

INTERIM REPORT
AS OF MARCH 31, 2017
1. QUARTER



Highlights in First Quarter of 2017

- Consolidated revenue grows 11.7% to € 25.9 million (prior year: € 23.2 million)
- EBITDA rises 10.7% to € 3.4 million (prior year: € 3.0 million)
- EBIT of € 1.3 million nearly at the prior year's level (prior year: € 1.4 million)
- Revenue and earnings forecast for the current fiscal year confirmed

Group Key Figures (IFRS)

In € thousands / as indicated	Jan. 1, 2017 to March 31, 2017	Jan. 1, 2016 to March 31, 2016	Change in %
Revenue	25,870	23,154	11.7
Segment Electronics ¹	22,524	20,389	10.5
Segment Electromobility ¹	2,563	1,762	45.5
Segment Mechanics ¹	783	1,003	-21.9
EBITDA	3,358	3,034	10.7
<i>EBITDA margin in %</i>	13.0	13.1	n/a
EBIT	1,348	1,359	-0.8
<i>EBIT margin in %</i>	5.2	5.9	n/a
Group result	72	91	-20.9
Earnings per share in €	0.02	0.02	-28.1
Investments	5,100	4,958	2.9
Operating cash flow	-2,066	1,534	-234.7
In € thousands / as indicated	March 31, 2017	March 31, 2016	Change in %
Total assets	118,355	102,310	15.7
Equity	34,846	19,674	77.1
<i>Equity ratio in %</i>	29.4	19.2	n/a
Available liquidity	9,605	12,716	-24.5
Interest-bearing liabilities	51,242	52,651	-2.7
Net debt ²	41,637	39,935	4.3
Employees ³	531	485	9.5

Share

	March 31, 2017	March 31, 2016	Change in %
Xetra closing price in €	48.77	24.67	97.7 %
Number of shares outstanding	4,526,266	4,114,788	10 %
Market capitalization € million	220.746	101.516	119.230

1 Segment revenue with third parties.

2 Net debt = Interest bearing liabilities - available liquidity

3 Plus 105 temporary employees (March 31, 2016: 91; December 31, 2016: 107)

Investor Relations at paragon

With economic growth supported in large part by the automotive industry, 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 exceeded on the DAX in March. However, profit-taking and growing uncertainty among institutional investors about the current risk situation, for instance regarding the lack of economic policy impetus from the new U.S. government, the specific monetary policy measures of the U.S. bank over the further course of the year and the outcome of the Dutch parliamentary elections, slowed further development. By mid-March, pessimism among institutional DAX investors reached its highest level since March 2015. Although the short positions at the end of the quarter were largely vacated, the capital market continued to lack growth momentum for new all-time highs.

As a result, Germany's most important stock indices concluded the quarter with gains (DAX 7%, SDAX 6%, TecDAX 13%). The STOXX Europe 600 Automobiles &

Parts (SXAP) index, which lists the most important European automotive industry stocks, posted a quarterly gain of nearly 5%.

