

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

***paragon***®



### Highlights of the first half of 2014

- Revenue increases by 5.9 %, earnings figures exceed targets
- Major contract awarded to our Electromobility business segment for up to 1,000 battery packs
- Significant investment made in our new business segments
- High demand continues in our day-to-day business
- Managing Board confirms forecast for 2014

### Key figures of the first half of 2014

In EUR thousands	Jan.1 - Jun.30, 2014	Jan.1 - Jun.30, 2013	Change in %
Revenue	37,753	35,656	5.9
EBITDA	3,767	5,085	- 25.9
EBITDA margin in %	10.0	14.3	
Adjusted EBITDA*	5,177	5,085	1.8
Adjusted EBITDA margin in %*	13.7	14.3	
EBIT	1,503	2,944	- 48.9
EBIT margin in %	4.0	8.3	
Adjusted EBIT*	2,913	2,944	- 1.1
Adjusted EBIT margin in %*	7.7	8.3	
Net income	363	1,755	- 79.3
Earnings per share in EURO	0.09	0.43	- 79.5
Total assets	54,558	42,049	29.7
Total equity	15,228	13,343	14.1
Equity-to-assets ratio in %	27.9	31.7	
Free cash flow	13,819	5,529	149.9
Interest-bearing liabilities	26,861	14,393	86.6
Net debt**	13,042	8,864	47.1
Operating cash flow	82	- 421	119.5

\* Adjusted for expenses incurred in connection with the development of new and future-oriented business areas - additional expenses in the amount of EUR 1.4 million year on year

\*\* Net debt = interest-bearing liabilities ./ free cash flow

### Overall economic conditions

An unusually difficult winter in the US and the geopolitical conflict surrounding the Ukraine slowed the growth of the global economy during the first half of 2014. Certain strategic emerging markets also came under renewed pressure as a result of the more restrictive monetary policy exercised by the US. An increased outflow of capital in the US led to a deterioration of the financing and growth conditions in such markets. Consequently, the global growth rate during the first half of 2014 was relatively low.

According to the assessment of those involved in the Eurozone Economic Outlook<sup>1</sup> research project, the economy in the eurozone continues to recover. Following GDP growth of 0.2% during the first quarter, experts anticipate an increase of 0.3% for the second quarter. The major driver of that growth is domestic demand, and in particular, demand for private investment. Private consumption is still sluggish due to the continued high rate of unemployment.

According to the Kiel Institute for the World Economy (IfW)<sup>2</sup>, the German economy continues to grow robustly. The positive trend seen during the first half of 2014 was mostly underpinned by investment and private consumption, which was in turn primarily supported by continued favorable wage and employment growth.

### Automotive industry growth

The dynamic growth of the global passenger car market also continued during the first half of 2014. According to information provided by the German Association of the Automotive Industry (VDA)<sup>3</sup>, the number of new registrations in the most important national markets was once again a good 6% higher than in the previous year. Particularly noteworthy were the markets in China (+15%), the US (+4%), and Western Europe (+6%). As a result, German automotive manufacturers were able to expand their share of the growth-intensive Chinese market to a good 23 percent by May 2014. A boom caused by new vehicle purchases made in anticipation of the VAT increase that came into effect in April was seen in the Japanese market during the first quarter (+11%). During the second quarter, however, the number

of new vehicle registrations decreased again. Significant decreases, especially during the second quarter of 2014, were seen in Russia (-8%), where economic sanctions resulting from the Ukrainian conflict had a negative effect on consumer spending. In Brazil (-7%) and India (-3%), the slow development seen during the previous year continued, with the Indian market managing to recover again during May and June 2014, after eight consecutive months of decreases.

### Business trend and Group situation

Compared to the previous year, paragon AG's revenue increased by 5.9% to EUR 37.8 million during the first half of 2014, after having reached EUR 35.7 million during the same period last year. At EUR 18.8 million, revenue nearly reached the same level as the prior-year (Q2/2013: EUR 19.2 million), exceeding our expectations. As of June 30, more than 97.2% of the customer orders necessary to achieve our total budgeted revenue had already been secured. Consequently, our operating business is doing very well. We are also making strategic investments in the continued expansion of our Body Works Kinematics and Electromobility business segments, including the hiring of additional personnel in our development division. The total of such additional investments to date is EUR 1.4 million, which decreased EBIT from EUR 2.9 million to EUR 1.5 million. If adjusted for this increased expenditure, EBIT would be at the previous year's level of EUR 2.9 million.

### Revenue distribution by business segments

The operating performance in our largest business segments, Sensors and Cockpit, was characterized by good portfolio business involving products for premium manufacturers. In our Cockpit business segment, interest in design-related solutions for the integration of basic wireless charging technology remained unabated. Our Cockpit business segment also handled various other enquiries from OEMs. In our Sensors business segment, negotiations concerning innovative CO<sub>2</sub> sensor technology became more tangible – paragon has now received initial enquiries from several OEMs. CO<sub>2</sub> sensors increase the safety of modern CO<sub>2</sub> air conditioning systems.

