paragon®

GROUP INTERIM REPORT

AS OF JUNE 30 2018
FIRST SIX MONTHS

Highlights in First Six Months of 2018

- Group sales up 42.1% to € 78.6 million (prior year: € 55.3 million)
- EBITDA rises 38.0% to € 11.0 million (prior year: € 8.0 million)
- EBIT increases 29.4% to € 4.8 million (prior year: € 3.7 million)
- Revenue forecast for the current fiscal year raised from around € 175 million to € 180 –185 million – with an EBIT margin of around 8%.

Group Key Figures (IFRS)

In € thousands / as indicated	**Jan. 1, 2018 to Jun. 30, 2018**	Jan. 1, 2017 to Jun. 30, 2017	Change in %	**Apr. 1, 2018 to Jun. 30, 2018**	Apr. 1, 2017 to Jun. 30, 2017	Change in %
Revenue	78,590	55,291	42.1	44,346	29,421	50.7
Segment Electronics[1]	45,021	45,166	-0.3	23,366	22,642	3.2
Segment Mechanics[1]	15,441	2,095	637.0	7,911	1,312	503.0
Segment Electromobility[1]	18,128	8,030	125.7	13,069	5,467	139.1
EBITDA	11,037	8,000	38.0	6,237	4,642	34.4
EBITDA margin in %	*14.0*	*14.5*	*n. a.*	*14.1*	*15.8*	*n. a.*
EBIT	4,801	3,710	29.4	3,189	2,362	35.0
EBIT margin in %	*6.1*	*6.7*	*n. a.*	*7.2*	*8.0*	*n. a.*
Group result	724	1,597	-54.7	974	1,525	-36.1
Earnings per share in €	0.16	0.35	-54.9	0.22	0.34	-36.1
Investments[2]	15,878	8,764	81.2	7,567	4,450	70.0
Operating cash flow	-27,593	1,702	-1.621.2	-19,492	3,768	-517.3

In € thousands / as indicated	**Jun. 30, 2018**	Dec. 31, 2017	Change in %	**Jun. 30, 2018**	Jun. 30, 2017	Change in %
Total assets	316,643	311,847	1.5	316,643	119,713	164.5
Equity	176,963	177,062	-0.1	176,963	34,688	410.2
Equity ratio in %	*55.9*	*56.8*	*n. a.*	*55.9*	*29.0*	*n. a.*
Available liquidity	120,593	166,826	-27.7	120,593	14,160	751.6
Interest-bearing liabilities	86,494	86,336	0.2	86,494	52,302	65.4
Net debt[3]	-34,099	-80,490	-57.6	-34,099	38,142	n. a.
Employees[4]	725	678	6.9	725	539	34.5

Share

	Jun. 30, 2018	Dec. 31, 2017	Change	**Jun. 30, 2018**	Jun. 30, 2017	Change
Xetra closing price in €	50.50	78.68	-35.8 %	50.50	66.00	-23.5 %
Number of share outstanding	4,526,266	4,526,266	0 %	4,526,266	4,526,266	0 %
Market capitalization in € million	228.6	356.1	-127.5	228.6	298.7	-70.1

1 Segment revenue with third parties.
2 Excluding € 786 thousands cash payments for the acquisition of consolidated companies in Q1/2017.
3 Net debt = Interest-bearing liabilities – available liquidity
4 Plus 133 temporary employees (Dec. 31, 2017: 130; Jun. 30, 2017: 109)