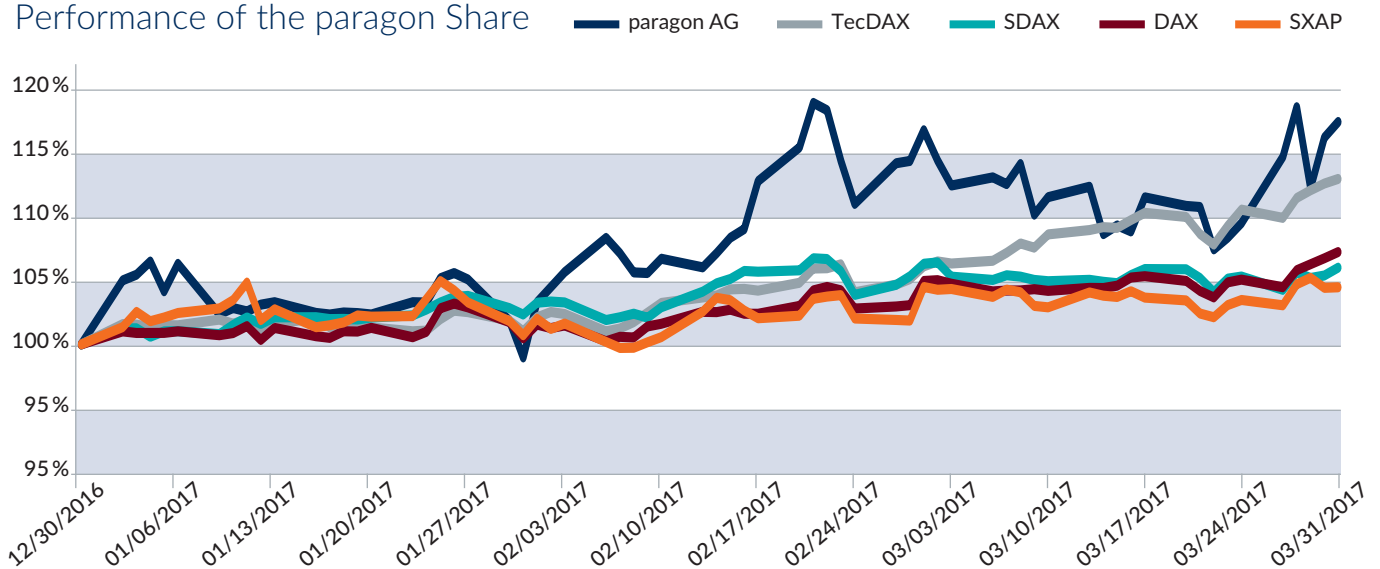
In this market environment, the paragon stock again outperformed the market in the first quarter – posting a 17% increase in its share price. Starting from an initial price of € 43.61, which was near the low of € 41.10 from January, the share price reached its high of € 49.39 in the second half of February. 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 paragon AG corporate bond remained very stable in the quarter under report, with an average price of around € 105.67.

Our capital market communication was also characterized by many discussions with investors in the first quarter – for instance at the 20th Oddo Forum in Lyon and at the 11th German Corporate Conference in Frankfurt.

We received no voting rights notifications in the quarter under review. Consequently, there were no changes in the shareholder structure.

Performance of the paragon Share



Dear shareholders, customers, business partners and employees,

In many ways, the first quarter represented a very productive start to the new fiscal year. With sustained market dynamics surrounding the major topics of the automotive industry – e-mobility, connectivity, car sharing, autonomous and automated driving – we continued to focus on product innovations in these areas. As a result, we are at the forefront of all major megatrends and can further expand our positioning in the rapidly growing market segments.

This is well illustrated in our newest operating segment Electromobility, where an extremely powerful, reliable and safe lithium-iron-phosphate battery system (LFP) with energy density of 157 kWh is being developed for the first model from the Joy Global portfolio – a battery-powered hauler. The first prototype will enter the validation phase in the current quarter. The battery management system is designed by our developers in such a way that the available energy is optimized for a full shift of work in the mines while maximizing the overall battery life. This represents a significant improvement over the lead-acid batteries currently used by mine operators.

Additionally, new battery systems were produced and delivered for installation in trolleybuses in the first quarter. These were follow-up orders from existing customers. In the field of automated guided vehicles for networked production, we have delivered initial prototypes of our powerful and reliable lithium-nickel-manganese-cobalt-oxide battery modules (NMC) to a new customer. At the same time, the serial production of battery modules for KUKA began on schedule. After the initial deliveries of the 5 Ah starter batteries for motorcycles from a large German manufacturer, the start of serial production is planned for the current quarter.

At the Battery Show Europe in Sindelfingen in early April, the first truly global trade fair for the modern battery industry, we were very pleased with the great in-

terest in our modular technology products for e-mobility. At our prominently situated booth, we were able to hold numerous discussions with specialists in attendance. This gave rise to some promising new contacts. One focus of our current marketing activities is on agricultural applications.

To better implement the planned growth in the Electromobility operating segment in the future, we have made some changes within the paragon Group. In the course of the decision made at the end of last year to convert Voltabox Deutschland GmbH into a stock corporation, the shares in our American Voltabox subsidiary were transferred entirely to the German Voltabox subsidiary. We expect the registration of the change from GmbH (limited liability company) to AG (stock corporation) to be entered into the commercial register soon.