1 Eurozone Economic Outlook, July 2014: "Moderate recovery continues", released July 4, 2014

2 IfW: "The German economy during the summer of 2014", released June 11, 2014

3 VDA press release dated July 17, 2014: "US and China in top gear; Western Europe up too"

Revenue distribution by business segment

	First half of 2014 in TEUR	in %	First half of 2013 in TEUR	in %
Sensors business segment	14,694	38.9	13,689	38.4
Acoustics business segment	7,377	19.6	5,860	16.4
Cockpit business segment	14,428	38.2	14,257	40.0
Body Works Kinematics business segment	1,028	2.7	1,755	4.9
Voltabox Deutschland GmbH	132	0.3	95*	0.3
Voltabox of Texas Inc.	95	0.3	0	0
<b>Total</b>	<b>37,753</b>	<b>100.0</b>	<b>35,656</b>	<b>100.0</b>

\* Electromobility business segment

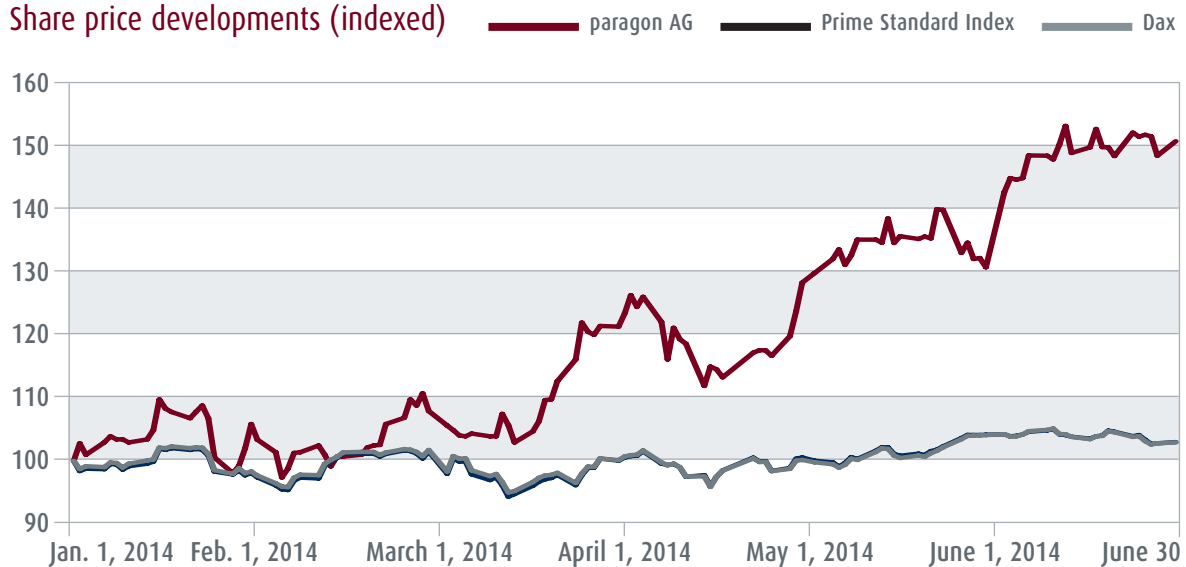
The founding of the new brand 'Voltabox', which was approved at the shareholders' meeting, positioned our Electromobility business segment independently on the market, and as a result, that segment is now represented by our wholly-owned subsidiaries Voltabox Deutschland GmbH, and Voltabox of Texas, Inc. Through our US subsidiary Voltabox of Texas, Inc., a major contract for battery packs in the double-digit million dollar range was secured in May 2014. As part of that contract, our strategic partner Vossloh Kiepe is using Voltabox's high-performance systems as emergency batteries for about 200 new trolley buses in Seattle and San Francisco. Deliveries are already starting in 2014, and the majority of the associated revenue is expected in 2015 and 2016. The organizational and personnel requirements for this growth are being created in 2014.

Our Body Works Kinematics business segment also managed to continue its successful trend. During the first half of 2014, that segment received several design development enquiries for new kinematics systems.

As part of our internationalization strategy, paragon began building a plant and hired an initial group of employees after founding Voltabox of Texas, Inc. Production is still set to start late in the fall of 2014. Our expansion in the Chinese market was also given special attention during the second

quarter. To that end, paragon signed a letter of intent already in May with a renowned automotive industry supplier concerning the founding of a joint venture. paragon aims to secure a majority shareholding of 65% in that venture, as well as joint on-site production during the course of 2015. Initial discussions at managing board level took place both in Delbrück and in China, representing another step forward in paragon's international expansion strategy.

## Share price developments (indexed)



## Results of operations

During the first half of 2014, paragon AG generated consolidated revenue of EUR 37.8 million, a 5.9% increase over the prior-year figure of EUR 35.7 million. Revenue during the second quarter of 2014 remained at EUR 18.8 million, as expected, slightly below the level of previous year (Q2/2013: EUR 19.2 million). As a result, paragon clearly exceeded its projected figures both for the first half of year and the second quarter.