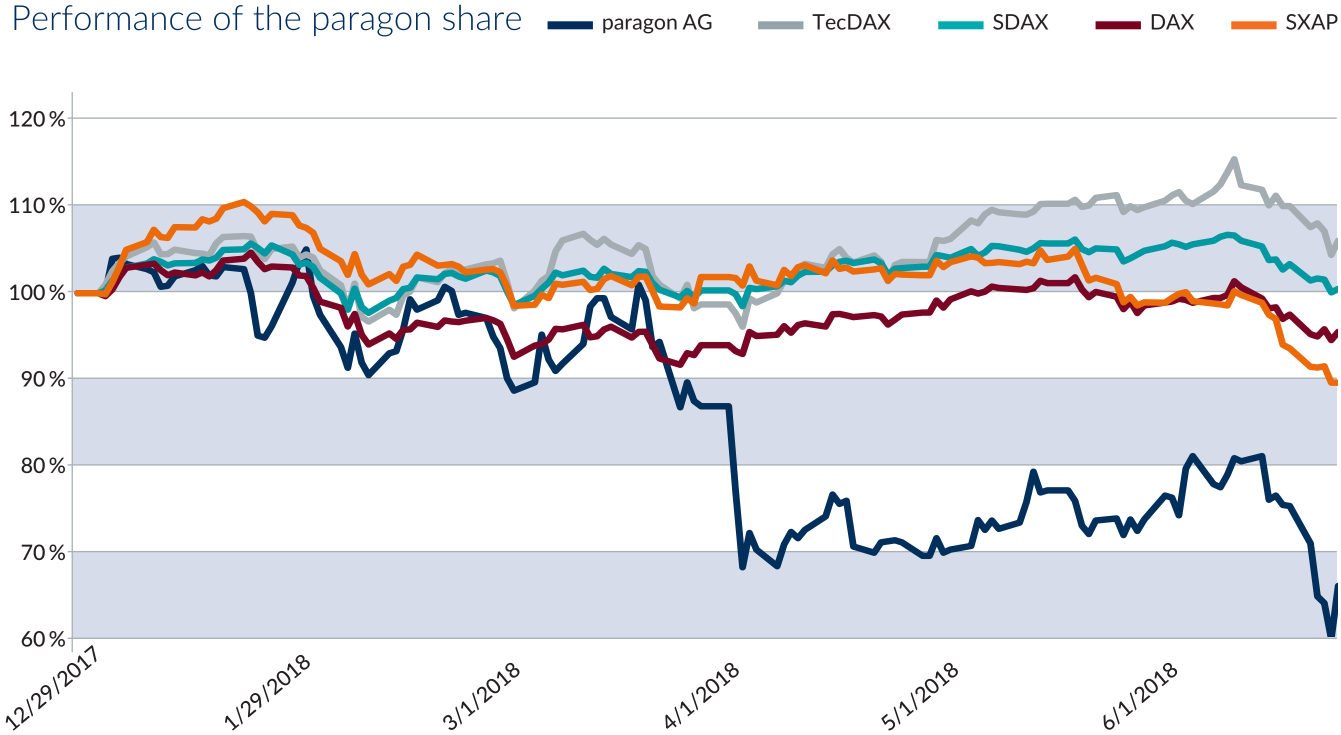
paragon Investor Relations

With a relatively sharp decline in industrial production in the first quarter and a comparatively small increase in incoming industrial orders, the economic situation remained satisfactory. However, lower growth rates were to be expected. The greatest economic risk for the international financial markets stemmed from a possible slowdown in economic activity in conjunction with a rise in prices resulting from a tightening of the hegemonic US trade policy. The sharp rise in interest rates since the beginning of the year and the growing interest rate differential between US government securities and German government securities were also of particular importance.

While private investors were still on the buyer side during the consolidation phase on the German stock market at the end of the first quarter, the Frankfurt Sentiment Index for this group fell to 0 at the beginning of the second quarter, while medium-term institutional investors were again cautiously optimistic after the profit-taking. Finally, concerns about a sustained correction of the stock markets predominated among both investor groups, not least because of the increasing geopolitical risk of US policy regarding the nuclear treaty with Iran and disappointing Purchasing Manager Index figures in the eurozone. While the sentiment indicator turned negative and institutional investors were increasingly short selling, private investors hardly reacted. However, their sentiment continued to deteriorate – reaching the greatest level of pessimism in nearly five years. At the end of the quarter, the US administration's newly announced punitive tariffs on car imports from the EU to the US contributed to a further deterioration in sentiment. Stocks in the automotive sector were particularly affected.

As a result, the most important German share indices ended the first half of the year with mixed results. While the broad DAX was down 4.7%, the SDAX and TecDAX recorded slight gains of 0.5% and 6.4% respectively. By contrast, the STOXX Europe 600 Automobiles & Parts (SXAP), which comprises the most important European shares in the automotive industry, was down significantly, posting a drop of 10.9%.

Performance of the paragon share



In this market environment, the paragon share was also unable to escape these developments with a 38.8% loss in value in the first half of the year. Starting from an initial price of € 78.68, a high of € 82.90 was reached at the end of January. In the further course of trading with high volatility, the share performed with increasing weakness as several chart support levels were breached at the beginning of the second quarter, which saw exceptionally high trading volumes. The lowest price of € 45.40 was posted at the end of June and the first half of the year closed at € 50.50.

This corresponds to a stock market value of approximately € 228.6 million for paragon GmbH & Co. KGaA as of the end of the reporting period and represents a decrease of around € 127.6 million in the company's market capitalization for the first half of the year.

The corporate bond 2013/18 remained very stable in the first half of the year, with an average price of around 103.65 percent. The 2017/22 corporate bond also remained stable in the first half of the year with an average price of 105.44 percent.

Oddo BHF Asset Management SAS informed us that its voting rights in the company exceeded the threshold of 3% of the company's share capital on January 15, 2018, and amounted to 3.03% on this date.

Dear shareholders, customers, business partners and employees,

paragon is a company in constant motion and this was no different in the second quarter. The quarter was full of achievements, changes and challenges. Chief among these was certainly the implementation of the change in the company's legal form into a partnership limited by shares (Kommanditgesellschaft auf Aktien) based on the proposal of the Management Board and the Supervisory Board as well as the resolution of the Annual General Meeting. By taking this step, the management team has established an important prerequisite that will optimally prepare paragon for the next phase of growth, which will turn paragon into a € 500 million company within a few years. The successful implementation of our growth targets requires both leeway in corporate financing as well as experienced managers who can efficiently manage change at the same time. With this step, we have ensured that our successful model of combining a family-owned company with a stock market listing remains intact. The management of the paragon Group is now the responsibility of the managing directors of paragon GmbH, the personally liable general partner of paragon GmbH & Co. KGaA.