The new automated production line for lithium-ion battery modules with prismatic cells from the e-mobility specialist, Aumann, is nearly completed. The construction of the plant took place at our primary e-mobility site in Delbrück at the beginning of April. Final optimization of the line for the serial production of lithium-nickel-manganese-cobalt-oxide battery modules with nominal voltages of 24 V, 36 V, 40 V and 48 V and lithium-titanate battery modules with a nominal voltage of 83 V will ensure a high degree of productivity. This will allow us to significantly expand the serial production of the currently most important battery modules, particularly in the field of intralogistics, with a cycle time of approximately five minutes.

The Electronics operating segment was characterized by new developments (such as the particle sensor DUSTDETECT®), further developments (such as the seat-individual 3D+ sound system), sample phases for new product innovations and the transition of new products into pre-serial production – such as the new generation of instruments for a German sports car man-

ufacturer. At the same time, the first exemplars of the finest electronic serial clock available on the market were delivered to a customer. The production numbers for the latest generation of our successful hands-free microphones were increased further.

In our Mechanics operating segment, the first two new product generations for adaptive rear spoilers have been produced in their pilot series. Serial production will begin in the second quarter. Another four series are planned for launch by the end of the year.

The new car market developed very positively in the first quarter. While a new all-time record was achieved in Western Europe with some 3.9 million cars sold, corresponding to growth of more than 7%, new registrations in the U.S. fell roughly 1% to 4.0 million units, while the share of light trucks continued to increase. The Chinese passenger car market grew 6% to around 5.8 million new registrations, thus demonstrating once again its growing importance for the global automotive industry.

All in all, the friendly market environment contributed to an increase in our revenue of 11.7% to € 25.9 million, with an EBIT margin of 5.2%. With the first-quarter preparations for the further expansion of production,

particularly in the Electromobility and Mechanics operating segments, we are well on the way to achieving our forecast for the full year of € 120 million to € 125 million in revenue with an EBIT margin of 9.0% to 9.5%.

Our share price also reached new record levels in the first quarter. Correspondingly, the company's market value reached a new high of € 223.5 million. This means that we have created around € 120 million in market value within one year. We regard this as an important intermediate step in our development and a strong confirmation of our growth strategy.

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



Klaus Dieter Frers
Chief Executive Officer

Dr. Stefan Schwehr
Chief Technology Officer
(Electronics)

Business Performance

The very good operative performance in the Electronics and Electromobility operating segments was a key factor in the company's growth in the first quarter.

pit unit, revenue rose 13.4% to € 8.4 million (prior year: € 7.4 million), mainly due to the start of serial production for a new generation of cockpit instruments for a long-standing customer. The Acoustics unit recorded revenue growth of 29.4% to € 5.6 million (prior year: € 4.3 million) as a result of increased volumes of the

	EELECTRONICS	ELECTROMOBILITY	MECHANICS
Operating segment			
In € thousands / as indicated	Q1/2017	Q1/2017	Q1/2017
Segment revenue	22,580	4,124	13,522
Thereof with third parties	22,510	2,563	797
Segment EBIT	2,551	-1,042	-161

The largest operating segment, Electronics, dominated Group activities as expected with revenue of € 22.6 million. Of this amount, € 22.5 million (prior year: € 20.4 million) were attributable to third-party revenue in the Sensors, Cockpit and Acoustics units, which corresponds to approximately 87.0% (prior year: 88.1%) of Group revenues. Revenue in the Sensors unit decreased 1.8% to € 8.5 million (prior year: € 8.7 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. In the Cock-

pit unit, revenue rose 13.4% to € 8.4 million (prior year: € 7.4 million), mainly due to the start of serial production for a new generation of cockpit instruments for a long-standing customer. The Acoustics unit recorded revenue growth of 29.4% to € 5.6 million (prior year: € 4.3 million) as a result of increased volumes of the

current version of the premium hands-free microphones. Segment EBIT amounted to € 2.6 million. Segment revenue in the Electromobility operating segment totaled € 4.1 million, of which € 2.6 million (prior year: € 1.8 million) is attributable to third-party revenue. This corresponds to a 45.5% increase – the highest growth dynamic among the operating segments. This operating segment is represented by the Voltabox subsidiaries in Germany and the U.S. The largest growth driver was the serial production of battery modules for

Breakdown of revenue in € thousands	1. Quarter 2017	Share in %	1. Quarter 2016	Share in %	Change in %
Sensors	8,523	33.0	8,681	37.5	-1.8
Cockpit	8,362	32.3	7,374	31.8	13.4
Acoustics	5,625	21.7	4,348	18.8	29.4
Electromobility	2,563	9.9	1,762	7.6	45.5
thereof:					
Germany	934	3.6	321	1.4	191.2
thereof:					
USA	1,629	6.3	1,441	6.2	13.0
Body Kinematics	797	3.1	989	4.3	-19.4
Total	25,870	100.00	23,154	100.0	11.7

forklifts. In the first quarter, the operating segment accounted for 9.9% (prior year: 7.6%) of Group sales. Segment EBIT amounted to € -1.0 million.