The cost of materials increased by 16% compared to the previous year, from EUR 17.9 million to EUR 20.8 million. As a result, the ratio of the cost of materials to revenue temporarily increased from 50.2% to 55.2%. The additional expenditure can primarily be attributed to one-off third-party services involving development and production in our Acoustics, Body Works Kinematics, and Electromobility business segments. For the remainder of the year, the Company is acting under the assumption that the cost-of-materials-to-revenue ratio will normalize and once again return to the 50% mark.

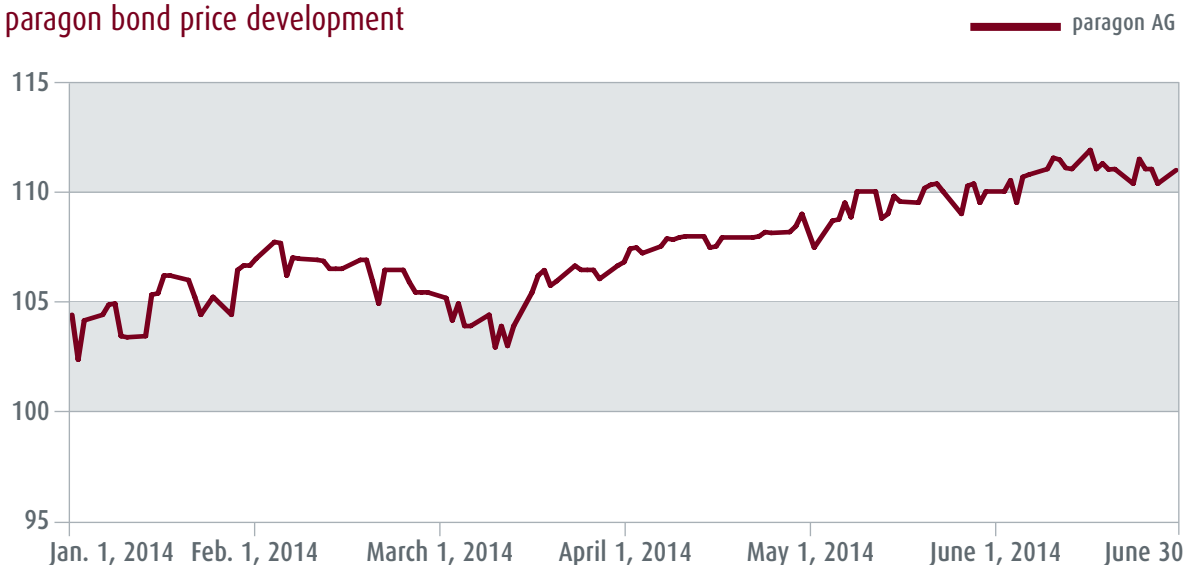
Personnel expenses rose by 12.7% during the first half of 2014, from EUR 9.6 million in the previous year to EUR 10.8 million, primarily as a result of personnel expansion in our new business segments. In the process, the ratio of personnel expenses to revenue increased from 26.9% to 28.6%, as the contribution to revenue made by the business segments concerned was still relatively low. It is expected that the ratio of personnel expenses to revenue will level off to just short of 28% by the end of the year, and will decrease further

due to an increase in revenue, at the latest in the coming year. According to current forecasts, the ultimate consolidation effects resulting from the increase in revenue will lead to a personnel-expenses-to-revenue ratio of about 26.5%.

In light of the above, earnings before interest, taxes, depreciation and amortization (EBITDA) decreased by 25.9% during the first half of 2014, to EUR 3.8 million (prior year: EUR 5.1 million). This can primarily be attributed to an anticipated decrease in earnings in the second quarter, during which EBITDA of EUR 2.0 million were generated (prior year: EUR 3.1 million). Here too, we continued to exceed our target figures both for the first half of the year and the second quarter. Earnings were particularly affected by additional expenditure of EUR 1.4 million in connection with the expansion of our forward-looking Body Works Kinematics and Electromobility business segments. Without the additional expenditure, EBITDA during the first half of 2014 would have increased from EUR 5.1 million to EUR 5.2 million.

At EUR 1.5 million (prior year: EUR 2.9 million), earnings before interest and taxes (EBIT) once again well exceeded our targets, following depreciation and amortization of EUR 2.3 million (prior year: EUR 2.1 million). Adjusted for the additional expenditure mentioned above of EUR 1.4 million, EBIT would have remained at EUR 2.9 million. The EBIT margin decreased from 8.3% (adjusted: 8.3%) to 4.0% (adjusted: 7.7%). Overall, paragon AG generated consolidated earnings according to IFRS of EUR 0.4 million during the first half of 2014 (prior year: EUR 1.8 million), resulting in earnings per share of EUR 0.09 (prior year: EUR 0.43).

## paragon bond price development



## Financial position and net assets

Total assets as of June 30, 2014 increased significantly to EUR 54.6 million, compared to EUR 42.0 million as of June 30, 2013, mainly due to the additional capital generated by our corporate bond.