Although, unlike most partnerships limited by shares (KGaA), we have ensured through the structuring of the approval rights of the Supervisory Board and other measures that our corporate governance almost exactly conforms to that of a public stock corporation (AG), the conversion has clearly led to some shifts in the shareholder structure with at times high trading volumes. Our current institutional investors rate the organizational changes very highly particularly since the Articles of Association of the KGaA ensure that the rules of the German Takeover Act (WpÜG) remain valid.

Our market environment is rapidly changing. The ever shorter innovation cycles for driver assistance systems show that performance and design are no longer the most influential considerations when buying a car. End customer demands are evolving in step with their increasingly digital lifestyle. The human-machine interface is therefore becoming increasingly complex. In addition to infotainment and control systems, user-friendliness is generally regarded as a central criterion for the development of future model generations.

Passenger comfort is therefore playing an increasingly important role in the car interiors of tomorrow. With our Sensors, Acoustics and Cockpit units, we are perfectly positioned in the market. We will be presenting a whole series of technological innovations in this area, which we are developing on the basis of a modular platform strategy. One highlight from the second quarter was the awarding of a seven-year contract for the new particle sensor DUSTDETECT® by the Chinese Geely Auto Group with an initial volume of € 26 million. Production for this is scheduled to start in the second half of 2020. With this new product, we have established an excellent basis for quickly assuming a dominant market position.

With paragon movasys, we are already the global market leader for active aerodynamic components in the field of body kinematics. The integration of HS-Genion GmbH, which was acquired at the end of 2017, is progressing according to plan under the management of paragon movasys Managing Directors Dr.-Ing. Burkhard Leifhelm and Oliver Munz. This involves bundling core competencies in order to become a system provider for complete spoiler systems. Additional orders were generated in the past quarter that will make a significant contribution to sales from 2020 onwards.

At the Landsberg am Lech site, paragon movasys has acquired a development and production building that guarantees the necessary spatial conditions for further growth. In addition to the development center, movable special components, such as fold-out rear tables for a German premium manufacturer and retractable radiator mascots for a British luxury manufacturer, will also be manufactured there. Alongside the central management and administration functions, the Delbrück site also handles the series production of adjustable spoilers and drive units. Gear motors are also developed in Delbrück.

As a future-oriented systems provider, we also benefit from the major revolutionary changes in the automotive value chain with our digitization strategy. Dr.-Ing. Stefan Schwehr, Managing Director of paragon GmbH, will be focusing on these new digital topics, which have a number of cross-sectional functions in the Sensor Technology, Acoustics and Cockpit units. This includes potential cooperation with software providers, which will enable paragon to tap recurring sources of revenue with high economies of scale. Our portfolio will be expanded with cloud-based offerings, the first of which will be presented at the Consumer Electronics Show in Las Vegas at the beginning of 2019.

With Dr.-Ing. Matthias Schöllmann, who will assume responsibility for the entire automotive sector as an additional Managing Director of paragon GmbH as of September 1, we have gained an internationally experienced executive with proven expertise in the automotive supplier industry. We are confident that paragon is well equipped for future growth in the automotive sector at the operational level as well. Furthermore, the financial department of the paragon Group has been headed by Mr. Christian Johannsen since July 1. He has many years of valuable experience in the controlling of large, internationally operating direct suppliers to the automotive industry. This move provides the necessary expertise for managing the increasing complexity in the financial sector.

Overall, the development of the international automotive markets was positive in the first half of the year. According to the German Association of the Automotive Industry (VDA), a total of 28.8 million vehicles were sold in the three largest sales regions of China, the USA and Europe, which corresponds to growth of around 3.5 percent. China remained the largest and most important single market in the first half of the year with 11.5 million new cars sold and growth of around 6 percent. A total of 8.7 million new passenger cars were registered in Europe in the first half of 2018, which corresponds to growth of around 3 percent. The development in the largest individual markets varied. While France, Spain and Germany recorded some significant growth, the United Kingdom and Italy declined. In contrast, the market in the USA grew by only around 2 percent.

With our specific product/customer mix, we have a high penetration of the model portfolio with our largest customers: at least one paragon product is available in more than three-quarters of the models. As a result, we are comparatively broadly positioned and not dependent on individual model series or regional markets. This is because our organic growth is driven by the increase in the actual take-rates with our attractive products rather than by the global development of the overall market or individual drive systems. We will also benefit in the future from the growth of the new mobility services, for example, with our connectivity platform MirrorPilot®.

As Chairman of the Management Board of paragon GmbH, Mr. Klaus Dieter Frers will continue to shape the strategic orientation of the Group. In his function as Chairman of the Supervisory Board, he advises, monitors and controls in particular the Management Board of the listed 60 percent subsidiary Voltabox AG, which represents the rapidly growing Electromobility operating segment. Voltabox's continued successful organic growth contributed significantly to the good half-year results as planned.

The total order backlog for the paragon Group over the next five years until June 30, 2023, currently amounts to about € 2 billion. Of this amount, we have assigned a 100-percent weighting in our planning as of the balance sheet date of € 1.37 billion, of which the Voltabox subgroup accounted for a share of approximately 54 percent.