Segment revenue in the Mechanics operating segment totaled € 13.5 million. Of this, € 0.8 million (prior year: € 1.0 million) is attributable to third-party revenue, which was generated in the Body Kinematics unit. This corresponds to 3.1% (prior year: 4.3%) of Group sales. In the reporting period, segment revenue with third parties, which was down 19.4%, was decisively influenced by life cycle effects alongside several parallel series developments for the current fiscal year. Prominent among these development activities were the adaptive rear spoilers for optimized aerodynamics. Segment EBIT amounted to € -0.2 million.

Financial Performance

In the first quarter, paragon AG generated Group sales of € 25.9 million (prior year: € 23.2 million), which constitutes an increase of 11.7%. Capitalized development costs increased 12.3% to € 3.7 million (prior year: € 3.3 million), a large portion of which is attributable to the Electronics (55%) and Electromobility (24%) operating segments. Due to the planned expansion of business activities in the newest segments, the cost of materials increased considerably by 17.7% to € 15.3 million (prior year: € 13.0 million). The material input ratio rose accordingly to 59.1% (prior year: 56.1%). This resulted in a gross profit for the first quarter of € 15.7 million (prior year: € 14.2 million), which corresponds to a gross profit margin of 60.6% (prior year: 61.2%). Personnel costs increased mainly as a result of the new hires in connection with the operational growth in the new segments – especially in the field of development – by 14.1% to € 8.1 million (prior year: € 7.1 million). The personnel expense ratio therefore came to 31.3% (prior year: 30.6%).

Earnings before interest, taxes, depreciation and amortization (EBITDA) rose 10.7% to € 3.4 million (prior year: € 3.0 million), which corresponds to an EBITDA margin of 13.0% (prior year: 13.1%). After increased depreciation

and amortization of € 2.0 million (prior year: € 1.7 million), earnings before interest and taxes (EBIT) were only slightly above the prior year's level at € 1.4 million (prior year: € 1.3 million). Accounting for the increase in revenue, the EBIT margin decreased slightly to 5.2% (prior year: 5.9%). With a slightly reduced financial result of € -0.8 million (prior year: € -0.7 million) and income taxes of € 0.5 million level with the prior year, the paragon Group generated a profit for the period of € 0.07 million. That is roughly the same as in the prior year (€ 0.09 million). This corresponds to earnings per share of € 0.02 (prior year: € 0.02).

Net Assets and Financial Position

Total assets rose to € 118.4 million as of March 31, 2017 (March 31, 2016: € 102.3 million). This growth was mainly driven by the acquisition of the building located at Artegastrasse 1, Delbrück (Germany), the production building in Austin, Texas (USA), and capitalized development expenses.

Noncurrent assets increased to € 77.5 million (March 31, 2016: € 62.2 million). This increase is attributable to the increased capital expenditure on property, plant and equipment in connection with the expansion of the new segments as well as the higher capitalized development activities relating to the development of new product generations and product innovations. Current assets increased slightly to € 40.8 million (March 31, 2016: € 40.1 million). This development is mainly due to higher inventories in connection with the planned expansion of the business activities in the new segments of € 17.4 million (March 31, 2016: € 15.0 million) and the simultaneous drop in trade receivables to € 10.8 million (March 31, 2016: € 12.1 million).

Noncurrent provisions and liabilities decreased € 3.5 million to € 44.3 million (March 31, 2016: € 47.8 million), mainly due to a reduction in long-term borrowings of € 6.9 million to € 19.0 million (March 31, 2016: € 25.9 million). Current provisions and liabilities increased to € 39.2 million (March 31, 2016: € 34.9 mil-

lion), mainly due to an increase in short-term loan liabilities of € 4.3 million to € 15.6 million (March 31, 2016: € 11.3 million) and a € 2.6 million increase in trade payables to € 18.6 million (March 31, 2016: € 16.0 million).

paragon AG's equity increased 77.1% to € 34.8 million (March 31, 2016: € 19.7 million), which is attributable to the increase in profit carried forward to € 16.4 million (March 31, 2016: € 13.9 million) as well as the significantly increased capital reserve of € 15.2 million (March 31, 2016: € 2.5 million). In October 2016, the company implemented a capital increase of 10% from authorized capital against cash contributions. As a result of this capital increase, the equity ratio rose to 29.4% (March 31, 2016: 19.2%) despite the simultaneous increase in the balance sheet total as of the reporting date.