Non-current assets rose to EUR 20.9 million (prior year: EUR 18.9 million). Current assets increased from EUR 23.2 million to EUR 33.6 million, which can primarily be attributed to an increase in cash and cash equivalents of EUR 7.2 million.

Non-current provisions and liabilities increased in 2013 and during the first quarter of 2014 as a result of placing the corporate bond, by a total of about EUR 11 million to EUR 27.7 million, up from EUR 16.9 million in the previous year. At EUR 11.6 million, current provisions and liabilities were more or less constant (prior year: EUR 11.8 million).

paragon AG's equity increased compared to June 30, 2013, from EUR 13.3 million to EUR 15.2 million as of June 30, 2014. This resulted in an equity-to-assets ratio of 27.9%, down from 31.7% in the previous year. The decrease in the equity-to-assets ratio can be attributed to the sharp increase in total assets in connection with consolidated earnings.

The cash flow generated by operating activities improved by EUR 0.5 million year-on-year during the first half of 2014, to

EUR 0.1 million (prior year: EUR -0.4 million). The reason for this was a EUR 1.8 million reduction in trade receivables, accompanied by a EUR 1.8 million increase in trade payables. Offsetting cash flow effects include the partial outsourcing of pension obligations of EUR 1.5 million, and increased inventories of EUR 1.0 million. Overall, cash flow from operating activities improved by EUR 2.4 million during the second quarter, meaning that the still negative cash flow of EUR -2.3 million at the end of the first quarter of 2014 was fully made good.

Cash and cash equivalents as of June 30, 2014 amounted to EUR 15.8 million, up from EUR 8.6 million at the end of the first half of 2013.

## Research & development

paragon continued to focus significantly on research & development during the first half of 2014. We made great strides with development projects in all five of our business segments, which should substantially improve our market position and sales prospects. The following development projects in our individual business segments deserve special mention: In our Body Works Kinematics business segment, our next serial product – a spoiler for a renowned premium manufacturer – entered the pilot production phase. Our universal motor has now also entered the next phase of development.

In our Acoustics business segment, the construction of a prototype for a 3D high-end sound system was completed. In our Sensors business segment, we developed a particle sensor for the automotive industry, which represents a meaningful addition to AQS for markets with high levels of particulate matter pollution, such as China. Our initial discussions with OEMs confirm the keen interest in this technology. In our Electromobility business segment, we are working intensely on a second modular system for our battery packs, which should go into pre-production in the fall.

paragon invested a total amount of approximately EUR 3.9 million in research & development during the first half of 2014 (prior year: EUR 3.2 million), which corresponds to a 10.3% share in revenue (prior-year period: 9.0%). In line with the increased tempo of our development efforts, the number of our developers also increased, from 57 to 67 employees.

## Employees

As of the reporting date, paragon AG employed a total of 403 of its own workers and 54 temporary staff members. Compared to the prior-year reporting date, the total number of employees thus increased by 8.1% (June 30, 2013: 377 employees, and 46 temporary staff members). Through our distribution office in Shanghai (3) and our US subsidiary Voltabox of Texas, Inc. (5), paragon now also has 8 employees abroad. Individual sites within Germany accounted for the following figures (own workers; temporary staff members) as of June 30, 2014: Delbrück (114; 4), Suhl (202; 48), Nurnberg (28; 2), and St. Georgen (51; 0).

## Investments

From January 1 to June 30, 2014, paragon invested a total of approximately EUR 4.5 million (prior year: EUR 2.5 million), of which EUR 3.3 million (prior year: EUR 0.9 million) related to investments in property, plant and equipment. Investments were focused on acquiring new production lines for our subsidiaries Voltabox Deutschland GmbH and Voltabox of Texas, Inc., as well as the office building at Bösendamm 11

from Frers Grundstücksverwaltungs GmbH & Co. KG at a purchase price of EUR 1.7 million, of which EUR 0.7 million has already been paid.

## Investor relations

### General stock market environment

The German Stock Index (DAX) was quite volatile during the first half of 2014, but consistently remained in the region of 9,000 to 10,000 points. With a year-to-date high of 10,009 points (closing price) on June 9, 2014, the DAX managed to crack the magical barrier of 10,000 points for the first time. It was unable to maintain that level, however, and closed at 9,833 points on June 30, 2014. The year-to-date low was 9,018 points on March 13, 2014. In relation to the previous year's closing level of 9,552 points, the DAX thus managed to improve by about 3% during the first half of 2014.

### paragon stock

Driven by our positive business trend, paragon stock managed to clearly dissociate itself from the relatively restrained development of the DAX. Starting at EUR 10.40 at the close of 2013, our stock initially recorded a low of EUR 10.13 (on February 4) due to overall market weakness, before increasing steadily to a year-to-date high of EUR 15.85 (on June 12). At EUR 15.60, the closing price at the end of the first half of 2014 was only slightly lower, equating to marked growth of 50% compared to the end of 2013.