With Group sales of € 78.6 million, we once again closed the first half of the year with the strongest sales in the company's history. The EBIT margin of 6.1% was on target and will benefit from the scale effects of the increase in output volumes in the Electromobility operating segment planned for the second half of the year. In addition, over the further course of the year the profitability of the Mechanics operating segment is expected to improve as a result of initial synergy effects from the acquisition of HS Genion GmbH. In the fall we anticipate the recognition of one-time expenses of € 2.2 million from the last fiscal year that have not yet been passed on to customers.

It cannot be overlooked that the stock markets are currently very nervous about automotive manufacturers and suppliers in view of the feared impact of the trade dispute between the USA and China, the threat of US tariffs on German cars, the impact of the diesel affair or supply difficulties of many manufacturers through the new WLTP exhaust emission standard. However, after conducting various inquiries, we cannot currently report any significant losses on the part of our customers. As a result, from today's perspective there is no reason to adjust the forecast accordingly. In connection with the expected completion of the acquisition of Navitas Systems in the third quarter, Voltabox has updated its revenue forecast for the current fiscal year to € 65–70 million. This also results in an adjustment of the revenue forecast for the paragon Group from around € 175 million to € 180–185 million. While there have been no changes in the expected operating profitability of paragon or Voltabox, the reorganization of the agreement between Voltabox and Triathlon will reduce EBIT in the current fiscal year by around 2 million euros, so that the EBIT margin in the paragon Group is now expected to be 8%. The premature revision of the cooperation agreement was necessary to secure the strategic goal of market leadership in the growth market of intralogistics.

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

Klaus Dieter Frers	Dr. Stefan Schwehr
Chairman of the Management Board	Managing Director
paragon GmbH	paragon GmbH

Business Performance

The excellent operative performance in the Electromobility (consisting of Voltabox AG) and Mechanics (incl. paragon movasys GmbH) operating segments was a key factor in the company's growth in the first half of the year.

Operating Segment in € thousands / as indicated	Electronics H1/2018	Electronics H1/2017	Mechanics H1/2018	Mechanics H1/2017	Electromobility H1/2018	Electromobility H1/2017	Eliminations H1/2018	Eliminations H1/2017	Group H1/2018	Group H1/2017
Revenue with 3rd parties	45,021	45,166	15,441	2,095	18,128	8,030	0	0	78,590	55,291
Revenue Intersegment	2,090	616	27,503	28,448	-16	2,532	-29,577	-31,597	0	0
Revenue	**47,111**	**45,782**	**42,943**	**30,543**	**18,112**	**10,563**	**-29,577**	**-31,597**	**78,590**	**55,291**
EBIT	**4,063**	**7,344**	**-35**	**-1,090**	**115**	**-1,690**	**657**	**-854**	**4,801**	**3,710**
EBIT margin	**8.6 %**	**16.0 %**	**-0.1 %**	**-3.6 %**	**0.6 %**	**-16.0 %**	**n. a.**	**n. a.**	**6.1 %**	**6.7 %**

The largest operating segment, Electronics, continued to dominate Group activities as expected with revenue of € 47.1 million (prior year: € 45.8 million). Of this amount, € 45.0 million (prior year: € 45.2 million) was attributable to third-party revenue in the Sensors, Cockpit and Acoustics units, which corresponds to about 57.3% of Group sales (prior year: 81.7%). Revenue in the Sensors unit increased by 7.0% to € 17.6 million (prior year: € 16.5 million) due to the continued increase in the take-rates of current vehicle models with the latest generation of sensors. In the Cockpit unit, revenue increased by 5.4% to € 18.2 million (prior year: € 17.2 million), mainly due to seasonal effects. The Acoustics unit posted a decline in revenue of 19.5% to € 9.2 million primarily due to life cycle effects (prior year: € 11.4 million). EBIT for the operating segment amounted to about € 4.1 million (prior year: € 7.3 million), which corresponds to an EBIT margin of 8.6% (prior year: 16.0%).

The Mechanics operating segment is comprised of the Body Kinematics unit and productronic GmbH – the internal production company of paragon GmbH & Co. KGaA. Segment revenue amounted to € 42.9 million (prior year: € 30.5 million), of which € 15.4 million is attributable to third-party revenue (prior year: € 2.1 million). Segment revenue with third parties is recognized under paragon movasys GmbH and accounted for 19.7% of Group sales in the first half of the year (prior year: 3.8%). This development is particularly due to the acquisition of HS Genion GmbH (now paragon movasys GmbH) at the end of November 2017 as well as the start of series production for the latest generation of rear spoilers for several vehicle models over the course of 2017. The one-time effects incurred in the Mechanics operating segment in fiscal year 2017, which consisted of start-up costs and increased cost of materials due to prototype construction, were again incurred in the first half of the year and amounted to € 0.8 million. In the first half of the year, additional costs also resulted from still redundant functions at the two sites in Delbrück and Landsberg am Lech. EBIT for the operating segment amounted to € -0.04 million (prior year: € -1.1 million).

