thousand, prior year: € 862 thousand), repair and maintenance costs (€ 1,013 thousand, prior year: € 787 thousand), legal and consulting costs (€ 959 thousand, prior year: € 1,210 thousand), advertising and marketing costs (€ 709 thousand, prior year: € 818 thousand), and costs of plant insurance and leasing (€ 1,151 thousand, prior year: € 585 thousand). Other taxes recognized under other operating expenses during the reporting period amounted to € 54 thousand (prior year: € 56 thousand).

(16) Depreciation and Amortization

A breakdown of depreciation of property, plant and equipment, and amortization of intangible assets, can be found in the consolidated statement of noncurrent assets.

(17) Financial Result

In € thousands	Jan. 1, to Dec. 31, 2017	Jan. 1, to Dec. 31, 2016
Financial income	**13**	**2**
Interest income	13	2
Financial expenses	**- 4,396**	**- 3,169**
Other financial and interest expenses	- 4,396	- 3,169
Financial result	**- 4,383**	**- 3,167**

Other financial and interest expenses include interest expenses to banks of € 3,457 thousand (prior year: € 2,422 thousand).

(18) Income taxes

In € thousands	Jan. 1, to Dec. 31, 2017	Jan. 1, to Dec. 31, 2016
Current taxes	**- 107**	**253**
Current domestic taxes	- 107	253
Current foreign taxes	0	0
Deferred taxes	**4,014**	**1,948**
Deferred domestic taxes	5,413	3,442
Deferred foreign taxes	- 1,399	- 1,494
Income taxes	**3,907**	**2,201**

Current taxes include corporate income tax and trade tax refunds for prior years in the current financial year.

Deferred tax assets of € 7,574 thousand (prior year: € 4,523 thousand) at the end of the reporting period represent deferred tax balances in Germany of € 4,262 thousand (prior year: € 2,293 thousand) and foreign deferred taxes of € 3,312 thousand (prior year: € 2,230 thousand). Deferred tax liabilities of € 17,054 thousand (prior year: € 9,998 thousand) at the end of the reporting period represent deferred tax balances in Germany of € 16,847 thousand (prior year: € 9,849 thousand) and foreign deferred taxes of € 207 thousand (prior year: € 149 thousand).

Deferred tax assets and liabilities were recognized for the following items:

In € thousands	Dec. 31, 2017		Dec. 31, 2016	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	0	16,362	0	9,576
Property, plant and equipment	267	0	281	0
Receivables and other assets	0	87	192	196
Pension provisions	680	0	697	0
Bonds	0	500	0	86
Liabilities	0	105	0	148
Loss carried forward	6,627	0	3,352	0
Deferred tax assets and liabilities prior to netting	7,574	17,054	4,522	9,997
Netting	0	0	- 4,522	- 4,522
Deferred tax assets and liabilities after netting	7,574	17,054	0	5,475

In contrast to the prior year, netting of deferred tax assets and liabilities is waived. The reason for this change in approach is a more transparent presentation of the financial position. In the previous year, prior to netting, deferred tax assets would have amounted to € 4,522 thousand and deferred tax liabilities to € 9,997 thousand.

The increase in deferred tax liabilities of € 7,057 thousand primarily results from the capitalization of development costs in the reporting period reported within intangible assets (€ 6,793 thousand).

The increase in deferred tax assets of € 3,052 thousand primarily relates to deferred tax assets on tax losses carried forward of € 3,274 thousand. Tax losses in Germany can be carried forward and used for an indefinite period of time, subject to minimum taxation rules. Foreign tax losses carried forward relate to Voltabox of Texas, Inc., and their use is limited to a period of 20 years.

An amount of deferred taxes of € 3 thousand (prior year: € 61 thousand) arising on pension provisions was recorded directly in equity within the revaluation reserve. This also corresponds to the amount of deferred tax assets in other comprehensive income.

Due to the tax reform in the US in 2017, the tax rate changed from 34.6% to 27.6%. The reduction in deferred tax assets led to an increase in deferred tax expenses of € 815 thousand.

Voltabox AG has corporate income tax and trade tax loss carried forward amounting to € 1,189 thousand from the period prior to that company being included in the Group's tax pooling arrangements. No deferred taxes have been recognized for these tax losses carried forward.

Dividends to be paid by paragon AG in Germany in the future have no impact on the company's tax burden.

The following table shows a reconciliation between the actual tax expense and the expected tax expense, calculated as the product of accounting profit multiplied by the applicable tax rates in accordance with IAS 12.81 (c).

In € thousands	Jan. 1, to Dec. 31, 2017	Jan. 1, to Dec. 31, 2016
Earnings before taxes	3,250	5,762
Calculatory tax expense at a tax rate of 30.0% (prior year: 30.0%)	0	1,729
tax income relating to other accounting periods (prior year: tax expense)	- 105	224
Income from capitalization of deferred tax assets	- 3,242	0
Expense from passivation of deferred tax liabilities	7,254	0
Other	0	248
Current tax expenses	3,907	2,201

The arithmetical tax expense is calculated by multiplying the tax rate by the taxable profit.

(19) Earnings per share

Basic earnings per share are calculated by dividing the result for the reporting period by the weighted average number of shares issued. The weighted average number of shares issued in the reporting period was 4,526,266 (prior year: 4,217,658).

Based on the result for the period of € -657 thousand (prior year: € 3,561 thousand), the basic earnings per share amount to € -0.15 per share (prior year: € 0.84).

The diluted earnings per share are calculated by adjusting the weighted average number of shares issued by the number of potentially dilutive shares.

Stock option plans generally result in a potential dilution of earnings per share. There were no share option rights to acquire paragon AG shares outstanding during the fiscal year from January 1 to December 31, 2017.

(20) Intangible Assets

Capitalized Development Costs

The development and breakdown of intangible assets, property, plant and equipment is shown in the consolidated statement of movements in noncurrent assets. Explanations of the investments can be found in the combined management report.

Intangible assets include capitalized development costs of € 44,037 thousand (prior year: € 30,950 thousand). Total development costs in the period amounted to € 16,825 thousand (prior year: € 15,193 thousand). This includes internal development costs of € 15,772 thousand (prior year: € 14,313 thousand) capitalized as intangible assets in the reporting period.

Depreciation in the reporting period amounted to € 2,680 thousand (prior year: € 1,145 thousand). The depreciation period for development projects is a standard four-year period from the start of series production.

The capitalized development costs were subject to an impairment test in accordance with IAS 36. The recoverable amount of a specific project represents the fair value of the project determined on the basis of recent information on the marketability of the project. The impairment loss in accordance with IAS 36 totaled € 5 thousand in the reporting period (prior year: € 37 thousand).

The recoverable amount of internally generated intangible assets is determined based on the calculation of the value-in-use using estimated cash flows, which are in turn derived from sales forecasts adopted by the Management Board. The sales forecasts cover a period of five years. A growth rate is determined for each product based on market analyses. A risk-adjusted discount factor of 4% is applied to the estimated cash flows.

Customer List SphereDesign GmbH

In the course of the business combination with SphereDesign GmbH, completed with effect from January 1, 2015, the company identified a customer base as an intangible asset. This represents contractually agreed customer relationships that meet the criteria for recognition pursuant to IAS 38.8 et seq. The acquisition costs for the customer base of SphereDesign GmbH amounted to € 2,565 thousand. This item is recognized under “Licenses, patents, software/customer lists.” In accordance with IAS 38, the customer list was classified as an intangible asset without a finite useful life of seven years. In the year under review, an adjustment of the purchase price of SphereDesign GmbH was agreed with the sellers.

The movement on the customer list was as follows:

In € thousands	
Customer list Jan. 1, 2017	2,052
Amortization in fiscal year	- 411
Carrying amount as of Dec. 31, 2017	**1,641**

Customer List / Technology paragon movasys GmbH

As part of the purchase price allocation of paragon movasys GmbH, the Group has identified a customer list and technology as an intangible asset. The customer list will be amortized on a straight-line basis over 12 years starting on 1 December 2017. The technology will be amortized on a straight-line basis over 10 years from 1 December 2017 onwards.

The movement on the customer list was as follows:

In € thousands	
Customer list Dec. 1, 2017	4,209
Amortization in fiscal year	- 29
Carrying amount as of Dec. 31, 2017	**4,180**

The movement of the technology was as follows:

In € thousands	
Technology Dec. 1, 2017	3,288
Amortization in fiscal year	- 27
Carrying amount as of Dec. 31, 2017	**3,261**

(21) Goodwill

In accordance with IFRS 3 (Business Combinations) and the two standards revised in this respect, namely IAS 36 (Impairment of Assets) and IAS 38 (Intangible Assets), goodwill and internally generated intangible assets whose production is not yet complete are subject to regular impairment tests.

This involves goodwill and internally generated intangible assets whose production is not yet complete being tested for potential impairment once a year. In addition, the impairment test is also to be performed more frequently should any events or changes in circumstances indicate that a potential impairment has occurred.

The impairment tests performed at the paragon Group involve comparing the residual carrying amounts of individual cash-generating units (CGUs) with their respective recoverable amounts, i.e., the higher of their fair value less costs to sell and their value in use. Where the carrying amount of the cash-generating unit is higher than its recoverable amount, an impairment loss is recognized in the amount of the respective difference. The recoverable amount is determined by calculating the value in use by means of the discounted cash flow method. The cash flows used to calculate the value in use are determined on the basis of management's medium-term planning. These budgets are based on past experience and on expectations as to future market developments, taking account of strategic and operative measures already initiated to manage the respective business field. The detailed planning period is usually a period of five years.

The cost of capital is calculated as the weighted average of equity and debt capital costs (weighted average cost of capital – WACC). Equity costs are derived from a peer group analysis of the relevant market sector, i.e., information that can be obtained from capital markets. To account for the different return and risk profiles of our different fields of activity, we calculate individual cost of capital rates for our companies (CGUs). The weighted average cost of capital, i.e., WACC before taxes used to discount cash flows, amounted to 4.0% (prior year: 4.0%).