Cash flow from operating activities decreased in the period under review to € -2.1 million (prior year: € 1.5 million). This is mainly due to a decrease in other provisions and pension provisions of € 0.5 million, in contrast to an increase of € 1.5 million in the prior year, as well as a € 1.9 million lower increase in trade payables to € 2.0 million (prior year: € 3.9 million).

Cash flow from investment activities decreased slightly in the period under review to € 4.7 million (prior year: € 4.9 million).

Cash and cash equivalents totaled € 9.1 million as of the end of the reporting period (prior year: € 9.7 million).

Control System

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 Elec-

tromobility and Mechanics. Due to these specific influences, the internal targets are generally set as bandwidths for measuring and managing operative performance, depending on the respective planning horizon. The relative development of the key figures of Group sales, EBIT margin and investments is observed using 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.

Opportunity and Risk Report

In the first quarter of 2017, there have been no significant changes in the opportunities and risks described in detail under "Opportunity and Risk Report" in the 2016 Annual Report. The 2016 Annual Report can be accessed online at www.paragon.ag/en/investors.

Forecast

The Management Board has explained in detail its forecast for the current year and the key assumptions for its derivation in the Group management report for the 2016 fiscal year. Based on its current competitive position and the extensive investments made in recent years, particularly in the development of production sites in Germany, the U.S. and, most recently, in China, paragon AG continues to expect to grow more quickly than the global automotive industry in fiscal year 2017.

Group sales are expected to grow to between € 120 million and € 125 million in the current fiscal year. An EBIT margin of around 9.0% to 9.5% is expected.

The Electromobility operating segment (represented by the Voltabox subsidiaries) is expected to contribute about half of the revenue growth, while the remaining

revenue growth is predominantly generated by the Electronics operating segment. As of fiscal year 2018, the Electronics segment and, to a lesser extent, the Mechanics segment are also expected to increasingly contribute to the Group's growth.

The Management Board expects to see an investment volume of around € 27 million in the current year. Own work capitalized should amount to around 45% of the investment total for 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.

Development of Key Performance Indicators

In € thousands / as indicated	2016	Year-to-date/ 1. Quarter 2017	Forecast 2017
Financial performance indicators			
Group revenue	102,790	25,870	€ 120 million to € 125 million
EBIT margin	8.7%	5.2%	9.0% to 9.5%
Investments	23,262	5,100	Approx. € 27 million

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

Condensed interim financial statement:
consolidated statement of comprehensive income of paragon AG, Delbrück,
for the period of January 1, to March 31, 2017 (IFRS)

In € thousands	Jan. 1 - Mar. 31, 2017	Jan. 1 - Mar. 31, 2016
Revenue	25,870	23,154
Other operating income	153	264
Increase or decrease in inventory of finished goods and work in progress	1,236	440
Other own work capitalized	3,703	3,296
Total operating performance	30,962	27,154
Cost of materials	-15,278	-12,982
Gross profit	15,684	14,172
Personnel expenses	-8,097	-7,096
Depreciation of property, plant and equipment and amortization of intangible assets	-2,010	-1,675
Impairment of property, plant and equipment and intangible assets	0	0
Other operating expenses	-4,229	-4,042
Earnings before interest and taxes (EBIT)	1,348	1,359
Financial income	0	1
Financial expenses	- 760	- 749
Financial result	- 760	- 748
Earnings before taxes (EBT)	588	611
Income taxes	- 516	- 520
Group result	72	91
Earnings per share in € (basic)	0.02	0.02
Earnings per share in € (diluted)	0.02	0.02
Average number of shares outstanding (basic)	4,526,266	4,114,788
Average number of shares outstanding (diluted)	4,526,266	4,114,788
Other result		
Actuarial gains and losses	0	0
Currency translation reserve	100	181
Total comprehensive income	172	272