In light of our continued favorable growth prospects, paragon AG research analysts see the potential for our stock price to rise even further. As a result, Dr. Kalliwoda Research GmbH, Frankfurt am Main (June 10, target price: EUR 20.48), and Close Brothers Seydler Research AG, Frankfurt am Main (June 17, target price: EUR 21.00) reaffirmed their buy recommendations for our stock.

In addition, Credit Reform Rating AG raised the company rating of paragon AG from BB+ to BBB-, setting us at investment grade level. Credit Reform highlighted our continuing positive revenue and cash flow trends, as well as our healthy profitability, stable equity-to-assets ratio, and high liquidity

buffer. They also attested to paragon's high degree of technical know-how, our capacity to innovate, and the large number of products of which paragon is the sole distributor.

ISIN:	DE0005558696
WKN:	555869
Ticket symbol:	PGN
Market segment:	Regulated market
Transparency level:	Prime standard
Sector:	Technology
Industry:	Automotive suppliers
Stock exchange:	Frankfurt (XETRA)
Also traded in:	Berlin, Düsseldorf, Hamburg, Munich, Stuttgart
Number of shares:	4,114,788
Share price on June 30, 2014:	15.60 EUR (XETRA)
Market capitalization on June 30, 2014:	EUR 64.2 million
Average trading volume (52 weeks) as of June 30, 2014:	10,681 shares a day
Designated sponsor:	Close Brothers Seydler Bank AG

#### paragon corporate bond

The bond we issued in July 2013 also benefited from our good business trend, ending the first half of 2014 at 110.35%, once again well above the issue price of 100%. In March 2014, paragon AG managed to privately place an additional tranche of EUR 3.0 million on its corporate bond with institutional investors, raising the total issue volume of the bond to EUR 13 million (prospectus: up to EUR 20 million). The additional funds will primarily be used to finance the further expansion of our Body Works Kinematics and Electromobility business segments.

ISIN:	DE000A1TND93
WKN:	A1TND9
Ticket symbol:	PGNA
Market segment:	Open Market
Transparency level:	Entry standard for corporate bonds
Stock exchange:	Frankfurt
Also traded in:	Berlin, Hamburg, Hannover
Issue volume:	up to EUR 20 million
Placed volume:	EUR 13 million
Coupon:	7.25 % p.a. (paid annually)
Issue date:	July 2, 2013
Maturity:	July 2, 2018
Rating (May 27, 2014):	BBB- (Creditreform Rating AG)
Bond price as of June 30, 2014:	110.35 %
Average trading volume (52 weeks) as of June 30, 2014:	EUR 32,409 (nominal) per day

#### Financial market communications

The highlight of our investor relations activities during the first half of 2014 was paragon AG's 13th regular shareholders' meeting, held on May 14, 2014 in Delbrück. At the meeting, the Chairman of the Managing Board, Klaus Dieter Frers, once again presented the results of our very successful fiscal year 2013, as well as an overview of the current year and the Company's further strategic objectives. The Chairman also went into further detail concerning the Company's current plans to create a stronger international presence – particularly in the US and China. All relevant agenda items were approved by a clear majority of the shareholders present. In particular, those present at the shareholders' meeting elected Professor Dr.-Ing. Lutz Eckstein as a new member on the Supervisory Board, where he will follow in the footsteps of former Supervisory Board member Hans J. Zimmermann. During the subsequent meeting of the Supervisory Board, Professor Dr.-Ing. Eckstein was then elected as the new Chairman of the Supervisory Board.



## Risk report

Detailed information on paragon AG's individual risk situation was given in the section on opportunities and risk in the Annual Report for the fiscal year ended December 31, 2013. The statements contained therein with respect to overall risk continue to apply. The Managing Board did not establish any significant additions or changes to those risks during the course of the first half of 2014.

At the time this report was published, there were no identifiable risks that could threaten the Company's ability to continue as a going concern.

## Outlook

### Overall economic and industry-specific trends

As a result of the slower economic trend seen during the first half of the year, the Kiel Institute for the World Economy (IfW)<sup>4</sup> scaled back its expectations slightly for global economic growth in 2014 to 3.5% as part of its summer forecast (spring forecast: 3.6%). For the eurozone, GDP growth of 1.0% is now expected (spring forecast: 1.2%).

For Germany, the Institute expects an increase in GDP of 2.0% in 2014 (spring forecast: 1.9%), which still equates to a marked growth surge. The main reasons for that growth dynamic are capital expenditure and private consumption. A more robust job market (with unemployment reducing further to 6.7%), lower interest rates, increasing incomes, and stable user prices will all encourage consumer spending. Consequently, paragon AG does not anticipate any negative effects on its business trend as a result of the overall economic situation.

Due to the positive sales trend seen during the first half of 2014, the German Automotive Industry Association (VDA)<sup>5</sup> remains optimistic for the year as a whole. Assuming that the Western European passenger car market, in which the German automotive industry has amassed a market share of a good 50%, continues to recover, the VDA anticipates domestic passenger car production to grow by 4% to 5.65 million cars. Passenger car exports should increase by 5% to 4.4 million vehicles. For passenger cars produced

abroad, growth of 5% to 9.15 million vehicles is also expected, which reflects the ongoing strong growth of the global passenger car market. The VDA anticipates that the global passenger car market, and first and foremost the Chinese market, will continue to grow by 4% in 2014, to a good 76 million vehicles.