Revenue in the Electromobility operating segment totaled € 18.1 million (prior year: € 10.6 million), all of which was attributable to third-party revenue (prior year: € 8.0 million). This corresponded to 23.1% of Group sales in the first half of the year (prior year: 14.5%). The operating segment is represented by the subsidiary Voltabox AG, headquartered in Delbrück and a development site for power electronics in Aachen, as well as by its subsidiary Voltabox of Texas, Inc., in Austin, Texas, USA. Growth in this operating segment was particularly driven by the significant increase in the production of battery modules for intralogistics applications as well as by the series production of large battery systems for trolleybuses and, for the first time, for an underground mining vehicle. Series production of starter batteries also contributed to revenue. EBIT for the operating segment amounted to € 0.1 million (prior year: € -1.7 million).

changed at 56.6% (prior year: 56.0%). This results in a gross profit for the first six months of € 45.3 million (prior year: € 33.7 million), which constitutes a gross profit margin of 57.6% (prior year: 61.0%). Personnel expenses rose by 38.7% to € 23.2 million (prior year: € 16.7 million), mainly due to the increase in personnel in the new units. The personnel expense ratio accordingly came to 29.5% (prior year: 30.3%).

Business unit in € thousands / as indicated	**First half 2018**	Share in %	First half 2017	Share in %	Change in %	**2nd Quarter 2018**	Share in %	2nd Quarter 2017	Share in %	Change in %
Sensors	17,633	22.4	16,477	29.8	7.0	8,968	20.2	7,954	27.0	12.7
Cockpit	18,179	23.1	17,248	31.2	5.4	10,527	23.7	8,886	30.2	18.5
Acoustics	9,209	11.7	11,441	20.7	-19.5	3,872	8.7	5,816	19.8	-33.4
Body kinematics	15,441	19.7	2,095	3.8	637.0	7,911	17.9	1,298	4.4	509.4
Electromobility	18,128	23.1	8,030	14.5	125.7	13,068	29.5	5,467	18.6	139.0
thereof: Voltabox AG	*14,786*	*18.8*	*6,077*	*11.0*	*143.3*	*10,150*	*22.9*	*5,143*	*17.5*	*97.3*
thereof: Voltabox of Texas, Inc.	*3,342*	*4.3*	*1,953*	*3.5*	*71.1*	*2,919*	*6.6*	*324*	*1.1*	*800.1*
Total	**78,590**	**100.00**	**55,291**	**100.0**	**42.1**	**44,346**	**100.00**	**29,421**	**100.00**	**50.7**

Financial Performance

In the first half of the year, paragon GmbH & Co. KGaA generated Group sales of € 78.6 million (prior year: € 55.3 million), which corresponds to an increase of 42.1%. The increase in the inventory of finished goods and work in progress of € 1.7 million (prior year: € 1.4 million) is mainly due to the expansion of the business activities of paragon movasys in the Mechanics operating segment. Capitalized development costs developed more slowly, as expected, and were up by 19.5% to € 9.0 million (prior year: € 7.5 million), equally attributable to all three operating segments. Due to the expansion of production in the newest operating segments, the cost of materials increased by 43.5% to € 44.5 million (prior year: € 31.0 million). The material input ratio was therefore almost un-

Earnings before interest, taxes, depreciation and amortization (EBITDA) rose 38.0% to € 11.0 million (prior year: € 8.0 million), which corresponds to an EBITDA margin of 14.0% (prior year: 14.5%). After an expected increase in depreciation and amortization totaling € 6.2 million (prior year: € 4.3 million), earnings before interest and taxes (EBIT) improved by 29.4% to € 4.8 million (prior year: € 3.7 million). Accounting for the considerable increase in revenue, the EBIT margin decreased slightly to 6.1% (prior year: 6.7%). With a reduced financial result of € -2.9 million (prior year: € -1.5 million) and increased income taxes of € 1.2 million (prior year: € 0.6 million), the paragon Group generated a consolidated income of € 0.7 million (prior year: € 1.6 million) in the reporting period. This corresponds to earnings per share of € 0.16 (prior year: € 0.35). Minority interests accounted for € -0.2 million of noncontrolling interests.

Net Assets and Financial Position

The balance sheet total increased by € 4.8 million to € 316.6 million as of June 30, 2018 (December 31, 2017: € 311.8 million), mainly due to the further increase in intangible assets.

Noncurrent assets increased accordingly by € 15.0 million to € 126.8 million (December 31, 2017: € 111.8 million). In addition to an increase in property, plant and equipment of € 4.8 million to € 41.2 million (December 31, 2017: € 36.4 million), this increase is particularly due to the increase in intangible assets of € 7.0 million to € 67.0 million, which stems from the further capitalization of own work in connection with the development of new product generations and product innovations (December 31, 2017: € 60.0 million). Moreover, goodwill increased by € 2.7 million to € 10.1 million (December 31, 2017: € 7.4 million) following the acquisition of Concurrent Design, Inc. by the Voltabox subgroup.