Condensed interim financial statement:
consolidated balance sheet of paragon AG, Delbrück, as of March 31, 2017
(IFRS)

In € thousands	Mar. 31, 2017	Mar. 31, 2016
ASSETS		
Noncurrent assets		
Intangible assets	39,728	26,631
Goodwill	843	770
Property, plant and equipment	36,549	34,389
Financial assets	326	326
Other assets	88	86
	77,534	62,202
Current assets		
Inventories	17,356	14,970
Trade receivables	10,733	12,112
Income tax assets	1,349	1,369
Other assets	2,263	1,953
Liquid funds	9,120	9,704
	40,821	40,108
Total assets	118,355	102,310
EQUITY AND LIABILITIES		
Equity		
Subscribed share capital	4,526	4,115
Capital reserve	15,165	2,450
Revaluation deficit	-908	-766
Profit/loss carried forward	16,428	13,896
Group result	72	91
Currency translation differences	-437	-112
	34,846	19,674
Noncurrent provisions and liabilities		
Noncurrent liabilities from finance lease	2,215	1,372
Noncurrent loans	18,969	25,880
Noncurrent bonds	13,465	13,299
Special item for investment grants	1,071	1,158
Deferred income tax liabilities	6,043	3,916
Pension provisions	2,549	2,143
	44,312	47,768
Current provisions and liabilities		
Current liabilities from finance lease	998	778
Current loans and current portion of noncurrent loans	15,595	11,322
Trade payables	18,594	15,955
Other provisions	175	363
Income tax liabilities	0	48
Other current liabilities	3,835	6,402
	39,197	34,868
Total equity and liabilities	118,355	102,310

Condensed interim financial statement:
Consolidated cash flow statement of paragon AG, Delbrück,
for the period of January 1, to March 31, 2017 (IFRS)

In € thousands	Jan. 1 – Mar. 31, 2017		Jan. 1 – Mar. 31, 2016	
Earnings before taxes	588		611	
Depreciation/amortization of noncurrent fixed assets	2,010		1,675	
Financial result	759		748	
Gains (-), losses (+) from the disposal of property, plant and equipment and financial assets	6		- 3	
Increase (+), decrease (-) in other provisions and pension provisions	- 548		1,458	
Income from the reversal of the special item for investment grants	- 22		- 22	
Other non-cash income and expenses	213		60	
Increase (-), decrease (+) in trade receivables, other receivables, and other assets	- 2,470		- 2,159	
Impairment of intangible assets	0		0	
Increase (-), decrease (+) in inventories	- 3,640		- 3,754	
Increase (+), decrease (-) in trade payables and other liabilities	1,966		3,911	
Interest paid	- 760		- 749	
Income taxes	- 168		- 242	
Cash flow from operating activities		- 2,066		1,534
Cash receipts from the disposal of property, plant and equipment	386		25	
Cash payments for investments in property, plant and equipment	- 736		- 992	
Cash payments for investments in intangible assets	- 3,578		- 3,243	
Cash payments for the acquisition of consolidated companies and other business units	- 786		- 723	
Interest received	0		1	
Cash flow from investment activities		- 4,714		- 4,932
Loan repayments	- 1,423		- 1,136	
Proceeds from loans	3,293		5,978	
Repayments of liabilities from finance lease	- 247		- 194	
Cash flow from financing activities		1,623		4,648
Changes in cash and cash equivalents	- 5,157		1,250	
Cash and cash equivalents at the beginning of the period	14,278		8,454	
Cash and cash equivalents at the end of the period	9,120		9,704	

Financial Calendar 2017

January 5/6, 2017	20. Oddo Forum, Lyon
February 15/16, 2017	11. German Corporate Conference, Frankfurt am Main
March 27, 2017	Annual Report – Consolidated Financial Statements 2016
May 10, 2017	Interim Release as of March 31, 2017 – first quarter
May 10, 2017	Annual General Meeting, Delbrück
June 1, 2017	quirin Champions 2017, Frankfurt am Main
August 15, 2017	Interim Release as of June 30, 2017 – first half year
September 5/6, 2017	15. SCC Small Cap Conference, Frankfurt am Main
November 14, 2017	Interim Release as of September 30, 2017 – nine months
November 27-29, 2017	Eigenkapitalforum, Frankfurt am Main

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