Goodwill for SphereDesign GmbH amounted to € 843 thousand as of the reporting date (prior year: € 843 thousand).

Goodwill in the course of the paragon movasys GmbH transaction amounted to € 6,567 thousand as of the balance sheet date.

(22) Property, Plant and Equipment

Depreciation in the reporting period amounted to € 4,999 thousand (prior year: € 4,532 thousand). Land and buildings are subject to property charges as collateral for long-term bank loans.

Certain items of movable noncurrent assets are financed by finance leases. Generally, these leases have terms of four to five years. The corresponding payment obligations for future lease installments are recognized as liabilities. The net carrying amount of assets capitalized under financial leases amounted to € 2,077 thousand as of December 31, 2017 (prior year: € 2,849 thousand). The corresponding payment obligations for future lease installments amounted to € 2,469 thousand (prior year: € 3,213 thousand) and are recognized as liabilities at their present value. The capitalized assets under finance leases wholly relate to technical plants and machinery. The majority of these lease arrangements provide for the transfer of ownership without further payments after full settlement of all obligations during the basic lease period (full amortization). No firm agreements have been entered into concerning the further use of the leased assets following expiry of the basic lease period. Nevertheless, paragon assumes that the leased assets can be acquired at a favorable price after the basic lease period has expired or may continue to be used at a favorable lease rate.

Advance payments for machinery and equipment amounting to € 553 thousand were made in the reporting year (prior year: € 3,913 thousand).

The loss on disposal of property, plant and equipment amounted to € 432 thousand (prior year: € 307 thousand).

(23) Financial Assets

Under a purchase and assignment agreement dated February 18, 2015, paragon AG acquired the entire share capital of SphereDesign GmbH, Bexbach, for an acquisition price of € 3,015 thousand. The acquisition was effective from January 1, 2015. This company is an established development service provider and system supplier to the automotive industry in the control and display element sector. A portion of the total purchase price amounting to € 1,796 thousand is payable in installments in the following two years and has therefore been recognized within other liabilities. paragon AG and Sphere Design GmbH entered into a profit and loss transfer agreement on March 20, 2015, taking effect as of January 1, 2016. In the annual financial statements as of December 31, 2017, the company reported equity of € 274 thousand (prior year: € 274 thousand) and net income before profit and loss transfer of € 42 thousand (prior year: net loss before profit and loss transfer of € 46 thousand).

Revenue of € 4,203 thousand generated by SphereDesign GmbH is included in the paragon Group’s consolidated financial statements for the reporting year. Since the date of initial consolidation (January 1, 2015), the acquired company has contributed a net loss of € -778 thousand to the paragon Group. This includes the impact on earnings of the amortization of intangible assets acquired as part of the business combination (€ -1,170 thousand) and associated deferred taxes (€ 392 thousand).

productronic GmbH, Delbrück, was formed on November 25, 2015. The object of the company is to manufacture electronic and mechanical components, particularly for use in automobile production. paragon AG holds 100% of the shares in productronic GmbH. In the annual financial statements as of December 31, 2017, the company reported equity of € 7,819 thousand (prior year: € 7,819 thousand) and net income before transfer of profit of € 314 thousand (prior year: net loss of € 1,693 thousand).

paragon Automotive (KunShan) Co., Ltd. was formed on September 15, 2015. The object of the company is to manufacture and market paragon products for the Chinese market. Production activities at the new plant in the “German Industrial Park” were launched on November 4, 2015. paragon AG holds 100% of the shares in paragon Automotive (KunShan) Co., Ltd. In the annual financial statements as of December 31, 2017, the company reported equity of € 1,324 thousand (prior year: € 723 thousand) and a net loss of € -896 thousand (prior year: € -1,181 thousand).

On July 29, 2013, the share capital of KarTec GmbH, Forchheim, was acquired for an acquisition price of € 1,036 thousand following the exercise of a put option subject to conditions precedent set out in the purchase agreement. The parties agreed that the purchase price would be offset against a receivable of paragon AG in connection with a loan granted. In the annual financial statements as of December 31, 2017, the company reported equity of € 27 thousand (prior year: € 221 thousand) and net loss of € -9 thousand (prior year net income: € 194 thousand).

paragon Automotive Technology Co. Ltd., Shanghai commenced operations in 2013. The full license applied for under Chinese law was granted on January 3, 2014. In the annual financial statements as of December 31, 2017, the company reported equity of € 35 thousand (prior year: € 44 thousand) and net loss of € -7 thousand (prior year net income: € 14 thousand).

With a shareholders' resolution of December 19, 2017 and entry in the commercial register on 18 May 2017, Voltabox Deutschland GmbH was renamed Voltabox AG.

By resolution of the Annual General Meeting on September 6, 2017, the shareholders of the company decided to increase the share capital against contribution in kind by € 9,900,000.00 to € 10,000,000.00. The contribution in kind was made in the form of an assignment of a claim from paragon AG to Voltabox AG.

The Annual General Meeting of Voltabox AG on September 22, 2017 resolved to increase the share capital by up to € 5,000,000,000 by issuing up to 5,000,000 no-par-value bearer shares with a pro rata amount of the share capital of € 1.00 each.

Due to the authorization granted by resolution of the Annual General Meeting on September 22, 2017 - Authorized Capital 2017 - the capital stock of Voltabox AG was increased by € 825,000.00 through the issue of 825,000 no-par-value bearer shares.

As part of the IPO of Voltabox AG, paragon AG sold 39.97% of the shares in this company on the capital market. The initial listing of the share took place on October 13, 2017 and the shares are listed under the code number A2E4LE. The sale took place in three tranches and includes the 5,000,000 and 825,000 new no-par-value bearer shares from the two capital increases in 2017. paragon AG has sold a further 500,000 shares on the capital market from its stock of shares. The transaction costs amounted to € 8,835 thousand and were offset against the profit carried forward without effect on income.

paragon AG holds 60.03% of the shares of Voltabox AG. Effective January 1, 2015, a profit and loss transfer agreement was concluded on April 23, 2014 between paragon AG and Voltabox AG. Following the conversion of Voltabox Deutschland GmbH into Voltabox AG and the inclusion of minority shareholders in the IPO on October 13, 2017, the contract expires on December 31, 2017 in accordance with Section 307 AktG. In the annual financial statements as of December 31, 2017, paragon AG made the net loss in the amount of € -9,930 thousand (prior year: € 4,449 thousand). As at December 31, 2017, the company's equity amounted to € 149,905 thousand (previous year: € 205 thousand).

paragon AG has assumed joint and several guarantees with respect to Voltabox Deutschland GmbH in the amount of EUR 5,503 thousand.

Voltabox of Texas, Inc., Austin, was formed on December 18, 2013. Since 2014, the company has been responsible for manufacturing and marketing activities for the Electromobility segment in the U.S. market. Voltabox AG holds 100 % of the shares in Voltabox of Texas, Inc., which is in turn a subsidiary of paragon AG. In the annual financial statements as of December 31, 2017, the company reported equity of € -10,553 thousand (prior year: € -6,378 thousand) and a net loss of € -5,195 thousand (prior year: € -2,526 thousand).

With a notarized agreement dated November 24, 2017, paragon AG with economic effect (profit-sharing rights) as of January 1, 2017 acquired all shares in paragon movasys GmbH, Landsberg am Lech, for a price of € 15,158 thousand. The company is an established development service provider and system supplier for the automotive industry in the field of kinematics. The purchase price was paid in full on November 24, 2017.

In the reporting year, paragon movasys GmbH reported revenues of € 1,723 thousand in the paragon Group. In the annual financial statements as of December 31, 2017, the company reported equity of € 1,978 thousand and a net income of € 743 thousand. The acquired business has increased since the date of first-time consolidation (December 1, 2017) in the 2017 financial year, including the effects on earnings from the scheduled amortization of intangible assets (€ -57 thousand) acquired as part of the business combination and the related deferred taxes (€ 15 thousand), and contributed a net profit of € 701 thousand to the paragon Group.

In addition, paragon AG holds a limited partnership interest with a capital share of € 100 thousand in the limited partnership Bilster Berg Drive Resort GmbH & Co. KG, whose registered office is in Bad Driburg, Germany. This was acquired on September 19, 2013, for a price of € 120 thousand.

(24) Inventories

Inventories consist of the following:

In € thousands	Dec. 31, 2017	Dec. 31, 2016
Raw materials and supplies	9,242	5,764
Work in progress and finished goods and services	7,870	7,060
Advance payments on inventories	232	892
Inventories	**17,344**	**13,716**

There was no extraordinary impairment on inventories in the reporting period or in the prior year. In addition, no reversals were recognized in the reporting period, as in the prior year. Inventories with a carrying value of € 858 thousand were written down in the reporting period, primarily relating to salvage inventories and inventories of spare parts (prior year: € 343 thousand). At the balance sheet date, inventories of € 0 thousand served as collateral for liabilities (prior year: € 0 thousand).

(25) Trade Receivables

The carrying value of trade receivables is derived as follows:

In € thousands	Dec. 31, 2017	Dec. 31, 2016
Trade receivables, gross	32,933	8,492
Less impairment losses	- 271	- 115
Trade receivables	32,662	8,377

The maturity structure of trade receivables for which no impairment allowances have been recorded as of the balance sheet date is as follows:

In € thousands	Carrying amount	thereof neither impaired nor past due	thereof past due but not impaired, as follows			
Dec. 31, 2017			0 - 30 days	30 - 60 days	60 - 90 days	> 90 days
Trade receivables	32,631	23,440	6,958	563	483	1,178
Dec. 31, 2016			0 - 30 days	30 - 60 days	60 - 90 days	> 90 days
Trade receivables	8,343	6,114	480	320	51	1,378

There were no indications as of the balance sheet date that debtors with receivables that are neither impaired nor overdue will fail to meet their payment obligations.