By contrast, current assets decreased by € 10.3 million to € 189.8 million (December 31, 2017: € 200.1 million), which is the result of contrasting effects. While inventories rose € 9.1 million to € 26.4 million, trade receivables increased by € 17.9 million to € 50.6 million and other assets grew by € 8.5 million to € 12.7 million, cash and cash equivalents decreased € 45.7 million to € 100.1 million. The increase in inventories and the significant increase in trade receivables are due to the dynamic growth of the Electromobility operating segment. Other assets increased as a result of the premature revision of the cooperation agreement by the Voltabox subsidiary with the partner Triathlon, mainly due to the capitalization of the one-off investment subsidy for capacity expansion. In addition to the dividend payment of € 1.1 million in the second quarter and the acquisition of a building at the Landsberg am Lech site in the amount of € 4.2 million, the decline in cash and cash equivalents is primarily due to expenses for operating activities in connection with the organic growth of the new units. The purchase price payment for the takeover of Concurrent Design, Inc. by the Voltabox subgroup accounted for € 2.6 million.

Noncurrent provisions and liabilities increased slightly by € 2.1 million to € 90.5 million (December 31, 2017: € 88.4 million), mainly due to higher deferred tax liabilities and an increase in noncurrent bonds.

Current provisions and liabilities also increased slightly by € 2.8 million to € 49.2 million (December 31, 2017: € 46.4 million). In addition to the increase in trade payables of € 0.7 million to € 18.2 million, this is primarily due to the increase in other provisions of € 1.0 million to € 1.2 million. At the same time, short-term loans and the current portion of long-term loans decreased by € 0.8 million to € 3.8 million.

The equity of paragon GmbH & Co. KGaA remained virtually unchanged at € 177.0 million. The equity ratio fell somewhat to 55.9% (December 31, 2017: 56.8%) as a result of the slightly higher balance sheet total as of the end of the reporting period.

Cash flow from operating activities decreased in the period under review by € 29.3 million to € -27.6 million (prior year: € 1.7 million). The main reasons for this were the € 21.7 million increase in trade receivables due to the sales financing of an important customer by Voltabox, the € 6.5 million increase in inventories and € 3.2 million in additional other non-cash expenses. At the same time, trade payables and other liabilities increased by € 2.4 million, depreciation of fixed assets increased by € 1.9 million and the financial result decreased by € 1.4 million in the reporting period.

Cash flow from investing activities decreased by € 6.8 million to € -15.9 million (prior year: € -9.1 million) in the reporting period, which is mainly due to significantly higher payments for investments in property, plant and equipment of € 6.7 million (prior year: € 0.9 million) and higher payments for investments in intangible assets of € 9.2 million (prior year: € 7.8 million).

Cash and cash equivalents totaled € 100.1 million as of the end of the reporting period (December 31, 2017: € 145.8 million).

Control System

Management 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. 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 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 six months of 2018, there have been no significant changes in the opportunities and risks described in detail under "Opportunity and Risk Report" in the 2017 Annual Report. The 2017 Annual Report can be accessed on the internet at www.paragon.ag/en/investors.

Forecast

Management has explained in detail its forecast for the current year and the key assumptions for its derivation in the Group management report for the 2017 fiscal year.

Accordingly, and based on the good order situation for 2018, paragon GmbH & Co. KGaA expects to grow much faster than the automotive sector once more, which is currently affected by uncertainty in connection with the current economic policy of the US government, the consequences of the diesel affair and bottlenecks in WLTP approval, among others. However, due to paragon's specific product-customer mix, management does not see any additional risks to its further economic development in the current fiscal year. In view of Voltabox AG's robust order backlog for 2018, management is expecting a significantly higher growth rate in the Electromobility operating segment. The Body Kinematics operating segment should also make a particularly strong contribution to growth; the organizational measures that have been taken raise the prospect of synergy effects totaling €3–5 million over the course of the next three years.

Due to the expected initial consolidation of the recently acquired Navitas Systems, LLC, during the third quarter, Voltabox AG has raised its revenue forecast from the original € 60 million to € 65–70 million. 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 management at paragon remains very optimistic about the current fiscal year. Due to the adjustment of Voltabox AG's forecast, Group sales of € 180–185 million (previously: around € 175 million) are now forecast. While there have been no changes in the operating profitability expected by paragon or Voltabox, the reorganization of the agreement between Voltabox and Triathlon will reduce EBIT in the current fiscal year by around 2 million euros, so that the EBIT margin in the paragon Group is now expected to be 8%. The premature revision of the cooperation agreement was necessary to secure the strategic goal of market leadership in the growth market of intralogistics.

Management 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.

Development of Key Performance Indicators

In € thousands / as indicated	2017	Year-to-date/ first six months/ 2018	Forecast 2018 old	Forecast 2018 new
Financial performance indicators				
Group revenue	124,823	78,590	about € 175 million	€ 180 million to € 185 million
EBIT margin	6.1 %	6.1 %	about 9 %	about 8 %
Investments	37,747	15,878	about € 35 million	about € 35 million

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

Condensed Consolidated Financial Statement: Consolidated Statement of Comprehensive Income of paragon GmbH & Co. KGaA, Delbrück, for the Period of January 1 to June 30, 2018 (IFRS)