### paragon's business trend

After a good first half of 2014, paragon AG is optimistic about the further development of its revenue during the current financial year. The development of our revenue and other key performance indicators to date suggests that we will reach our targets for 2014. Furthermore, the Managing Board has confirmed the Group's target revenue growth of about 8%, accompanied by an EBIT margin of approximately 10%. Investments in the recruitment of personnel – due to noticeable increases in demand for products from our new Electromobility and Body Works Kinematics business segments – will increase our personnel costs during the second half of the year, and could still influence our profit margins depending on the distribution of revenue over time. As all of our business segments are likely to contribute to our anticipated revenue growth, an exact breakdown into individual revenue streams cannot yet be precisely estimated. Our established business segments Acoustics, Cockpit and Sensors have already shown very positive development, and it is expected that the high sales figures seen in those divisions will continue during the second half of the year. In our Body Works Kinematics business segment, quantities are also steadily on the rise. Demand for our Electromobility business segment remains extremely high, even though it is still difficult to forecast an exact breakdown of deliveries, revenue, and contribution margins from existing contracts in this segment for 2014 and 2015. During the second quarter, Vossloh Kiepe ordered an additional 200 battery packs for the years 2014 to 2016. In total, we have been advised to expect orders for approximately 1,000 battery packs from that client alone in the next few years. For that reason, paragon has made additional investments in its Electromobility business segment - in particular in light of the fact that demand for our battery packs is increasing from other clients, and in part from other industries as well. Consequently, our Electromobility business segment will develop more and more into one of the paragon's principal mainstays

<sup>4</sup> IfW, The global economy during the summer of 2014, released June 11, 2014

<sup>5</sup> VDA press conference of July 2, 2014: "Wissmann: 2014 year of the car, with growth in production, export and employment"

during the coming years, under the new Voltabox brand and entities. The conscious diversification of our product portfolio will help to consolidate paragon's revenue in the long term and increase its independence with respect to the economy of the automotive industry.

The aim of paragon's growth strategy is to maintain or even expand the already very good market position enjoyed by its traditional Cockpit, Sensors and Acoustics business segments, while to continuing to grow its Body Works Kinematics and Electromobility business segments. In the process, paragon hopes to gain an additional share of the automotive industry's value creation chain through its production of high-quality systems.

Another key strategic focus remains the accelerated internationalization of the paragon Group. The construction of a production site in Texas is proceeding according to plan, and paragon is currently making significant investments in this area, as production is still set to begin during the current year. The first prototypes of our battery packs for the US market will also be delivered according to schedule later

this year. In addition, more and more focus is being placed on China. The vehicles of German premium manufacturers such as Audi, Mercedes and BMW are in high demand, and will receive an additional boost as a result of new model initiatives. Consequently, experts from the market research firm IHS are expecting that the current industry leader Audi will increase its sales to 700,000 vehicles by 2020 (2013: 491,989 vehicles). As a supplier with a strong focus on such premium manufacturers, paragon will sooner or later also be represented in this booming market. Following discussions with a potential business partner in Delbrück, a letter of intent was signed regarding the founding of a joint venture. The objective of that joint venture is a majority shareholding for paragon and joint production in China. Further discussions in China to specify our intended joint activities have also already taken place.

Overall, the Managing Board sees great opportunities in the market for 2014, and especially for 2015 and 2016, which should be accompanied by a noticeable growth in revenue and healthy profitability.

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

in EUR thousands	June 30, 2014	June 30, 2013
<b>Assets</b>		
<b>Non-current assets</b>		
Intangible assets	5,969	5,743
Property, plant and equipment	14,771	13,022
Financial assets	120	0
Other assets	88	127
Deferred taxes	0	0
<b>Total non-current assets</b>	<b>20,948</b>	<b>18,892</b>
<b>Current assets</b>		
Inventories	8,499	7,293
Trade receivables	6,170	4,356
Income tax assets	871	1,041
Other assets	2,237	1,831
Cash and cash equivalents	15,833	8,636
<b>Total current assets</b>	<b>33,610</b>	<b>23,157</b>
<b>Total assets</b>	<b>54,558</b>	<b>42,049</b>

in EUR thousands	June 30, 2014	June 30, 2013
<b>Equity and liabilities</b>		
<b>Equity</b>		
Subscribed capital	4,115	4,115
Capital reserve	2,450	2,450
Revaluation deficit	- 446	- 803
Profit carried forward	8,746	5,826
Net income	363	1,755
Currency translation differences	0	0
<b>Total equity</b>	<b>15,228</b>	<b>13,343</b>
<b>Non-current provisions and liabilities</b>		
Non-current lease obligations	946	139
Non-current borrowings	10,765	11,921
Non-current bonds	12,333	0
Special item for investment grants	1,319	1,793
Deferred taxes	1,144	252
Pension provisions	1,224	2,797
<b>Total non-current provisions and liabilities</b>	<b>27,731</b>	<b>16,902</b>
<b>Current provisions and liabilities</b>		
Current portion of finance lease obligations	346	254
Current borrowings and current portion of non-current borrowings	2,471	2,079
Trade payables	5,339	3,567
Other provisions	46	237
Income tax liabilities	57	74
Other current liabilities	3,340	5,593
<b>Total current provisions and liabilities</b>	<b>11,599</b>	<b>11,804</b>
<b>Total equity and liabilities</b>	<b>54,558</b>	<b>42,049</b>