Based on this information, the movement on allowances against receivables was as follows:

In € thousands	Dec. 31, 2017	Dec. 31, 2016
Impaired receivables before allowances for losses	302	149
Allowances for losses	- 271	- 115
Impaired receivables before allowances for losses	31	34

The expense arising on recording impairment losses and on derecognition of trade receivables is reported within other operating expenses. Income from receipts for derecognized receivables is reported under other operating income. There were no write-downs or derecognition of other financial assets in the reporting period or in the prior year.

(26) Other Current Assets

Other current assets were as follows:

In € thousands	Dec. 31, 2017	Dec. 31, 2016
Other current assets		
Purchase price retention related to factoring arrangements	1,280	1,110
Deferred income	284	189
Creditors with debit balances	765	267
Other assets	1,878	583
Other current assets	4,206	2,149

The overdue amounts included in other current assets as of the balance sheet date were as follows:

In € thousands	Carrying amount	thereof neither impaired nor past due	thereof past due but not impaired, as follows			
Dec. 31, 2017			0 - 30 days	30 - 60 days	60 - 90 days	> 90 days
Other current assets	4,206	4,206	0	0	0	0
Dec. 31, 2016			0 - 30 days	30 - 60 days	60 - 90 days	> 90 days
Other current assets	2,149	2,149	0	0	0	0

As of December 31, 2017, there were no indications that significant amounts included in other current assets would not be collectible.

(27) Cash and Cash Equivalents

Cash on hand and bank deposits are recognized at their nominal amounts. Cash and cash equivalents include € 35 thousand (prior year: € 14 thousand) in cash on hand and € 145,791 thousand (prior year: € 14,264 thousand) in bank deposits. Cash and cash equivalents include, among other items, an amount of € 0 thousand held on the insolvency escrow account (prior year: € 626 thousand) and an amount of € 37 thousand on the insolvency dividend payout account (prior year: € 1,454 thousand). Both accounts are under the sole power of disposal of the former insolvency administrator. Changes in cash and cash equivalents are presented in the consolidated cash flow statement.

(28) Equity

The changes in the individual components of equity for the fiscal year from January 1 to December 31, 2016, and for the reporting period from January 1 to December 31, 2017, are presented in the consolidated statement of changes in equity.

Subscribed Capital

paragon AG's subscribed capital as of December 31, 2017, amounted to € 4,526 thousand (prior year: € 4,526 thousand) and is divided into 4,526,266 no-par-value shares with a notional share in the share capital of € 1.00 each. By resolution of the Annual General Meeting on May 9, 2012, and pursuant to Section 207 et seq. of the German Stock Corporation Act (AktG) governing capital increases from capital funds, the company's subscribed capital was increased to € 5,143,485 by transferring an amount of € 1,028,697 from the capital reserve, as reported in the balance sheet as of December 31, 2011, to subscribed capital. The increase in the subscribed capital was made without new shares being issued, but instead by increasing the notional share in the company's subscribed capital attributable to each share. Subsequently, in order to effect a repayment of a portion of the subscribed capital to the company's shareholders by means of a cash distribution of € 0.25 per share currently in issue, and pursuant to Section 222 et seq. of the German Stock Corporation Act (AktG) concerning ordinary capital reductions, the subscribed capital was reduced by € 1,028,697 from € 5,143,485 to € 4,114,788, divided into 4,114,788 no-par-value shares with a notional share in capital of € 1.25 each. The capital reduction was effected by reducing the notional share in the company's subscribed capital attributable to each share. The payment of the capital reduction amount totaling € 1,028,697 was made following registration of the capital reduction, which was completed on January 3, 2013. Under partial utilization of the authorized capital resolved by the Annual General Meeting on April 27, 2016, and with the consent of the Supervisory Board, the Management Board increased the company' share capital by € 411,478.00 to a total value of € 4,526,266.00 on October 5, 2016, via the issue of 411,478 new no-par-value shares with a notional share in capital of € 1.00 each and full entitlement to dividends from January 1, 2016.

Exchange rate differences arising from the translation of financial statements prepared in foreign currencies and on exchange rate differences arising during consolidation were recognized directly in equity in accordance with IAS 21.

Conditional Capital

Conditional Capital 2017/I according to the resolution at the Annual General Meeting from May 10, 2017

A resolution at the Annual General Meeting from May 10, 2017, approved the conditional increase in the subscribed capital of up to € 2,263,133.00 by issuing 2,263,133 new no-par-value shares (Conditional Capital 2017/I).

The conditional capital was created exclusively to grant shares to holders or creditors of convertible bonds and/or bonds with options that are issued by the company (or by a Group company as defined in Section 18 of the German Stock Corporation Act (AktG), in which the company has a shareholding of at least 90%) pursuant to the authorization by the Annual General Meeting on May 10, 2017, against contributions in cash or in kind until May 9, 2022. In accordance with the respective terms and conditions for convertible bonds and bonds with options, the conditional capital increase also serves to issue shares to holders of convertible bonds and/or bonds with options subject to conversion or option obligations.

The conditional capital increase shall only be implemented to the extent that the holders of warrants from options or creditors of convertible bonds exercise their conversion or option rights, or the holders or creditors of convertible or warrant-linked bonds who are obligated to exercise or convert the option or warrant-linked bonds fulfill their obligation to exercise or convert the option or warrant-linked bonds, provided that the conversion or option rights are not serviced by granting treasury stock or other forms of settlement. These rights must have been issued by the company (or by a Group company as defined in Section 18 of the German Stock Corporation Act (AktG), in which the company has a direct or indirect shareholding of at least 90%) based on the authorization granted by the Annual General Meeting, which lasts from May 10, 2017, through May 9, 2022. The new shares shall be issued at the conversion/option prices in the bond or option conditions to be determined in accordance with the aforementioned authorizing resolution. The new shares may be granted a dividend entitlement starting in the fiscal years for which the Annual General Meeting has not yet passed a resolution on the appropriation of profits. The Management Board is authorized to determine the further details regarding the implementation of the conditional capital increase.

Authorized Capital 2017/I according to the resolution at the Annual General Meeting from May 10, 2017

With the resolution of the Annual General Meeting on May 10, 2017, the Management Board is authorized, with the consent of the Supervisory Board, to increase the company's share capital once or several times by up to € 2,263,133.00 until May 9, 2022, inclusive, via the issue of up to 2,263,133 new no-par-value shares against contribution in cash and/or in kind (Authorized Capital 2017/I).

Shareholders are to be granted a subscription right. The statutory subscription right may also be granted by having the new shares taken over by a banking consortium with the obligation to offer the shares indirectly to shareholders for subscription pursuant to Section 186 (5) of the German Stock Corporation Act (AktG). The Management Board is, however, authorized (with the consent of the Supervisory Board) to exclude the statutory subscription rights of shareholders in the cases specified in Section 5 (6) of the Articles of Association as updated in May 2017.

Capital Reserve

The capital reserve amounted to € 15,165 thousand as of December 31, 2017 (prior year: € 15,165 thousand). Pursuant to Sections 207 et seq. of the German Stock Corporation Act (AktG) concerning capital increases from capital reserve and based on a resolution adopted by the Annual General Meeting on May 9, 2012, the company's share capital was increased by transferring an amount of € 1,029 thousand from the capital reserve as reported in the balance sheet as of December 31, 2011.

The capital reserve increased in the fiscal year 2016 by € 12,715 thousand to € 15,165 thousand as a result of the successful placement of 411,478 new no-par-value shares under partial utilization of the authorized capital approved by the Annual General Meeting on April 27, 2016.

Reavulation Reserve

In order to comply with the requirement to recognize actuarial gains and losses from provisions for pensions directly in equity in accordance with the revised IAS 19 Employee Benefits, amounts of € 915 thousand are reclassified to the revaluation reserve. In the reporting period, an amount of € 7 thousand net of deferred taxes (prior year: € 142 thousand) was recognized in the revaluation reserve.

Dividends

A proposal will be submitted to the Annual General Meeting that a dividend of € 0.25 per share shall be paid for the period ending on December 31, 2017. The distribution volume will amount to € 1,132 thousand.

Minority Interests

Due to the initial public offering of Voltabox AG on October 13, 2017, minority interests are reported in the consolidated financial statements for the first time. The first-time valuation of minority interests took place on the basis of the consolidated financial statements of Voltabox. Subsequent to the IPO, the total equity of the Voltabox Group amounted to € 145,072 thousand before IPO transaction costs. The transaction costs amounted to € 8,835 thousand and were deducted from the equity of the Voltabox Group. Equity, which was reduced by the transaction costs, amounted to € 136,237 thousand and was multiplied by the minority interest of 39.97%. This resulted in a minority interest of € 54,452 thousand.

The profit attributable to the Voltabox Group amounted to € 9,692 thousand as of the balance sheet date. The portion of net income attributable to minority interests amounted to € 3,873 thousand. The portion of other comprehensive income attributable to minority interests amounted to € -407 thousand. The balance of net income and other income of € 3,466 thousand was allocated to minority interests.

(29) Finance Lease Obligations

Liabilities under finance leasing arrangements primarily relate to technical equipment and are recorded at their present value or amortized cost in accordance with IAS 17. The repayment obligations reported here are derived as follows:

In € thousands	Remaing term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	Dec. 31, 2017	Dec. 31, 2016
Minimum lease payments	1,129	1,445	0	2,574	3,394
Future interest payments	- 62	- 43	0	- 105	- 181
Liabilities from finance lease (repayment portion)	**1,067**	**1,402**	**0**	**2,469**	**3,213**
thereof reported under noncurrent liabilities				1,402	2,215
thereof reported under current liabilities				1,067	998

(30) Liabilities to Banks

Current and noncurrent liabilities to banks totaled € 20,938 thousand (prior year: € 32,782 thousand), and collateral for liabilities to banks was provided in the amount of € 20,938 thousand (prior year: € 32,782 thousand).

Liabilities to banks are secured by property charges for loan liabilities in the amount of € 16,600 thousand (prior year: € 16,818 thousand) and by charges over property, plant and equipment of € 4,202 thousand (prior year: € 5,127 thousand). The collateralization of raw materials and supplies and of work in progress and finished products dated June 16, 2010, was ended in August 2014.