In € thousands	Jan. 1 to Jun. 30, 2018	Jan. 1 to Jun. 30, 2017	Apr. 1 to Jun. 30, 2018	Apr. 1 to Jun. 30, 2017
Group revenue	78,590	55,291	44,346	29,421
Other operating income	540	498	303	345
Increase or decrease in inventory of finished goods and work in progress	1,655	1,382	122	-350
Other own work capitalized	8,999	7,529	4,510	3,826
Total operating performance	**89,784**	**64,700**	**49,281**	**33,242**
Cost of materials	-44,503	-30,960	-23,808	-15,186
Gross profit	**45,281**	**33,740**	**25,473**	**18,056**
Personnel expenses	-23,204	-16,732	-13,070	-8,635
Depreciation of property, plant and equipment, and amortization of intangible assets	-6,168	-4,285	-3,048	-2,275
Impairment of property, plant and equipment and intangible assets	-68	-5	0	-5
Other operating expenses	-11,040	-9,008	-6,166	-4,779
Earnings before interest and taxes (EBIT)	**4,801**	**3,710**	**3,189**	**2,362**
Financial income	1	5	1	5
Financial expenses	-2,866	-1,519	-1,412	-759
Financial result	**-2,865**	**-1,514**	**-1,411**	**-754**
Earnings before taxes (EBT)	**1,936**	**2,196**	**1,778**	**1,608**
Income taxes	-1,212	-599	-804	-83
Group result	**724**	**1,597**	**974**	**1,525**
Earnings per share in € (basic)	0.16	0.35	0.22	0.34
Earnings per share in € (diluted)	0.16	0.35	0.22	0.34
Average number of outstanding shares (basic)	4,526,266	4,526,266	4,526,266	4,526,266
Average number of outstanding shares (diluted)	4,526,266	4,526,266	4,526,266	4,526,266
Group result				
Actuarial gains and losses	0	0	0	0
Currency translation reserve	307	-452	919	-552
Total comprehensive income	**1,031**	**1,145**	**1,893**	**973**
Allocation of consolidated net income to minority interests				
Owner paragon Group	910		799	
Non-controlling interests	-186		175	
Allocation of total comprehensive income to minority interests				
Owner paragon Group	1,068		1,499	
Non-controlling interests	-38		395	

Condensed Group Interim Financial Statement: Consolidated balance sheet of paragon GmbH & Co. KGaA, Delbrück, as of June 30, 2018

In € thousands	Jun. 30, 2018	Dec. 31, 2017
ASSETS		
Noncurrent assets		
Intangible assets	67,039	60,027
Goodwill	10,059	7,410
Property, plant and equipment	41,162	36,360
Financial assets	326	326
Other assets	91	90
Deferred tax assets	8,144	7,574
	126,821	**111,787**
Current assets		
Inventories	26,424	17,344
Trade receivables	50,625	32,662
Income tax assets	22	22
Other assets	12,650	4,206
Liquid funds	100,101	145,826
	189,822	**200,060**
Total assets	**316,643**	**311,847**

In € thousands	Jun. 30, 2018	Dec. 31, 2017
EQUITY AND LIABILITIES		
Equity		
Subscribed capital	4,526	4,526
Capital reserve	15,165	15,165
Minority interests	57,733	57,918
Revaluation deficit	-915	-915
Profit/loss carried forward	100,387	106,048
Group result	910	-4,530
Currency translation differences	-843	-1,150
	176,963	**177,062**
Noncurrent provisions and liabilities		
Noncurrent liabilities from finance lease	835	1,402
Noncurrent loans	15,946	16,350
Noncurrent Bonds	50,849	49,566
Special item for grants	961	1,005
Deferred income tax liabilities	18,794	17,054
Provisions for pensions	3,098	3,001
	90,483	**88,378**
Current provisions and liabilities		
Curent portion of liabilities from finance lease	1,097	1,067
Current loands and current portion of noncurrent loans	3,825	4,588
Current loans	13,942	13,363
Trade payables	18,154	17,492
Other provisions	1,166	220
Income tax liabilities	0	34
Other current liabilities	11,013	9,643
	49,197	**46,407**
Total equity and liabilities	**316,643**	**311,847**

Condensed Group Interim Financial Statement: Consolidated cash flow statement of paragon GmbH & Co. KGaA, Delbrück, for the period of January 1 to June 30, 2018 (IFRS)

In € thousands	Jan. 1 to Jun. 30, 2018		Jan. 1 to Jun. 30, 2017	
Earnings before taxes (EBT)	1,936		2,980	
Depreciation/amortization of noncurrent fixed assets	6,168		4,285	
Financial result	2,864		1,514	
Gains (-), losses (+) from the disposal of property, plant and equipment and financial assets	4		52	
Increase (+), decrease (-) in other provisions and pension provisions	182		75	
Income from the reversal of the special item for grants	-44		-44	
Other non-cash income and expenses	-4,440		-1,157	
Increase (-), decrease (+) in trade receivables, other receivables, and other assets	-26,407		-4,685	
Impairment of intangible assets	68		5	
Increase (-), decrease (+) in inventories	-9,080		-2,605	
Increase (+), decrease (-) in trade payables and other liabilities	4,098		1,740	
Interest paid	-2,866		-1,519	
Income taxes	-76		1,061	
Cash flow from operating activities		-27,593		1,702
Cash receipts from the disposal of property, plant and equipment	0		487	
Cash payments for investments in property, plant and equipment	-6,691		-918	
Cash payments for investments in intangible assets	-9,187		-7,846	
Cash payments for investments in financial assets	0		-786	
Interest received	1		5	
Cash flow from investment activities		-15,877		-9,058
Dividends to shareholders	-1,132		-1,132	
Loan repayments	-1,675		-2,816	
Proceeds from loans	432		6,229	
Repayments of liabilities from finance lease	-537		-495	
Cash flow from financing activities		-2,255		1,786
Changes in cash and cash equivalents	-45,725		-5,570	
Cash and cash equivalents at the beginning of the period	145,826		14,278	
Cash and cash equivalents at the end of the period	100,101		8,708	