## Figures for the period from January 1 to June 30, 2014

### Consolidated Income Statement of paragon AG, Delbrück, for the Period January 1, to June 30, 2014

in EUR thousands	First half of 2014 Jan. 1 – June 30, 2014	First half of 2013 Jan. 1 – June 30, 2013	Q2 2014 April 1 – June 30, 2014	Q2 2013 April 1 – June 30, 2013
<b>Sales revenue</b>	37,753	35,656	18,754	19,167
Other operating income	539	529	250	264
Increase or decrease in inventory of finished goods and work in progress	531	- 382	56	- 364
Other own work capitalized	1,499	925	1,082	443
<b>Total operating performance</b>	<b>40,322</b>	<b>36,728</b>	<b>20,142</b>	<b>19,510</b>
Cost of materials	- 20,838	- 17,914	- 10,136	- 9,245
<b>Gross profit</b>	<b>19,484</b>	<b>18,814</b>	<b>10,006</b>	<b>10,265</b>
Personnel expenses	- 10,795	- 9,578	- 5,389	- 5,039
Depreciation of property, plant and equipment and amortization of intangible assets	- 2,247	- 2,054	- 1,042	- 1,030
Impairment of property, plant and equipment and intangible assets	- 17	- 87	- 17	- 26
Other operating expenses	- 4,922	- 4,151	- 2,652	- 2,121
<b>Earnings before interest and taxes (EBIT)</b>	<b>1,503</b>	<b>2,944</b>	<b>906</b>	<b>2,049</b>
Financial income	8	24	4	23
Finance costs	- 942	- 499	- 485	- 253
<b>Financial result</b>	<b>- 934</b>	<b>- 475</b>	<b>- 481</b>	<b>- 230</b>
<b>Earnings before taxes (EBT)</b>	<b>569</b>	<b>2,469</b>	<b>425</b>	<b>1,819</b>
Income taxes	- 206	- 714	- 149	- 522
<b>Net income</b>	<b>363</b>	<b>1,755</b>	<b>276</b>	<b>1,297</b>
Earnings per share (basic)	0.09	0.43	0.07	0.32
Earnings per share (diluted)	0.09	0.43	0.07	0.32
Average number of shares outstanding (basic)	4,114,788	4,114,788	4,114,788	4,114,788
Average number of shares outstanding (diluted)	4,114,788	4,114,788	4,114,788	4,114,788

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

in EUR thousands	Jan. 1 – June 30, 2014	Jan. 1 – June 30, 2013
Earnings before income taxes	569	2,469
Depreciation/amortization of non-current assets	2,247	2,054
Financial result	934	475
Profit (-), loss (+) from disposal of items of PPE and financial assets	58	2
Increase (+), decrease (-) in other provisions and pension provisions	- 9	8
Income from the reversal of the special item for investment grants	- 176	- 298
Other non-cash income and expense	5	0
Increase (-), decrease (+) in trade receivables, other receivables and other assets	- 884	- 2,683
Partial outsourcing of pension provisions	- 1,453	0
Impairment of intangible assets	17	87
Increase (-), decrease (+) in inventories	- 1,030	21
Increase (+), decrease (-) in trade payables and other liabilities	1,113	- 689
Interest paid	- 942	- 500
Income taxes	- 367	- 1,367
<b>Cash flow from operating activities</b>	<b>82</b>	<b>- 421</b>
Cash payments to acquire property, plant and equipment	- 3,311	- 899
Cash payments to acquire intangible assets	- 1,155	- 1,558
Interest received	6	24
<b>Cash flow from investing activities</b>	<b>- 4,460</b>	<b>- 2,433</b>
Dividends paid	- 1,029	- 1,440
Cash repayments of borrowings	- 1,088	- 1,067
Payments in connection with insolvency ratio	0	- 900
Cash proceeds from issuing loans	1,960	973
Cash repayments for liabilities from finance leases	- 177	- 159
Net cash proceeds from the issuance of bonds	2,900	0
<b>Cashflow from financing activities</b>	<b>2,566</b>	<b>- 2,593</b>
<b>Cash-effective change in liquidity</b>	<b>- 1,813</b>	<b>- 5,447</b>
Cash and cash equivalents at beginning of period	17,647	14,083
Cash and cash equivalents at end of period	15,833	8,636