Liabilities to banks mature as follows:

In € thousands	Remaing term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	Dec. 31, 2017	Dec. 31, 2016
Liabilities to banks	**4,588**	**13,568**	**2,782**	**20,938**	**32,782**
thereof reported under noncurrent liabilities				16,350	20,369
thereof reported under current liabilities				4,588	12,413

There is no exposure to interest rate risk for the loans with fixed interest rates. Loans with floating interest rates (€ 3,239 thousand) are subject to interest rate risk (see note 17 Interest Rate Risks).

(31) Bonds

The company made a public bond subscription offer in 2013 in order to promote its further internationalization and to expand its existing business activities. A total volume of € 10,000 thousand was placed with retail and institutional investors. The term bond has a maturity date of July 2, 2018. In 2014, the company placed a further tranche of € 3,000 thousand of the corporate bond previously issued in

2013. This tranche also has a maturity date of July 2, 2018. The transaction costs of € 790 thousand incurred in connection with the two placements are being amortized over the term of the bond using the effective interest method in accordance with IAS 39.47.

On June 28, 2017, the company issued a non-subordinated and unsecured bearer bond with a nominal value of € 50,000 thousand. The bond is listed and traded on the Open Market of the Frankfurt Stock Exchange (WKN: A2GSB8). The term bond has a term from July 05, 2017, to July 5, 2022. The transaction costs of € 1,713 thousand incurred in connection with the two placements are being amortized over the term of the bond using the effective interest method in accordance with IAS 39.47. The carrying amount of the bond at the balance sheet date amounted to € 49,566 thousand and the pro rata interest expense in the fiscal year 2017 amounts to € 1,125 thousand.

(32) Provisions for Pensions

paragon recognizes a provision for a defined benefit pension plan in accordance with the revised IAS 19 Employee Benefits. This relates to a single contractual commitment to the payment of a fixed amount from age 65 based on an individual contract arrangement. In addition to this existing pension agreement, a new commitment was made in fiscal year 2005. This involves a single contractual commitment to payments from age 65, the amount of which is based on length of employment and salary level. Provisions exist for pension commitments to members of the Management Board. In accordance with a resolution approved by the Supervisory Board on August 31, 2009, a portion of provisions for pensions amounting to € 794 thousand and the corresponding plan assets of € 1,425 thousand were transferred to HDI Gerling Pensionsfonds in fiscal year 2010. In accordance with a resolution approved by the Supervisory Board on December 10, 2013, another partial transfer of provisions for pensions to Allianz Pensionsfonds AG was effected in the amount of € 1,453 thousand during fiscal year 2013.

In June 2011, the IASB issued a revised version of IAS 19 requiring mandatory application in fiscal years beginning on or after January 1, 2013. The company decided to apply the amended standard early on a voluntarily basis and to account for provisions for pensions in accordance with the revised standard from fiscal year 2012. The key change is the elimination of the previously permitted accounting option to defer the recognition of actuarial gains and losses using the corridor method, and the related introduction of the full recognition directly in equity in retained earnings. The changes to the new rules have to be made retrospectively in accordance with IAS 8.22, with any adjustments recognized directly in equity. To comply with the requirement to recognize actuarial gains and losses directly in equity, the amounts recorded in profit or loss in earlier years were reclassified from profit/loss carried forward to the revaluation reserve.

An actuarial loss of € -7 thousand was recognized in other comprehensive income (prior year: loss of € -142 thousand).

The actuarial calculations are based on the following assumptions:

In Percent	Dec. 31, 2017	Dec. 31, 2016
Discount rates	1.50	1.50
Expected return on plan assets	0.00	0.00
Salary increase (recommitment based on individual contracts until 2009, 0% thereafter)	0.00	0.00
Pension increase	2.00	2.00
Fluctuation	0.00	0.00

As a result of the transaction of paragon movasys GmbH as of November 24, 2017, a pension obligation of € 703 thousand and plan assets of € 469 thousand were assumed. The balance sheet value as at the balance sheet date was € 234 thousand. For reasons of simplification, the accounting for the effects on earnings for December 2017 was waived due to the first-time consolidation as of December 1, 2017.

Actuarial gains or losses may arise from increases or decreases in the present value of the defined benefit obligations. These may be brought about by, among other things, changes in calculation parameters and changes in estimates of the risks related to the pension obligations, and may impact on the level of equity. The net pension provisions have been calculated as follows:

Present value of the defined benefit obligation:

In € thousands	Dec. 31, 2017	Dec. 31, 2016
Present value of defined benefit obligation at beginning of year	2,516	2,087
Initial consolidation of paragon movasys GmbH – in equity –	703	0
Service cost	203	185
Interest cost	38	41
Actuarial gains (-), losses (+)	10	203
Present value of defined benefit obligation as of record date	3,470	**2,516**

The actuarial losses incurred in fiscal year 2017 were recognized directly in equity in the revaluation reserve in accordance with the revised IAS 19. Changes in demographic assumptions had no effect on the level of actuarial losses in the reporting year.

Net amount of defined benefit obligation recognized for which there are no corresponding plan assets:

In € thousands	Dec. 31, 2017	Dec. 31, 2016
Present value of defined benefit obligation	3,470	2,516
Less fair value of plan assets	469	0
Unfunded defined benefit obligation as of record date	**3,001**	**2,516**

Movements on the net amount were as follows:

In € thousands	Dec. 31, 2017	Dec. 31, 2016
Unfunded defined benefit obligation at beginning of year	2,516	2,087
Pension expense	241	226
Actuarial gains (-), losses (+)	10	203
Initial consolidation of paragon movasys GmbH – in equity –	234	0
Unfunded defined benefit obligation as of record date	**3,001**	**2,516**

The following amounts have been recognized in the consolidated statement of comprehensive income:

In € thousands	Dec. 31, 2017	Dec. 31, 2016
Service cost	203	185
Interest cost	38	41
Losses from settlements	0	0
Actuarial gains (-), losses (+)	10	203
Pension expense	**251**	**429**

The actuarial gains and losses in the reporting year and prior years were classified in full to other comprehensive income.

In past years the financing status, consisting of the present value of all pension commitments and the fair value of plan assets, changed as follows:

In € thousands	Dec. 31, 2017	Dec. 31, 2016
Present value of defined benefit obligation	3,470	2,516
Less fair value of plan assets	469	0
Unfunded defined benefit obligation as of record date	**3,001**	**2,516**

Disclosures on sensitivities and risks:

In € thousands	Dec. 31, 2017	Dec. 31, 2016
DBO as of Dec. 31., 2016, interest rate 1.25% (prior year: interest rate 1.75%)	3,114	2,625
DBO as of Dec. 31., 2016, interest rate 1.75% (prior year: interest rate 2.25%)	2,895	2,414
DBO as of Dec. 31., 2016, pension increase 1.75% (prior year: pension increase 1.75%)	2,898	2,423
DBO as of Dec. 31., 2016, pension increase 2.25% (prior year: pension increase 2.25%)	3,110	2,615

Salary increase sensitivities have not been disclosed as there have been no such salary increases since the 2010 service period. There are no material extraordinary or company-specific risks in connection with the provisions for pensions reported.

(33) Other Liabilities

Other liabilities were as follows:

In € thousands	Dec. 31, 2017	Dec. 31, 2016
Other liabilities		
Financial liabilities		
Deferred income	5,221	3,272
purchase price liabilities for company acquisition (discounted)	0	886
Old debt measured at insolvency ratio	37	1,454
Other liabilities	780	65
	6,037	5,677
Liabilities from other taxes	3,606	455
Other liabilities	**9,643**	**6,132**

Deferrals mainly contain personnel-related obligations.

Other liabilities mature as follows:

In € thousands	Remaing term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	Dec. 31, 2017	Dec. 31, 2016
Other liabilities	9,643	0	0	9,643	6,132
thereof reported under noncurrent liabilities				0	0
thereof reported under current liabilities				9,643	6,132

(34) Special Item for Investment Grants

This represents investment grants recorded as deferred income in accordance with IAS 20. An amount of € 88 thousand (prior year: € 90 thousand) was amortized in the reporting period. The Group received government assistance of € 0 thousand in the reporting period (prior year: € 10 thousand) and disclosed a special item for investment grants of € 1,005 thousand (prior year: € 1,092 thousand) as a noncurrent liability in the consolidated balance sheet.

(35) Other Provisions

Other provisions are all due within one year. The movements on the provisions were as follows:

In € thousands	Jan. 1, 2017	Acqui sition	Utili-zation	Re-versal	Ad-dition	Dec. 31, 2017
Guarantees and ex gratia payments	18	102	0	1	101	220
Other provi-sions	18	102	0	1	101	220

(36) Income Tax Liabilities

This item relates exclusively to liabilities for trade tax and corporate income tax in respect of prior reporting periods.

(37) Additional Disclosures on Financial Instruments

This section provides an overview of financial instruments in use at paragon AG. The tables below show the carrying amounts (CA) and fair values (FV) of financial assets and financial liabilities as of December 31, 2017 and December 31, 2017:

	Dec. 31, 2017			
	Nominal amount		Amortized cost	
	Cash reserve		Loans and receivables	
In € thousands	CA	FV	CA	FV
ASSETS				
Liquid funds	145,826	145,826		
Trade receivables			32,662	32,662
Other assets			4,206	4,206
Positive fair values of derivative financial instruments				
Financial assets				
Total assets	**145,826**	**145,826**	**36,868**	**36,868**
EQUITY AND LIABILITIES				
Bonds			62,929	63,122
Liabilities to banks			20,938	22,089
Finance Lease			2,469	2,451
Trade payables			17,492	17,492
Other liabilities			9,643	9,643
Total equity and liabilities	**0**	**0**	**113,471**	**114,797**

	Dec. 31, 2016			
	Nominal amount		Amortized cost	
	Cash reserve		Loans and receivables	
In € thousands	CA	FV	CA	FV
ASSETS				
Liquid funds	14,278	14,278		
Trade receivables			8,377	8,377
Other assets			2,149	2,149
Total assets	**14,278**	**14,278**	**10,526**	**10,526**
EQUITY AND LIABILITIES				
Bonds			13,186	13,793
Liabilities to banks			32,782	34,447
Finance Lease			3,213	3,225
Trade payables			16,383	16,383
Other liabilities			6,132	6,132
Total equity and liabilities	**0**	**0**	**71,696**	**73,980**

Determining Market Values

The market value of cash and cash equivalents, current receivables, other assets, trade payables and other liabilities approximate their carrying amounts due to their short term to maturity.

paragon measures noncurrent receivables and other assets based on specific parameters such as interest rates and the customer's credit standing and risk structure. Based on these factors, paragon recognizes allowances for anticipated defaults on receivables.

paragon determines the fair value of liabilities under finance leases, bonds, and the fair value of liabilities to banks by discounting the anticipated future cash flows using the interest rates applicable for similar financial liabilities with a comparable term to maturity.