Condensed Group Interim Financial Statement: Schedule of changes in equity of paragon GmbH & Co. KGaA, Delbrück, for the period of January 1 to June 30, 2018 (IFRS)

					RETAINED EARNINGS		
In € thousands	Subscribed capital	Capital reserve	Revaluation deficit	Reserve from currency translation	Profit carried forward	Group result	Total
January 1, 2017	4,526	15,165	-908	-537	16,428	0	34,674
Group result	0	0	0	0	0	1,597	1,597
Currency translation	0	0	0	-452	0	0	-452
Other result	0	0	0	-452	0	0	-452
Total comprehensive income	0	0	0	-452	0	1,597	1,145
Dividend payout	0	0	0	0	-1.132	0	-1,132
June 30, 2017	4,526	15,165	-908	-989	15,297	1,597	34,688

				RETAINED EARNINGS				
In € thousands	Subscribed capital	Capital reserve	Revaluation deficit	Reserve from currency translation	Profit carried forward	Group result	Minority interests	Total
January 1, 2018	4,526	15,165	-915	-1,150	101,518	0	57,918	177,063
Group result	0	0	0	0	0	725	0	725
Currency translation	0	0	0	307	0	0	0	307
Other result	0	0	0	307	0	0	0	307
Total comprehensive income	0	0	0	307	0	725	0	1,031
Dividend payout	0	0	0	0	-1,132	0	0	-1,132
June 30, 2018	4,526	15,165	-915	-843	100,387	725	57,918	176,962

Condensed Notes to the Consolidated Interim Financial Statement as of June 30, 2018

Accounting principles

The consolidated interim financial statements of paragon GmbH & Co. KGaA as of June 30, 2018, have been prepared in accordance with uniform accounting and valuation principles issued by the International Financial Reporting Standards (IFRS), which were also applied in the consolidated financial statements as of December 31, 2017. The Standards of the International Accounting Standards Board (IASB) and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) valid as of the end of the reporting period shall apply.

The form and content of the consolidated half-year report comply with the reporting requirements of the Deutsche Börse. The report represents an update of the Annual Report, taking the period under review into consideration. It is concerned with the current period under review and should be read in conjunction with the Annual Report and the additional information about the company contained therein. The aforementioned Annual Report can be viewed on the internet at www.paragon.ag.

The existing scope of consolidation comprises paragon GmbH & Co. KGaA; paragon Automotive Technology (Shanghai) Co., Ltd., paragon Automotive (Kunshan), productronic GmbH, paragon movasys GmbH, SphereDesign GmbH, Nordhagen Immobilien GmbH and the Voltabox subgroup. The Voltabox subgroup consists of Voltabox AG, Voltabox of Texas, Inc., Voltabox Kunshan Co., Ltd., and Concurrent Design, Inc.

Statement of Comprehensive Income, Balance Sheet, Cash Flow Statement

The chapters “Financial Position and Net Assets” and “Financial Performance” provide a detailed overview and specific explanations regarding the consolidated statement of comprehensive income, the consolidated statement of financial position and the consolidated statement of cash flows of paragon GmbH & Co. KGaA.

Management Board and Supervisory Board

paragon GmbH & Co. KGaA was registered at the District Court of Paderborn on July 5, 2018. The personally liable partner is paragon GmbH, Delbrück. There were no other changes in the composition of the management and supervisory bodies as of December 31, 2017.

Events After the Balance Sheet Date

On June 29, 2018, the Management Board of Voltabox AG decided to acquire all shares in Navitas Systems LLC, the US market leader for battery systems in intralogistics, for the equivalent of € 37 million (USD 43 million). The acquisition of Navitas is still subject to the approval of various US authorities.

Related Party Disclosures

As of June 30, 2018, there have been no changes in the composition of related parties compared to December 31, 2017.

Notes on the Preparation of the Consolidated Interim Financial Statements

An audit or review of these consolidated interim financial statements has been waived.

Declaration by the Legal Representatives

We declare to the best of our knowledge and in accordance with the applicable accounting principles for interim financial reporting, the interim consolidated financial statements give a true and fair view of the assets, financial position, and earnings of the Group in accordance with German principles of proper accounting, and in the interim group management report, the development of business including the business results and the position of the Group, is portrayed in such a way that a true and fair view is conveyed and the significant opportunities and risks of the Group’s foreseeable development in the remainder of the fiscal year are described.

Delbrück, August 21, 2018

The Management Board

Financial Calendar 2018

August 21	Interim Report as of June 30, 2018 – 1. Half Year
November 13	Interim Release as of September 30, 2018 – 9 Months
November 27/28	Eigenkapitalforum, Frankfurt am Main

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