## Consolidated Statement of Changes in Equity of paragon AG, Delbrück

in EUR thousands	Subscribed capital	Capital reserve	Revaluation deficit	Reserve from currency translation	Accumulated profit		Total
					Profit carried forward	Net income	
January 1, 2013	4,115	2,450	- 803	0	7,266	0	13,028
Net income	0	0	0	0	0	1,755	1,755
Other comprehensive income	0	0	0	0	0	0	0
Comprehensive income	0	0	0	0	0	1,755	1,755
Dividend payout	0	0	0	0	- 1,440	0	- 1,440
June 30, 2013	4,115	2,450	- 803	0	5,826	1,755	13,343

in EUR thousands	Subscribed capital	Capital reserve	Revaluation deficit	Reserve from currency translation	Accumulated profit		Total
					Profit carried forward	Net income	
January 1, 2014	4,115	2,450	- 446	- 1	9,775	0	15,893
Net income	0	0	0	0	0	363	363
Actuarial gains and losses	0	0	0	0	0	0	0
Currency translation	0	0	0	1	0	0	1
Other comprehensive income	0	0	0	1	0	0	1
Comprehensive income	0	0	0	1	0	363	364
Dividend payout	0	0	0	0	- 1,029	0	- 1,029
June 30, 2014	4,115	2,450	- 446	0	8,746	363	15,228

### Basis of accounting and accounting policies

The interim consolidated financial statements of paragon AG as of June 30, 2014 have been prepared in accordance with the uniform accounting and valuation principles of the International Financial Reporting Standards (IFRS), which were also applied in the Annual Report for the fiscal year ended December 31, 2013. The standards of the International Accounting Standards Board (IASB) as applicable on the balance sheet date were also applied, as well as the interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

The format and content of the consolidated interim report comply with the reporting requirements of the German stock exchange. The report for the first half of the year represents an update of the Annual Report. Its focus is on the current reporting period and it should be read in conjunction with the Annual Report and the supplementary information concerning the Company contained therein. The Annual Report can be viewed on the internet, at [www.paragon.ag](http://www.paragon.ag)

During the first half of 2014, Voltabox of Texas, Inc. and Voltabox Deutschland GmbH were fully consolidated for the first time. Accordingly, the existing scope of consolidation expanded as compared to the 2013 report, from KarTec GmbH and paragon Automotive Technology (Shanghai) Co., Ltd., to include Voltabox of Texas, Inc., and Voltabox Deutschland GmbH.

### Income statement, balance sheet, cash flow statement

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

### Managing Board and Supervisory Board

As of June 30, 2014, the following changes had been made to the composition of the managing and supervisory bodies compared to December 31, 2013:

The Chairman of the Supervisory Board of paragon AG, Hans J. Zimmermann, resigned his mandate on the Supervisory Board for personal reasons upon termination of the shareholders' meeting of May 14, 2014.

As successor to Mr. Zimmermann, those present at the shareholders' meeting of May 14, 2014, elected Professor Dr.-Ing. Lutz Eckstein as a new member of the Supervisory Board of paragon AG. Subsequently, the Supervisory Board named Lutz Eckstein as the new chairman of the Supervisory Board at its constituent meeting.

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

Effective April 1, 2014, Dr. Stefan Schwehr (50) was appointed as a member of the Managing Board. Dr. Schwehr took over responsibility for technology from Managing Board Chairman Klaus D. Frers, who was previously in part responsible for that mandate.

Going forward, Mr. Frers will focus on corporate strategy and development, production, finance and personnel. As Director of Technology, Schwehr will be responsible for development, marketing, distribution and customer management.

Dr. Schwehr came to paragon from Daimler AG, where he amassed about 20 years of management experience in the pre-development and development of electronics components. Most recently, he was responsible for the pre-development of motor vehicle display and operating systems. Before that, he headed various departments, including those for instrumentation and mechatronics, and thus has experience in many areas that are also of key importance to paragon AG.

### Events after the interim reporting date

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

### Information concerning the preparation of the interim report

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

Forward-looking statements involve risks. The present consolidated interim report contains statements, which also

concern the future development of paragon AG. Such statements are based both on assumptions and estimates. Although the Managing Board is confident that the forward-looking statements are realistic, there are no guarantees. The statements involve risks and uncertainties, which could result in differences between anticipated and actual results.

### Responsibility statement

To the best of our knowledge, and in accordance with the applicable reporting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group in accordance with German accepted accounting principles, and the interim management report of the Group includes a fair review of the development and performance of the business and the position of the Group, together with a description of the material opportunities and risks associated with the expected development of the Group for the remaining months of the financial year.

Delbrück, August 20, 2014

The Managing Board



***paragon***<sup>®</sup>

paragon AG

Schwalbenweg 29

33129 Delbrück · Germany

Phone: + 49 (0) 52 50-97 62-0

Fax: + 49 (0) 52 50-97 62-60

E-Mail: [investor@paragon.ag](mailto:investor@paragon.ag)

Internet: [www.paragon.ag](http://www.paragon.ag)