A hierarchical classification was used to measure fair value in accordance with IAS 39.A71 et seq. The hierarchical fair value levels and their application to paragon's financial assets and liabilities are as follows:

Level 1: Quoted prices for identical assets or liabilities in active markets

Level 2: Measurement factors other than quoted market prices that are directly (for instance, from prices) or indirectly (for instance, derived from prices) observable for assets or liabilities

Level 3: Measurement factors for assets and liabilities not based on observable market data

Net Gains and Losses

Realized net gains and losses from financial instruments were as follows:

In € thousands	Dec. 31, 2017	Dec. 31, 2016
Receivables	- 7	- 93
Net gains / losses	- 7	- 93

The net gain/loss from receivables includes changes in impairment allowances, gains and losses from derecognition as well as payment inflows and reversals of impairment losses on receivables previously written down, which were recorded in profit or loss in the consolidated statement of comprehensive income.

Derivative Financial Instruments

In addition to primary financial instruments, paragon also makes use of various derivative financial instruments as needed. As part of its risk management process, the company primarily uses derivative financial instruments to limit the risks associated with interest rate and exchange rate fluctuations. Further information on risk management strategies can be found in the section entitled "Management of Risks Associated with Financial Instruments." The company only enters into derivative financial instruments with financial institutions of the very highest credit standing.

Derivative Financial Instruments Used for Currency Hedging Purposes

As a result of the international nature of its activities, paragon is exposed to a number of financial risks. These include, in particular, the effects of changes in foreign exchange rates. paragon takes an integrated approach in hedging the risks associated with fluctuating exchange rates. Risks are centralized across the business and hedged where appropriate using derivative financial instruments. If necessary, paragon enters into forward exchange contracts as part of the hedging process. The company had no derivative financial instruments for currency hedging as of December 31, 2017.

Derivative Financial Instruments Used for Interest Rate Hedging Purposes

Interest rate risk results from the sensitivity of financial liabilities to changes in the market interest rate. paragon generally hedges these risks with the use of interest rate derivatives. The Group uses over-the-counter interest rate swaps to hedge interest rates. The transactions are exclusively entered into with banks of very high credit-worthiness. If the trade date and settlement date do not coincide, then initial recognition is based on the settlement date.
When hedging a potential interest rate risk, the company adopts an approach specific to the variable interest rate of the respective individual financial liabilities. Accordingly, swap contracts are tailored to the specific amounts and maturity of the variable-rate borrowings hedged. The Group does not apply hedge accounting as defined in IAS 39.85. The company had no derivative financial instruments for interest rate hedging as of December 31, 2017, or in the prior year.

(38) Management of Risks Associated with Financial Instruments

Market price fluctuations can involve substantial cash flow and profit risks for paragon. Changes in exchange rates and interest rates influence business operations as well as investing and financing activities. In order to optimize the Group's financial resources, the risks associated with changes in interest rates and exchange rates are analyzed on an ongoing basis and used to manage and supervise current business and financial market activities. These risks are managed with the assistance of derivative financial instruments.

Fluctuations in currency exchange rates and interest rates can result in significant profit and cash flow risks. Accordingly, paragon centralizes these risks as far as possible and manages them in a proactive manner, which includes making use of derivative financial instruments. The management of these risks within the overall risk management system is a core responsibility of paragon AG's Management Board.

paragon has implemented an internal sensitivity analysis system based on a variety of risk analysis and risk management methods. The use of sensitivity analyses enables the Group to identify risk positions within the segments. Sensitivity analyses quantify the risks that can arise within given assumptions when certain parameters are changed in a defined range. They include the following assumptions:

- An appreciation of the euro against all foreign currencies by 10 percentage points
- A parallel shift in interest rate curves of 100 basis points (one percentage point)

The potential effects of the sensitivity analysis are estimates and are based on the assumption that the supposed negative market changes will occur. The actual effects may differ significantly if market developments deviate from assumptions made.

Foreign Currency Risks

Due to the international nature of its operations, paragon's ongoing business operations are exposed to foreign currency risk. The company uses derivative financial instruments to limit these risks. Exchange rate fluctuations can lead to undesirable earnings and liquidity fluctuations. For paragon, the risk arises on foreign currency positions and possible changes in the relevant exchange rates. The uncertainty involved in future trends is referred to as exchange rate risk. paragon limits this risk by primarily settling purchases and sales of merchandise and services in the respective local currencies.

The sensitivity to potential fluctuations in foreign currency exchange rates is determined by aggregating the net currency positions of the operating business that are not denominated in the Group's functional currency. Sensitivity is calculated by simulating a 10% depreciation of the euro in relation to all foreign currencies. The simulated appreciation of the euro would have resulted in a change in future payment inflows in the amount of € -238 thousand as of December 31, 2017 (prior year: € -172 thousand). To the extent that future purchases are not hedged against currency exchange risks, a depreciation of the euro against other currencies would have a negative effect on the financial position and earnings as the Group's purchases in foreign currencies exceed its foreign currency cash inflows.

The following table provides an overview of the net foreign currency exchange risk by currency as of December 31, 2017:

In € thousands	Dec. 31, 2017		Dec. 31, 2016	
	USD	Other	USD	Other
Transaction-related currency risk				
Currency risk from balance sheet items	- 2,215	- 37	- 1,261	- 289
Currency risk from pending transactions	0	0	0	0
	- 2,215	- 37	- 1,261	- 289
Items economically hedged by derivatives	0	0	0	0
Net exposure to currency risk	**- 2,215**	**- 37**	**- 1,261**	**- 289**
Change in currency exposure from 10% appreciation of the euro	- 234	- 4	- 140	- 32

Interest Rate Risks

Interest rate risk refers to any change in interest rates that impacts earnings or equity. Interest rate risk primarily arises in connection with financial liabilities.

The interest-bearing financial liabilities mainly have fixed interest rates. Accordingly, changes in the interest rate would only have an effect if the financial instruments were recorded at fair value. As this is not the case, the financial instruments with fixed interest rates are not subject to interest rate risks within the meaning of IFRS 7.

The interest rate risks associated with variable-rate financial liabilities are measured using cash flow sensitivity techniques. The paragon Group had variable-rate financial liabilities of € 3,239 thousand as of December 31, 2017. A change in interest rates (+1%/-1%) is associated with the following cash flow risk:

Liquidity Risks

Liquidity risk, i.e., the risk that paragon might not be able to meet its payment obligations as they fall due, is managed by means of flexible cash management. As of December 31, 2017, paragon had cash and cash equivalents of € 145,826 thousand (prior year: € 14,278 thousand). Unused credit lines totaling € 18,000 thousand were available as of December 31, 2017 (prior year: € 4,501 thousand). In addition to the instruments providing assurance of liquidity described above, the Group follows developments on financial markets on an ongoing basis in order to take advantage of attractive financing opportunities as they become available.

In € thousands	Dec. 31, 2017		Dec. 31, 2016	
	+ 1%	- 1%	+ 1%	- 1%
Cash flow risk				
from financial instruments with floating interest rates	- 32	32	- 38	38

The following table shows the maturity date of installments, maturity repayments and interest arising on the financial liabilities recorded in the balance sheet as of December 31, 2017:

In € thousands	2018	2019 – 2022	2023 and thereafter
Non-derivative financial liabilities			
Liabilities from bonds	16,193	59,000	0
Liabilities to banks	5,383	15,113	2,880
Liabilities from finance lease	1,129	1,445	0
Trade payables	17,492	0	0
Other financial liabilities	9,643	0	0
Non-derivative financial liabilities	46,260	74,433	2,880

The net liquidity and net borrowing are derived from the sum of cash and cash equivalents less liabilities to banks and liabilities under finance leasing arrangements as shown in the balance sheet.

In € thousands	Dec. 31, 2017	Dec. 31, 2016
Cash and cash equivalents	145,826	14,278
Total liquidity	**145,826**	**14,278**
Current financial liabilities and current portion of noncurrent financial liabilities	19,018	13,411
Noncurrent financial liabilities	67,317	35,770
Total financial liabilities	**86,335**	**49,181**
Net debt	**59,491**	**- 34,903**

Credit Risks

Credit risk is defined as the financial loss that arises when a contract partner fails to meet its payment obligations. The maximum risk of default is therefore equal to the positive fair value of the respective interest rate instruments. The effective monitoring and control of credit risk is a core task of the risk management system. paragon performs credit checks for all customers requiring credit limits exceeding predefined amounts. The Group monitors credit risk on an ongoing basis.

(39) Capital Management

The primary goal of capital management is to maintain an appropriate equity ratio. The capital structure is managed and adapted to changing economic conditions. No significant changes in capital management goals, methods or processes were made in the fiscal year up to December 31, 2017.

Capital management refers exclusively to paragon AG equity as reported in the balance sheet. Changes in equity are shown in the statement of changes in equity.

paragon was not required to comply with any financial covenants by the terms of agreements made with banks providing loan capital during the reporting period up to December 31, 2017.

(40) Commitments, Contingent Assets, Contingent Liabilities and Other Financial Obligations

There were no commitments or off-balance sheet contingent assets or contingent liabilities as of December 31, 2017. Other financial liabilities are as follows:

In € thousands	Remaining term < 1 year	Remaining term between 1 and 5 years	Remaining term > 5 years	Dec. 31, 2017	Dec. 31, 2016
Order commitments	54,253	0	0	54,253	34,555
Tenancy obligations	1,232	1,189	0	2,421	2,310
Other obligations	1,798	4,364	92	6,254	5,234
Other financial obligations	**57,283**	**5,553**	**92**	**62,928**	**42,099**

The purchase commitment includes purchase order items from noncurrent assets and inventories.

(41) Consolidated Statement of Movements on Noncurrent Assets

Consolidated Statement of Movements on Noncurrent Assets as of December 31, 2017

	ACQUISITION COSTS							DEPRECIATION, AMORTIZATION AND IMPAIRMENT LOSSES							CARRYING AMOUNTS	
In € thousands	Jan. 1, 2017	Change currency	Additions	Additions from company acquisition	Disposals	Reclassific-ations	Dec. 31, 2017	Jan. 1, 2017	Change currency	Additions	Additions from company acquisition	Impairments according to IAS 36/38	Disposals	Dec. 31, 2017	Dec. 31, 2016	Dec. 31, 2017
Intangible assets																
Licences, patents, software, customer list	22,900	-44	473	10,928	0	1,312	35,568	20,840	2	1,365	292	0	0	22,499	2,061	13,070
Capitalized development costs	37,132	-374	16,075	0	0	0	52,834	4,207	77	3,026	0	5	0	7,315	32,926	45,518
Goodwill	843	0	0	6,567	0	0	7,410	0	0	0	0	0	0	0	843	7,410
Advance payments made or intangible assets	2,201	0	549	0	0	-1,312	1,439	0	0	0	0	0	0	0	2,201	1,439
Total intangible assets	**63,077**	**-418**	**17,097**	**17,495**	**0**	**0**	**97,251**	**25,046**	**79**	**4,391**	**292**	**5**	**0**	**29,814**	**38,031**	**67,437**
Property, plant and equipment																
Land and buildings	30,623	-793	223	256	0	3,427	33,736	9,395	-45	1,069	206	0	0	10,625	21,228	23,110
Technical equipment and machinery	32,324	-34	806	422	802	1,978	34,694	22,815	-100	2,999	367	0	383	25,698	9,510	8,996
Other plant, office furniture and equipment	13,675	-45	1,128	1,457	142	494	16,567	10,946	112	932	1,014	0	139	12,866	2,728	3,700
Advance payments	3,913	0	2,547	2	10	-5,899	553	0	0	0	0	0	0	0	3,913	553
Total property, plant and equipment	**80,535**	**-872**	**4,705**	**2,136**	**954**	**0**	**85,549**	**43,157**	**-32**	**4,999**	**1,587**	**0**	**522**	**49,189**	**37,378**	**36,360**
Financial assets																
Equity investments	326	0	0	0	0	0	326	0	0	0	0	0	0	0	326	326
Total financial assets	**326**	**0**	**0**	**0**	**0**	**0**	**326**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**326**	**326**
Total	**143,938**	**-1,290**	**21,802**	**19,631**	**954**	**0**	**183,126**	**68,203**	**47**	**9,390**	**1,880**	**5**	**522**	**79,003**	**75,735**	**104,123**

Note: Rounding differences of +/- one unit (€ thousands) may occur in tables.

Consolidated Statement of Movements on Noncurrent Assets as of December 31, 2016

In € thousands	Jan. 1, 2016	Change currency	Additions	Disposals	Re-classifications	Dec. 31, 2016	Jan. 1, 2016	Change currency	Additions	Impairments according to IAS 36/38	Disposals	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016
Intangible assets														
Licences, patents, software, customer list	23,398	9	528	0	- 1,034	22,900	19,824	- 113	1,128	0	0	20,840	3,574	2,061
Capitalized development costs	22,648	2	14,482	0	0	37,132	2,604	100	1,466	37	0	4,207	20,044	32,926
Goodwill	770	0	74	0	0	843	0	0	0	0	0	0	770	843
Advance payments made for intangible assets	340	0	911	0	950	2,201	0	0	0	0	0	0	340	2,201
Total intangible assets	**47,156**	**11**	**15,995**	**0**	**- 84**	**63,077**	**22,427**	**- 13**	**2,594**	**37**	**0**	**25,046**	**24,728**	**38,031**
Property, plant and equipment														
Land and buildings	29,947	230	361	0	85	30,623	8,412	44	939	0	0	9,395	21,535	21,228
Technical equipment and machinery	27,783	6	627	152	4,060	32,324	20,227	73	2,584	0	63	22,815	7,557	9,509
Other plant, office furniture and equipment	12,923	9	556	447	633	13,675	10,117	45	1,008	0	229	10,946	2,805	2,729
Advance payments	2,653	0	5,954	0	- 4,694	3,913	0	0	0	0	0	0	2,653	3,913
Total property, plant and equipment	**73,307**	**246**	**7,498**	**600**	**84**	**80,535**	**38,756**	**163**	**4,532**	**0**	**292**	**43,157**	**34,551**	**37,378**
Financial assets														
Equity investments	326	0	0	0	0	326	0	0	0	0	0	0	326	326
Total financial assets	**326**	**0**	**0**	**0**	**0**	**326**	**0**	**0**	**0**	**0**	**0**	**0**	**326**	**326**
Total	**120,788**	**257**	**23,493**	**600**	**0**	**143,938**	**61,183**	**149**	**7,126**	**37**	**292**	**68,203**	**59,605**	**75,735**

Note: Rounding differences of +/- one unit (€ thousands) may occur in tables.

(42) Notes to the Consolidated Cash Flow Statement

The consolidated cash flow statement shows the cash flows within a given fiscal year in order to present information about movements in the company's cash and cash equivalents in accordance with IAS 7 "Statement of Cash Flows". The consolidated cash flow statement has been prepared pursuant to the indirect method as defined in IAS 7.18 (b). Cash flows are classified separately as cash flows from operating activities, cash flows from investing activities and cash flows from financing activities.

The current cash inflows and outflows resulting from the factoring agreement have been allocated to the cash flow from operating activities.

The cash and cash equivalents shown in the consolidated cash flow statement include all cash and cash equivalents reported in the balance sheet that are available for use at short notice.

In € thousands	Dec. 31, 2017	Dec. 31, 2016
Bank deposits	145,791	14,264
Cash on hand	35	14
Cash and cash equivalents	145,826	14,278

Cash and cash equivalents include, among other items, an amount of € 0 thousand held on the insolvency escrow account (prior year: € 626 thousand) and an amount of € 37 thousand on the insolvency dividend payout account (prior year: € 1,454 thousand). Both accounts are under the sole power of disposal of the former insolvency administrator.

(43) Segment Reporting

Starting in 2017, the Group's business activities are allocated to and reported as three operating segments on a recurring basis based on the requirements of IFRS 8. The Electronics operating segment includes paragon AG's activities for the development and sale of sensors, microphones and instruments, primarily for the automotive industry, together with the SphereDesign GmbH and the paragon Kunshan Co., Ltd businesses. In 2017, it generated segment revenue of € 94,863 thousand (prior year: € 89,518 thousand) (thereof € 90,799 thousand with third parties [prior year: € 85,280 thousand]). The operating segment's EBIT amounted to € 9,683 thousand (prior year: € 12,705 thousand).

The Electromobility operating segment includes the activities of manufacturing battery systems and battery management systems for various industries within Voltabox Deutschland AG and Voltabox of Texas Inc. In 2017, it generated segment revenue of € 27,273 thousand (prior year: € 14,493 thousand (thereof € 24,694 thousand with third parties [prior year: € 14,271 thousand]). The operating segment's EBIT amounted to € 577 thousand (prior year: € -3,676 thousand).

The Mechanics operating segment includes paragon AG's activities in developing and marketing electromechanical components for the automotive industry and the mechanical manufacturing of paragon Group's products at productronic GmbH. In 2017, it generated revenue of € 74,058 thousand (prior year: € 60,261 thousand), thereof € 9,330 thousand with third parties (prior year: € 3,239 thousand). The operating segment's EBIT amounted to € 1,167 thousand (prior year: € -100 thousand).

The various legal entities within the paragon Group enter into supply agreements with one another. Invoices for such supplies are raised on the same basis as with third parties, including an appropriate margin. Internal revenue primarily arises with productronic GmbH, as this company is responsible for all manufacturing processes within the Group, and with paragon AG, which is responsible for development work and central coordinating activities. This includes, among other things, central purchasing arrangements, human resources and commercial management activities to the extent that these activities are not performed by the individual entities, as well as the Group's central management function. Also included are rentals paid by subsidiaries for the use of land, buildings, plant and other equipment owned by paragon AG. Charges made between the operating segments are based on the utilization made of the respective items charged. Segment assets and segment liabilities are presented on the same basis.

In € thousands	2017 Electronics	Electromobility*	Mechanics	Eliminations	Group
Revenue with third parties	90,799	24,694	9,330	0	124,823
Revenue intersegment	4,064	2,580	64,728	-71,372	0
Segment revenue	**94,863**	**27,273**	**74,058**	**-71,372**	**124,823**
Changes in inventory, other operating income, capitalized development costs	13,547	4,018	6,728	-7,664	16,629
Expenses from intersegment accounting	-63,443	-3,009	-8,790	75,241	0
Cost of materials, personnel expenses and other operating expenses	-28,700	-25,276	-70,448	0	-124,424
Segment EBITDA	16,267	3,007	1,549	-3,795	17,029
Depreciation (incl. amortization)	-6,584	-2,430	-382	0	-9,395
Segment EBIT	**9,683**	**577**	**1,167**	**-3,795**	**7,633**
Group Financial Result	n/a	n/a	n/a	n/a	-4,383
Earnings before taxes	**n/a**	**n/a**	**n/a**	**n/a**	**3,250**
Assets	268,350	148,509	173,589	-286,175	304,273
Investments	10,424	6,630	4,748	0	21,802
Debt	-236,900	-10,923	-156,071	286,163	-117,731

* The Electromobility segment includes 39.97% minority interests.

In € thousands	2016 Electronics	Electro-mobility	Mechanics*)	Eliminations	Group
Revenue with third parties	85,280	14,271	3,239	0	102,790
Revenue intersegment	4,238	222	57,022	-61,482	n/a
Segment revenue	**89,518**	**14,493**	**60,261**	**-61,482**	**102,790**
Changes in inventory, other operating income, capitalized development costs	14,487	5,906	2,639	-7,553	15,479
Expenses from intersegment accounting	-57,244	-4,878	-6,913	69,035	n/a
Cost of materials, personnel expenses and other operating expenses	-28,543	-17,658	-55,976	0	-102,177
Segment EBITDA	18,218	-2,137	11	0	16,092
Depreciation (incl. amortization)	-5,513	-1,539	-111	0	-7,163
Segment EBIT	**12,705**	**-3,676**	**-100**	**0**	**8,929**
Group Financial Result	n/a	n/a	n/a	n/a	-3,167
Earnings before taxes	**n/a**	**n/a**	**n/a**	**n/a**	**5,762**
Assets	134,794	27,297	45,265	-91,803	115,553
Investments	13,516	7,190	2,787	0	23,493
Debt	-98,583	-37,328	-37,225	97,732	-75,404

** The segment has been presented as though productronic GmbH had already been an independent entity from January 1, 2016.

Information on Geographical Areas

The following table shows a geographical analysis of the Group's revenue with external customers. The revenues generated with external customers for the purposes of the geographical analysis is based on the location of the registered head office of the respective external customer.

In € thousands	Domestic		EU		Rest of the world		Total	
	Jan. 1, to Dec. 31, 2017	Jan. 1, to Dec. 31, 2016	Jan. 1, to Dec. 31, 2017	Jan. 1, to Dec. 31, 2016	Jan. 1, to Dec. 31, 2017	Jan. 1, to Dec. 31, 2016	Jan. 1, to Dec. 31, 2017	Jan. 1, to Dec. 31, 2016
Revenue	90,189	70,251	29,210	25,943	5,423	6,596	124,823	102,790

Information About Transactions with Key Customers

In fiscal year 2017, three groups of companies exceeded the threshold of 10% in the revenue share according to IFRS 8.34. Of these, one group of companies, which is to be regarded as one customer because of its joint control, had a revenue share of 49%. Another group of companies, which is to be regarded as one customer due to its joint control, had a revenue share of 14.7% and a third group of companies which, because of their joint control, are to be considered as one customer had a revenue share of 12.9%.

(44) Directors and Officers

In the period from January 1 to December 31, 2017, the Management Board of paragon AG comprised the Chief Executive Officer, Klaus Dieter Frers, and the Chief Technology Officer, Dr. Stefan Schwehr.

The following persons are members of the Supervisory Board:

Name	Occupation	Membership in Supervisory Boards and Other Supervisory Committees
Prof. Dr. Lutz Eckstein Chairman	Prof. Dr., Head of the Chair and Institute for Automotive Engineering (ika), RWTH Aachen University	Supervisory Board mandates: • ATC GmbH, Aldenhoven (member) Further mandates: • Chairman of the Advisory Board of Forschungsgesellschaft Kraftfahrwesen Aachen mbH (fka) • Member of the Advisory Council for Vehicle and Traffic Engineering (VDI-FVT) • VOSS Holding GmbH & Co. KG., Wipperfürth (Member of the Advisory Board)
Hermann Börnemeier	Dipl. Financial Consultant and Tax Advisor, Managing Director of Treu-Union Treuhandgesellschaft mbH	
Walter Schäfers	Lawyer, Partner at Societät Schäfers Rechtsanwälte und Notare	

(45) Related Party Disclosures

Related parties as defined in IAS 24 "Related Party Disclosures" include members of the Management Board, the Supervisory Board and their immediate families as well as affiliated companies.

Treu-Union Treuhandgesellschaft mbH, Steuerberatungsgesellschaft, Paderborn, rendered services totaling € 71 thousand under an ongoing agreement in fiscal year 2017 (prior year: € 98 thousand). Hermann Börnemeier, a member of the Supervisory Board of paragon AG, is also managing director of the above company.

In fiscal year 2017, Societät Schäfers, Rechtsanwälte & Notare, Paderborn, rendered services in the amount of € 0 thousand (prior year: € 0 thousand). Mr. Schäfers, a member of the Supervisory Board at paragon AG, is also a partner in this company.

In fiscal year 2017, Forschungsgesellschaft Kraftfahrwesen mbH Aachen rendered development services totaling € 35 thousand (prior year: € 74 thousand). Professor Dr. Lutz Eckstein, a member of the Supervisory Board at paragon AG, is the Chairman of the Advisory Board of this company.

Members of the Supervisory Board held 4,000 shares (prior year: 4,000) out of a total of 4,526,266 shares as of the balance sheet date.

Members of the Management Board held 2,265,676 shares (prior year: 2,265,676) from a total of 4,526,266 shares (prior year: 4,526,266).

Payments of € 9 thousand (previous year: € 6 thousand) were made to Artega GmbH in 2017 on the basis of an agreed cooperation agreement, mainly for services. In addition, fixed assets worth € 58 thousand (prior year: € 0 thousand) were acquired from Artega GmbH.

As of the balance sheet date, performance guarantees with a maximum amount of € 153 thousand had been provided by Mr. Frers with respect to paragon AG's liabilities to banks (prior year: € 153 thousand). Therefore Mr Frers received a guarantee commission of € 2 thousand (prior year: € 2 thousand).

Mrs. Frers is employed under an employment contract consistent with market terms and conditions.

Concerning related party disclosures for the management board members of Voltabox AG, Mr. Pampel (CEO) and Mr. Klasing (CFO) as well as the members of the board of directors of Voltabox AG, Mr. Frers (chairman of the supervisory board), Prof. Dr. med. Winter and Mr. Börnemeier, we refer to the consolidated financial statements of Voltabox AG.

The outstanding balances for related parties were immaterial as of the reporting date.

We refer to Section D.4 "Financial assets" for further disclosures of transactions between paragon and its affiliated companies.

(46) Share Based Remuneration

The Stock Option Program 2012 expired on May 8, 2017. No stock options were granted under the stock option program 2012 in the year under review.

(47) Auditor's Fee

Expenses of € 390 thousand were recognized in the period under report from January 1 to December 31, 2017, as total fees for Baker Tilly GmbH & Co. KG, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft (prior year: € 106 thousand).

The fee is divided into audit services in the amount of € 190 thousand (prior year: € 63 thousand), other confirmation services of € 181 thousand (prior year: € 0 thousand) and other services of € 19 thousand (prior year: € 43 thousand). The fee for audit services relates to the audit of the annual financial statements, the audit of the IFRS consolidated financial statements and the review of several financial statements for paragon AG and Voltabox AG. The fee for other confirmation services relates to the audit of the profit forecast, the combined financial statements and the granting of several comfort letters for paragon AG and Voltabox AG.

(48) Risk Management

The company's risk management is described in the combined management report.

(49) Application of the Exemption Provisions of Section 264 (3) of the German Commercial Code (HGB)

The following fully consolidated domestic subsidiaries make use of some of the exemption provisions for the year under review:

- productronic GmbH, Delbrück
- KarTec GmbH, Delbrück
- Sphere Design GmbH, Bexbach
- paragon movasys GmbH, Landsberg am Lech

(50) Declaration Pursuant to Section 160 (1) No. 8 of the German Stock Corporation Act (AktG)

Voting Right Notifications

In the year under review, the company received the following notifications pursuant to Section 26 (1) of the German Securities Trading Act (WpHG) that require disclosure in accordance with Section 160 (1) No. 8 of the German Stock Corporation Act (AktG):

- Otus Capital Management LP (represented by Otus Capital Management Limited, represented by Andrew Gibbs) informed the company that its shareholding fell below the 5% threshold on May 4, 2017. As a result, its shareholding in paragon AG on that date was 4.75% (215,095 voting rights).

- HANSAINVEST Hanseatische Investment-GmbH informed the company that the 3% threshold was exceeded as of June 21, 2017. As a result, its shareholding in paragon AG on that date was 3.04% (137,425 voting rights).

- Otus Capital Management LP (represented by Otus Capital Management Limited, represented by Andrew Gibbs) informed the company that its shareholding fell below the 3% threshold on September 6, 2017. As a result, its shareholding in paragon AG on that date was 2.74% (124,240 voting rights).

- HANSAINVEST Hanseatische Investment-GmbH informed the company that it fell below the 3 percent threshold as of September 27, 2017. As a result, its shareholding in paragon AG on that date was 2.99% (135,449 voting rights).

- HANSAINVEST Hanseatische Investment-GmbH informed the company that the 3 percent threshold was exceeded as of October 23, 2017. As a result, its shareholding in paragon AG on that date was 3.24% (146,823 voting rights).

Directors' Dealings

The company did not receive any reports on proprietary transactions by executives in accordance with Art. 19 of the EU regulation No 596/2014 (MAR) on market abuse (market abuse regulation) during the reporting period.

Corporate Governance Declaration

The Declaration of Conformity with the German Corporate Governance Code (GCGC) required under Section 161 of the German Stock Corporation Act (AktG) was most recently submitted in March 2018, and is available to shareholders on a permanent basis on the company's website (www.paragon.ag).

Delbrück, Germany, March 9, 2018

paragon AG
The Management Board

Klaus Dieter Frers	Dr. Stefan Schwehr
Chief Executive Officer	Chief Technology Officer (Electronics)

Auditor's Report

Auditor's Report

paragon AG, Delbrück

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE COMBINED MANAGEMENT REPORT

Audit Opinions

We have audited the consolidated financial statements of paragon AG and its subsidiaries (the Group), which comprises the consolidated balance sheet as of December 31, 2017, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the fiscal year starting January 01, 2017, and ending December 31, 2017, as well as the notes to the consolidated financial statements, including a summary of important accounting policies. Furthermore, we have audited the combined management report of paragon AG for the fiscal year starting January 01, 2017, and ending December 31, 2017.

In our opinion, based on the findings of our audit,

- the enclosed consolidated financial statements comply with IFRS as adopted by the EU and the additional requirements pursuant to Section 315e (1) of the German Commercial Code (HGB), and provide a true and fair view of the net assets and financial position of the Group as of December 31, 2017, as well as its earnings for the fiscal year starting January 01, 2017, and ending December 31, 2017, in accordance with these requirements and

- the enclosed combined management report provides a suitable view of the Group's position. The combined management report is consistent with the consolidated financial statements, complies with all statutory regulations and suitably presents the opportunities and risks of future development.

Pursuant to Section 322 (3) sentence 1 of the German Commercial Code (HGB), we declare that our audit has not led to any objections to the regularity of the consolidated financial statements and the combined management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and the combined management report in accordance with Section 317 HGB and the EU Audit Regulation (no. 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities according to those requirements and principles are further described in the "Auditor's Responsibility for the Audit of the Consolidated Financial Statements and the combined Management Report" section of our auditor's report. We are independent of the Group companies in accordance with the requirements of European law and German commercial law and professional rules of conduct, and we have fulfilled our other German professional responsibilities in compliance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided any non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and the combined management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from January 1, 2017 to December 31, 2017. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

Our presentation of these key audit matters has the following structure:

1.) Specific matter and problem

2.) Audit approach and findings

3.) Further information

I. Initial Public Offering of Voltabox AG

1.) The shares of the subsidiary Voltabox AG have been listed on the regulated market of the Frankfurt Stock Exchange since October 13, 2017. Against the background of the magnitude of this transaction and its impact on the net assets, financial position and results of operations of paragon AG, this issue was of particular importance during our audit.

2.) We have taken into consideration the legal and organizational restructuring measures associated with the IPO of Voltabox AG insofar as these were of significance for our audit. In our audit of shares in affiliated companies, cash and cash equivalents, equity and the statement of cash flows, among other activities we obtained proof of the amount of the issue proceeds. We obtained proof of the amount of the costs for the IPO and reviewed the accounting rules for the issue costs. In our assessment of the results of the accounting and measurement rules applied, we relied, among other activities, upon documents including bank and commercial register excerpts, resolutions passed by the company's Supervisory Board and Management Board as well as other board resolutions of Voltabox AG. There were no objections.

3.) The company's significant disclosures regarding the effects of the IPO of Voltabox AG are included in the sections "(6) Scope of Consolidation", "(23) Financial Assets", "(28) Equity", and "(32) Provisions for Pensions" of the notes.

II. Initial Consolidation of paragon movasys GmbH (Previously: HS Genion GmbH)

1.) With the signing of the share purchase and transfer agreement on November 24, 2017, the company acquired all shares in HS Genion GmbH, Landsberg am Lech. Due to the significant overall effects of this company acquisition on the company's net assets and financial position, it was particularly important for the purpose of our audit.

2.) Within the scope of our audit of the company acquisition, we initially inspected and reviewed the contractual agreements and reconciled the purchase price paid in return for the shares received with the proof of payments which we received. For the purpose of the acquisition, we have reviewed the preliminary purchase price allocation to the extent that we have reconstructed the original data for the revaluation of assets and liabilities and the underlying assumptions. There were no objections to the accounting treatment of the company acquisition from our audit procedures.

3.) The company's significant disclosures regarding the effects of the IPO of Voltabox AG are included in the sections "(6) Scope of Consolidation", "(23) Financial Assets", "(28) Equity", and "(32) Provisions for Pensions" of the notes.

III. Measurement of Capitalized Development Costs

1.) As of December 31, 2017, the company has reported capitalized development work in its balance sheet as an intangible asset in the amount of € 44,037 thousand. Due to the overall significant impact of this item on the Group's net assets and results of operations and the complexity of accounting and valuation, the capitalized development costs were particularly important for the purpose of our audit.

2.) As part of our review of capitalized development costs, we performed randomized test procedures to validate the valuation of capitalized development costs. We reviewed the methodological approach applied in the measurement of capitalized development costs and evaluated this calculation in terms of its amount. For this purpose, for the selected samples the project documentation was analyzed, discussions were held with the project managers and the related planned profit contribution calculation was analyzed. There were no objections to the accounting treatment of the capitalized development costs from our audit procedures.

3.) The company's disclosures concerning the effects of the capitalized development costs are included in the notes, mainly in the following sections: "(8) Description of Accounting Policies and Measurement Methods - Intangible Assets", "(9) Use of Estimates and Assumptions - Capitalized Development Costs", "(12) Capitalized Development Costs" and "(20) Intangible Assets."

Other Information

The company's legal representatives are responsible for the other information. This other information comprises the declaration provided in the section "Corporate Governance Statement Pursuant to Section 315d in connection with 289f (1) HGB" of the combined management report, as a component of the combined management report whose contents have not been audited.

This other information likewise includes the remaining parts of the Annual Report, with the exception of the audited consolidated financial statements, the audited combined management report and our auditor's report, and especially

- the confirmation pursuant to Section 297 (2) sentence 4 HGB regarding the consolidated financial statements and the confirmation pursuant to Section 315 (1) sentence 5 HGB regarding the combined management report and

- the corporate governance report pursuant to no. 3.10 of the German Corporate Governance Code.

Our audit opinions on the consolidated financial statements and the combined management report do not cover this other information, and consequently we do not express an audit opinion or any other form of audit conclusion thereon.

In connection with our audit, our responsibility is to read this other information and, in so doing, to consider whether this other information

- is materially inconsistent with the consolidated financial statements, the combined management report or our knowledge obtained in the audit, or

- otherwise appears to be materially misstated.

Responsibility of the Company's Legal Representatives and the Supervisory Board for the Consolidated Financial Statements and the Combined Management Report

The company's legal representatives are responsible for the preparation of the consolidated financial statements which comply with the IFRS as adopted by the EU as well as the German supplementary statutory regulations applicable under Section 315e (1) HGB in all significant respects and for ensuring that the consolidated financial statements provide a true and fair view of the net assets, financial position and earnings of the Group in accordance with these provisions. In addition, the company's legal representatives are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the company's legal representatives are responsible for assessing the Group's ability to continue as a going concern. They are also responsible for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the company's legal representatives are responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the company's legal representatives are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The Supervisory Board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and the combined management report.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements and the Combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation and in compliance with German generally accepted standards for the audit of financial statements promulgated by IDW will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these consolidated financial statements and this combined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the consolidated financial statements and the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures relevant to the audit of the combined management report, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by the company's legal representatives and the reasonableness of estimates made by the company's legal representatives and related disclosures.

- Draw conclusions regarding the appropriateness of the company's legal representatives' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events such that the consolidated financial statements give a true and fair view of the net assets, financial position and earnings of the Group in compliance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and the combined management report. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our audit opinions.

- Evaluate the consistency of the combined management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position which it provides.

- Perform audit procedures regarding the prospective information presented by the company's legal representatives in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the company's legal representatives as a basis for the prospective information, and evaluate whether this prospective information has been properly derived from these assumptions. We do not express a separate audit opinion on this prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We discuss with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and discuss with them any relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

On the basis of the matters discussed with the persons charged with governance, we determine the matters that were of most significance in the audit of the consolidated financial statements for the current period under review and are therefore the key audit matters. We describe these matters in our auditor's report unless any law or other regulation precludes public disclosure of this matter.

OTHER LEGAL AND REGULATORY REQUIREMENTS

Further Information Pursuant to Article 10 of the EU Audit Regulation

We were elected as the auditor of the consolidated financial statements by the Annual General Meeting held on May 10, 2017. We were engaged by the Supervisory Board on January 18, 2018. We have audited the consolidated financial statements of paragon AG without interruption since fiscal year 2013.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC ACCOUNTANTS RESPONSIBLE FOR THE ENGAGEMENT

The public accountants responsible for the engagement are Thomas Gloth and Christoph Tyralla.

Düsseldorf, March 9, 2018

Thomas Gloth	Christoph Tyralla
German public accountant	German public accountant

Baker Tilly GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
(Düsseldorf)

(before Baker Tilly AG
Wirtschaftsprüfungsgesellschaft)

paragon AG, Delbrück

Consolidated financial statements and
combined management report
for the fiscal year 2017

Declaration by the Legal Representatives

We declare that to the best of our knowledge and in accordance with the applicable accounting principles, the consolidated financial statements give a true and fair view of the assets, financial position and earnings of the Group, and that the combined management report presents the development of business, including the business results and the position of the Group, in such a way that a true and fair view is conveyed and the significant opportunities and risks of the Group's foreseeable development are described.

Klaus Dieter Frers
Chief Executive Officer

Dr. Stefan Schwehr
Chief Technology Officer (Electronics)

Financial Calendar

Jan. 11/12, 2018	**Oddo Forum, Lyon**
Feb. 1, 2018	**Bankhaus Lampe German Equity Forum**
Feb. 21/22, 2018	**Oddo BHF German Conference, Frankfurt am Main**
Mar. 13, 2018	**Annual Report – consolidated financial statements 2017**
Apr. 20, 2018	**Bankhaus Lampe Deutschlandkonferenz, Baden-Baden**
May 8, 2018	**Interim release as of March 31, 2018 – first quarter**
May 8, 2018	**Annual General Meeting, Delbrück**
May 14-16, 2018	**Equity Forum Frühjahrskonferenz, Frankfurt am Main**
Aug. 21, 2018	**Interim Report as of June 30, 2018 – first half year**
Nov. 13, 2018	**Interim release as of September 2018 – 9 months**
Nov. 26-28, 2018	**Eigenkapitalforum, Frankfurt am Main**

IMPRINT

paragon AG
Artegastraße 1
33129 Delbrück / Germany
Tel.: +49 (0) 5250 9762–0
Fax: +49 (0) 5250 9762–60
E-Mail: investor@paragon.ag
Twitter: @paragon_ir
www.paragon.ag